

Public Financial Management Reform Strategy 2023-2026

Table of Contents

I. ABBREVIATIONS AND ACRONYMS.....	ii
II. Introduction: BASIS OF PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY	3
Purpose of the Strategy	3
Compliance of the Strategy with the Directions of Georgia-EU Cooperation	4
Method of Preparation.....	4
Strategies and Action Plans for 2026	6
Priorities and Implementation Time Frame.....	7
PFMRS Coordination Mechanism	8
III. KEY AREAS AND OBJECTIVES OF THE STRATEGY	9
1. Budgeting	32
2. General Public Debt Management.....	36
3. Accounting and Reporting in the Public Sector.....	37
4. Tax and Customs Issues	40
5. Macroeconomic Analysis and Fiscal Policy	47
6. Fiscal Risks.....	49
7. Development of Public Internal Financial Control System	50
8. Supervision of Accounting, Reporting and Auditing	52
IV. Key Outcomes Achieved within the Framework of Previous Strategies of PFM Reform in Georgia.....	55
V. Informative Annex 1. Ministry of Finance: Results Matrix of PFM.....	79
VI. Informative Annex 2. Individual Strategies.....	120
VII. Informative Annex 3. ANALYSIS OF THE 2022 PEFA ASSESSMENT	136
VIII. Informative Annex 4. Public Expenditure and Financial Accountability Assessment (PEFA) in Municipalities	144
IX. Informative Annex 5. PFM Assessment in the Context of Gender Equality	147

I. ABBREVIATIONS AND ACRONYMS

AEO	Authorized Economic Operator
BDD	Basic Data and Directions
BEPS	Tax Base Erosion and Profit Shifting Action Plan
EC	European Council
EU	European Union
FHTP	Forum on Harmful Tax Practices
FTE	Fiscal Transparency Evaluations
GEL	Georgian Lari
GGI	Good Governance Initiative
GiZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GRS	Georgia Revenue Service
IBP	International Budget Partnership
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MoF	Ministry of Finance
OBS	Open Budget Survey
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRS	Public Financial Management Reform Strategy
PIE	Public Interest Entity
PIMA	Public Investment Management Assessment
SARAS	Service for Accounting, Reporting and Auditing Supervision
SAI PMF	Supreme Audit Institutions Performance Measurement Framework
SAO	State Audit Office
SDG	Sustainable Development Goals
SPA	State Procurement Agency
SME	Small and Medium Enterprises
TADAT	Tax Administration Diagnostic Assessment Tool
TGL	Treasury General Ledger
USAID	United States Agency for International Development
WB	World Bank

II. INTRODUCTION: BASIS OF PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY

Purpose of the Strategy

The main purpose of the Public Financial Management Reform Strategy (PFMRS) is to build a favorable environment for the implementation of fiscal policy. It will ensure the rational use of financial resources to fulfil the state obligations and support further economic development. By the end of the period defined by this strategy, the PFM reform in Georgia will cover more than two decades. The successful results achieved within the reform are confirmed by numerous evaluations.

In 2020-2022, the PFM system has passed the most important test on effectiveness, when, in light of the global crisis caused by the pandemic and Russia's invasion of Ukraine, the fiscal policy needed a particular flexibility. The PFM reform faced various challenges arising from the COVID-19 pandemic: (1) Due to significant changes in the affecting external factors, it became necessary to revise the existing macroeconomic parameters before the beginning of the fiscal year and, accordingly, the revenue forecasts have changed significantly; (2) It became necessary to make significant changes in expenditure priorities, namely, for pandemic-related health and social care expenses, as well as for measures facilitating economic recovery; (3) Mobilization of additional funding during the pandemic and fiscal consolidation in the post-pandemic period; (4) Depending on the nature of the pandemic, the technical efficiency of PFM and e-services adopted a completely new purpose, since all these have been largely managed remotely. In the post-pandemic period, which practically coincided with Russia's invasion of Ukraine and another economic crisis, the efficiency and flexibility of PFM also acquired a key role. Factors affect economic activity in different ways, which requires a particular efficiency of fiscal policy responses. Post-pandemic economic recovery, reduced economic activity with major trade partners (Ukraine, Russia) in light of the crisis caused by the war and, at the same time, increased demand for the transit potential of the so-called Middle Corridor had contradictory effects on the economy. In light of the rapid post-pandemic recovery of the economy and the growth of the transit role of the Middle Corridor, the net effect by 2022 turned out to be more positive than the pre-war projections. This was achieved through strict fiscal consolidation and the return of fiscal parameters and fiscal rules within the time frame (3-year period) set by the Organic Law, which also indicates a sound PFM system.

This PFMRS is the fourth update¹ of the formalized PFMRS and covers the 2023-2026 period. Within the framework of the PFM reform, the Ministry of Finance of Georgia is continuously evaluating the current progress, analyzing it and planning accordingly. This update is also based on the Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report for the 2022, which was validated with the support of the European Union and the World Bank.² Also, an analysis of gender aspects of Public Finance Management was prepared for the first time according to the methodology developed by the PEFA Secretariat. The assessment report covers the period 2019-2021. In addition to this assessment, it should be noted that the Public Investment Management Assessment (PIMA) was also carried out in 2022 using the IMF methodology. The updated index of the Open Budget Survey (OBS) was also published in 2022. Despite the challenges related to the pandemic, Georgia managed to not only maintain its place among the most transparent countries³ (according to the previous two estimates (conducted in 2019 and 2017) Georgia ranked fifth in the global ranking), but also confirmed the progress and **ranked first** in the global ranking.

The PFMRS is based on the successful changes already implemented in the PFM.

¹ https://www.mof.ge/strategiis_dokumenti_2009_2013 - Public Financial Management Strategy to 2009-2013
https://www.mof.ge/strategiis_dokumenti_2014_2017 - Public Financial Management Strategy to 2014-2017;
<https://www.mof.ge/5189> - Public Financial Management Strategy to 2018-2022.

² [https://www.pefa.org/assessments?&c_ids\[\]=93&year\[\]=2022](https://www.pefa.org/assessments?&c_ids[]=93&year[]=2022)

³ <https://internationalbudget.org/open-budget-survey/rankings>

The strategy of the Ministry of Finance of Georgia covers:

1. Management and further improvement of proper budget system - **Budgeting**;
2. Sustainable debt management with consideration of international and domestic financial markets, the need in investment and structural reform in the country - **Debt Management**⁴;
3. Full implementation of International Public Sector Accounting Standards (IPSAS) and financial statements in the public sector - **Accounting and Reporting**;
4. Further improvement of tax policy and administrations, as well as customs policy and administrations and reforms responding to new challenges - **Tax and Customs Issues**;
5. Improving effective macroeconomic analysis and modeling with consideration of constantly changing external factors and managing a sustainable fiscal policy based on it - **Macroeconomic Analysis and Fiscal Policy**;
6. Constant monitoring, analysis and appropriate response to risks arising from macroeconomic, environmental and social factors, as well as contingent liabilities and quasi-fiscal operations - **Fiscal Risk Management**;
7. Introduction of internal financial control mechanisms for effective PFM - **Public Internal Financial Control System**⁵;
8. Improvement of the accounting, reporting and auditing system of private sector enterprises, introduction of international standards of reporting and auditing, Supervision of Money Laundering and Financing of Terrorism - **Accounting, Reporting and Auditing Supervision**.

It should be noted that in terms of decentralization reform, the focus was also on the areas related to the management of municipal finances. Budget performance (reporting and accounting) and procurement systems are generally common to central and local governments. However, there are areas such as budget formulation and supervision that require special attention at the subnational level in terms of implementation in practice.

Compliance of the Strategy with the Directions of Georgia-EU Cooperation

The PFM reform has always been and continues to be a prerequisite for sector budget support from the EU. For the implementation of reforms, Georgia has gained good practice of successfully using sector budget support mechanisms of the European Union and other donors. In light of the post-pandemic and current global challenges and also, with consideration of the current fiscal consolidation and government debt reduction and diversification goals, the Government of Georgia will continue to apply the budget support mechanism in various sectors. The EU will use the PFMRS as a benchmark for the commitment of Georgia to ensure good governance and financial stability.

In light of the fact that the Government of Georgia has applied for the European Union membership in 2022, it is of paramount importance to maintain a high degree of success of this reform for further implementation of the PFM reform in order to fully comply with EU standards.

Method of Preparation

Given that, along with the Ministry of Finance of Georgia, there are other agencies involved in the Public Finance Management, the PFMRS has been prepared by the responsible agencies. In particular, within the Ministry of Finance of Georgia: Budget Department, Public Internal Control Department, Macroeconomic Analysis and Fiscal Policy Planning Department and Public Debt Management Department, Fiscal Risk Management Department, State Treasury Service of the Ministry of Finance, Service for Accounting, Reporting and Auditing Supervision and LEPL - Revenue Service.

⁴ <https://www.mof.ge/5231>

⁵ <https://pifc.gov.ge/ka/fl/law?page=1>

The State Procurement Agency (SPA) has also inputted to the strategy.

The State Audit Office (SAO)⁶ and the Budget and Finance Committee, which operate independently of the Government, have independently approved their own reform strategies, although these strategies jointly are part of the Public Finance Management Reform Strategy (PFMRS). The overall strategy is to be reconciled among the various agencies participating in the PFMRS Coordination Council and will be presented as a draft to interested international financial institutions and partners and civil society.

⁶ <https://sao.ge/ka/about-us/Strategy>

Strategies and Action Plans for 2026

Several agencies involved in the development of the Public Finance Management Reform Strategy have their own strategy and action plan:

- Ministry of Finance PFM Strategy 2023-2026;
- General Government Debt Management Strategy 2023-2026 of the Ministry of Finance of Georgia⁷;
- Public Internal Financial Control System Development Strategy 2021-2024 of the Ministry of Finance of Georgia⁸;
- Revenue Service Strategy 2021-2024 of the Ministry of Finance of Georgia⁹;
- The Parliamentary Budget Office Strategy and corresponding Action Plan 2023-2025;
- Budget and Finance Committee of Parliament Strategic Action Plan 2022-2024¹⁰;
- State Audit Office Strategic Development Action Plan 2023-2027¹¹;
- While the State Procurement Agency does not formulate a specific strategy and action plan it is continuously upgrading its processes and procedures in the light of internal and external assessments.

Additional reform areas and activities are based on the results from the diagnostic work that had been undertaken.

Based on its updated Strategy document, the Ministry of Finance has prepared a matrix which outlines the areas where PFM reform initiatives are in its revised Action Plan. The strategic framework of the Ministry of Finance (Annex №1) and other individual entities (Annex №2) includes:

- Strategic directions and objectives for each policy area;
- Goal set for 2026 and medium-term goals for the corresponding years;
- Documents from international practice, such as PEFA, TADAT, PIMA, etc.
- Baseline indicator
- Target indicator for 2026
- Possible risks
- Sources of verification
- Comments

Directions / objectives of the strategy and action plan are funded within the framework of the Country's Basic Data and Directions (BDD) document and program allocations provided for the Ministry of Finance of Georgia by the law on state budget of the relevant year. The above-mentioned programs are mainly of management and regulation type and administrative (human resource) resources are applied to implement the measures provided by the strategy and action plan.

The strategy is accompanied by an estimate of the main directions and objectives (Table 4), prepared in accordance with the program budgeting methodology. The funding for 2023-2026 also includes expenses incurred by the LEPL Financial – Analytical Service of the Ministry of Finance of Georgia and the Academy of the Ministry of Finance of Georgia.

⁷ <https://www.mof.ge/5231>

⁸ <https://pifc.gov.ge/files/ShowFiles?id=2a2f1adc-5732-4558-b9f7-9704e1d2405a>

⁹ https://rs.ge/Media/Default/%E1%83%99%E1%83%90%E1%83%9C%E1%83%9D%E1%83%9C%E1%83%9B%E1%83%93%E1%83%94%E1%83%91%E1%83%9A%E1%83%9D%E1%83%91%E1%83%90/other/GRS%20Strategy%202021-2024_ENG.pdf

¹⁰ <https://parliament.ge/parliament/committees/50932/documents>

¹¹ <https://sao.ge/ka/about-us/Strategy>

Annex №2 was developed by all three agencies responsible for the preparation of the general strategy and action plan of PFM. The strategy matrix prepared by the Budget and Finance Committee of Parliament of Georgia, the State Audit Office and LEPL State Procurement Agency is informative and is not approved by the Minister of Finance of Georgia. The document is approved by the PFM coordination Council.

Priorities and Implementation Time Frame

Along with the progress, certain areas that require further improvement have been identified within the framework of the above-mentioned analyzes and assessments. The 2023-2026 strategy was prepared according to the major directions with categories of high and medium priorities.

	Direction	Category	Purpose	Time Frame
1.	Institutional coverage	High priority	Reflection of consolidated information on operations of LEPLs (public schools and kindergartens), as well as of SOEs belonging to public sector.	Medium term ¹²
2.	Medium-term planning framework	High priority	Maintaining the accuracy and reliability of the medium-term forecasting and connection with the annual action plans. Improvement of comparative analysis of updated projections and factual indicators.	Medium term
3.	Fiscal discipline	High priority	Continuous monitoring of compatibility of fiscal indicators with fiscal rules.	Medium term
4.	Reporting and control of contingent liabilities	High priority	An analysis of obligations of public and private partnership (PPP) and Guaranteed procurement agreements (PPA) of electricity and reflecting in the fiscal risk document	Permanent
5.	Management of SOEs	High priority	Complete implementation of a unified management system of SOEs, including compliance of the management model of enterprises classified as corporations with the management strategy of state-owned enterprises.	Long term ¹³
6.	Management / Identification of all assets	Medium priority	Development and implementation of a single management plan for non-financial and financial assets and managing these assets	Long term
7.	Accounting and preparing consolidated annual financial statements in accordance with international standards	Medium priority	Preparation of consolidated financial statements in accordance with international standards; International accounting standards and practices have been introduced	Medium term

¹² Medium-term - 4-5-year period covered by the mentioned strategy and BDD for 2023-2026

¹³ A period covering more than 5 years

	Direction	Category	Purpose	Time Frame
8.	Management of investment projects	Medium priority	Implementation of uniform and structured cycle of investment projects management which will ensure prioritization of projects based on objective criteria	Long term
9.	Results-oriented planning and thorough implementation of the internal financial management and control system	Medium priority	An effective system of internal financial management and control will be introduced in all spending agencies, which will ensure efficient management of public finances and improvement of result-oriented approaches	Long term
10.	Local self- governments	Medium priority	Planning, accounting and publicity of PFM operations of Municipalities and Autonomous Republics according to the international standards; increasing accountability and transparency regarding the public finances of municipalities and autonomous republics.	Medium term

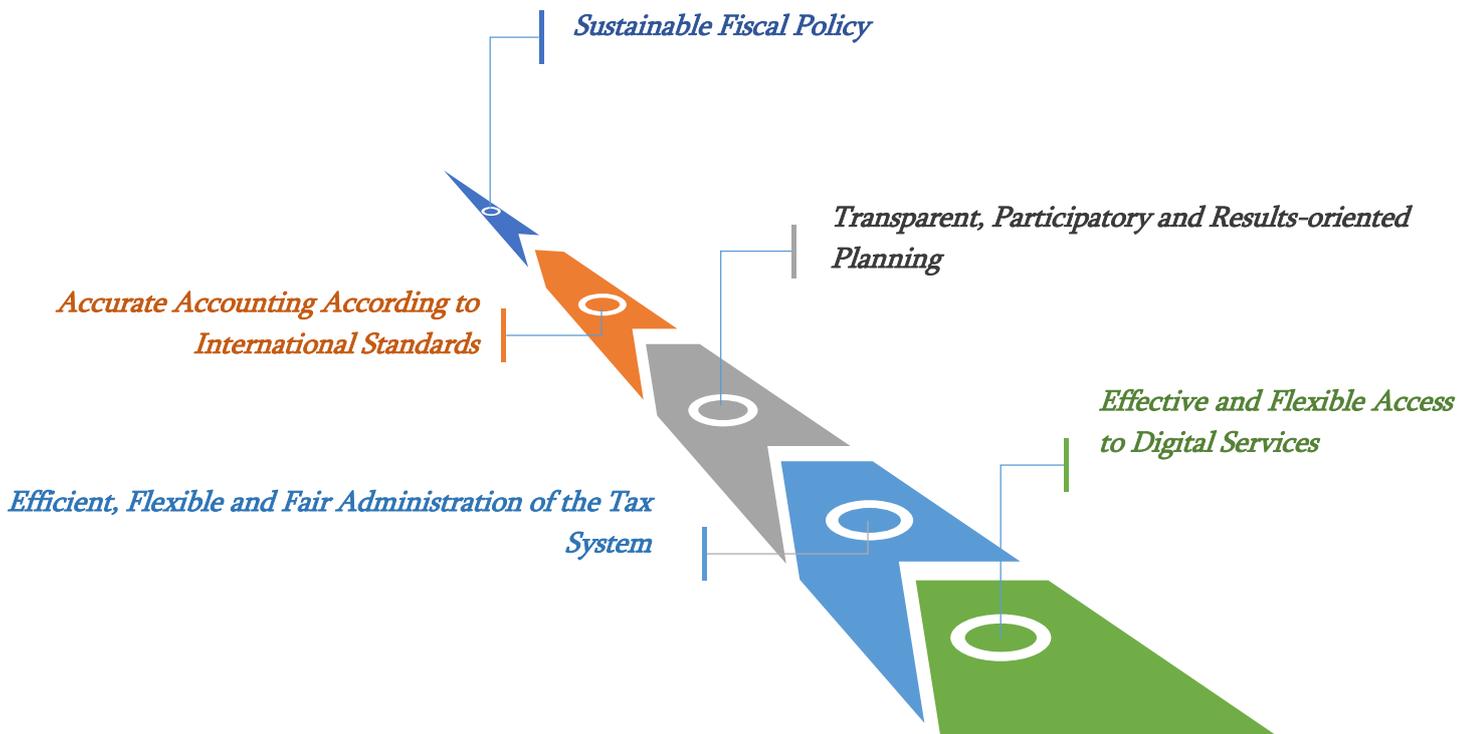
The implementation of the strategies of the Budget and Finance Committee of the Parliament of Georgia, the State Audit Office and LEPL State Procurement Agency is planned within the medium and short term.

PFMRS Coordination Mechanism

Since 2010, the Coordination Council of the Public Finance Management Reform Implementation, established by the Ministry of Finance of Georgia, chaired by the Minister of Finance of Georgia and consists of representatives of the Ministry of Finance, as well as the Parliament of Georgia, State Audit Office, State Procurement Agency as well as non-governmental and donor organizations. The Council meets four times a year and discusses reform-related documents such as strategies and annual action plans. It also reports on the implementation of the action plan.

However, if necessary, the Council can convene an additional meeting and discuss issues such as the research and evaluation reports by NGO sector regarding the reform. This format facilitates communication between all government parties involved in the reform, as well as consultations with donor and NGOs.

The Public Finance Management Strategy aims to ensure:



III. KEY AREAS AND OBJECTIVES OF THE STRATEGY

PFMRS of the Ministry of Finance covers eight thematic areas:

1. Budgeting
2. General Government Debt Management
3. Accounting and Reporting
4. Tax and Customs Issues
5. Macroeconomic Analysis and Fiscal Policy
6. Fiscal Risks
7. Public Internal Financial Control
8. Supervision of Accounting, Reporting and Auditing

Table №1. Results Matrix of PFM 2023-2026 Strategy

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1	Budgeting							
1.1	Increasing efficiency of medium-term planning	The medium-term framework is an effective instrument of planning	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBI – Open Budget Index; FTE - fiscal transparency evaluation (IMF, 2017); EU Directive (2011/85/EU)	PI-5 - A PI-15.1 – D PI-16 – B+ (PEFA 2021 assessment); OBI - based on the result of the open budget survey 2021, Georgia ranks first among 120 countries. GRPFM-1 – D GRPFM-4 - C	PI-5 - A PI-15.1 – A PI-16 – B+; OBI - maintaining an open budget index; GRPFM-1 – B GRPFM-4 - B	In the case of change in PEFA and OBS assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores.	The 2027-2030 BDD document; PEFA and GRPFM assessment reports - 2026 (www.pefa.org); OBS - Open Budget Survey 2026 (www.internationalbudget.org/open-budget-survey/) GRPFM assessment report - 2026	
1.2	Establishment of a Uniform Cycle of Public Investment / Capital Projects Management	At all stages of investment/capital project management, decisions on project implementation are made with a systematic approach based on appropriate analysis.	SDG (UN sustainable development goals) 16.6 indicator; PEFA; OBI; World Bank (WB) - Public Investment Management Assessment (PIMA)	PEFA PI-11 – A GRPFM -2 - D Public Investment Management Assessment (PIMA) was prepared in 2017 together with the action plan	PEFA PI-11 – A GRPFM -2 – B World Bank (WB) - Carrying out activities envisaged by the action plan of Public Investment Management Assessment (PIMA)	In the case of change in PEFA and OBS assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores. Scope and complexity of the reform. Lack of qualified staff	The 2027-2030BDD document. Budget documentation; PEFA and GRPFM assessment reports - 2026 (www.pefa.org);	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1.3	Strengthening the effectiveness of result-oriented planning	Planning of expenditure is carried out according to expected results	SDG (UN sustainable development goals) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF); EU Directive (2011/85/EU)	PEFA: PI-2 – B+ PI-5 – A PI-8 – A GRPFM-5 – C	PEFA: PI-2 – A PI-5 – A PI-8 – A GRPFM-5 – B	In the case of change in PEFA and OBS assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores. Inadequate qualification of staff in respective line ministries and agencies	PEFA and GRPFM assessment reports - 2026 (www.pefa.org); The 2027-2030 Program Budget Annex. Annual report on the performance of the 2025 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);	
1.4	Introducing the high standard of accountability and transparency	At all stages of public finance management, information is available and public in accordance with internationally recognized practices	SDG (UN sustainable development goals) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF); EU Directive (2011/85/EU)	PEFA: PI-5 – A PI-9 – A GRPFM-7 - C GRPFM-8 - D OBI - based on the result of the open budget survey 2021, Georgia ranks first among 120 countries.	PEFA: PI-5 – A PI-9 – A GRPFM-7 – B GRPFM-8 - B OBI - Maintaining an open budget index;	In the case of change in PEFA and OBS assessment methodologies, maintaining or improving existing practices may not be sufficient to improve scores.	PEFA and GRPFM assessment reports - 2026 (www.pefa.org); OBS - Open Budget Survey 2021 (www.internationalbudget.org/open-budget-survey/) Budget documentation posted on the website of the Ministry of Finance of Georgia (www.mof.ge) Annual report on the performance of the 2021 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1.5	Enhancing municipal PFM	Finances are better planned at the local level in the medium-term period	PEFA and GRPFM assessments	PEFA HLG1 – medium score D+ PI-8 - C PI-16 – D GRPFM-6 -D	PEFA HLG1 – B (in case of 50 % of municipalities); PI-8 – PI-16 and GRPFM-6 - improvement by not less than 1 point in case of 50% of municipalities;	Inadequate qualification of staff in municipalities; In the case of change in PEFA assessment methodologies, improving existing practices may not be sufficient to improve assessment.	PEFA and GRPFM assessment reports - 2026 (www.pefa.org);	
1.6	Strengthening the link between strategic/sectoral policy documents and the budget	Information on policy classifiers is attached to the budget; The documentation attached to the budget includes information on links between the policy classifiers and their fiscal implications.	GRPFM Methodology Approaches to Budgeting and Reflecting Gender Aspects in the Budget	GRPFM-3 - D GRPFM-6 -D PEFA 2022 PI-8 - A In the electronic budget management system (e-budget), there is a mechanism for linking strategic/sectoral policy documents and budgeted programs; At the planning and reporting stage, there is no information on links between policy classifiers and their fiscal impacts.	GRPFM-3 and GRPFM-6 indicator improvement. PEFA PI-8 - A Programs/sub-programs in the 2027-2030 program budget are linked to the appropriate classifier of strategic/sectoral policies; (SDGs, gender equality, climate change, sectoral strategies and others);	The complexity and inadequacy of the issue of linking programs to the relevant policy classifier due to the innovativeness of the issue	The 2027-2030 program budget annex, which will be submitted to the Parliament together with the 2027 state budget and which is posted on the website of the Ministry of Finance of Georgia. PEFA and GRPFM assessment reports - 2026 (www.pefa.org);	
2	General Government Debt Management							

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
2.1	Updating the medium-term General Government Debt Management Strategy	Developing and publishing of general government debt management strategy (providing support to local governments in debt management)	PEFA	PI 13.3 - D	PI 13.3 - A	In the case of change in PEFA assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores. Inadequate qualification of staff in municipalities;	General Government debt management strategy is adopted by the Government of Georgia and published on the website of the Ministry of Finance of Georgia (www.mof.ge).	
2.2	Update of the Law on Public Debt	Update of the Law of Georgia on Public Debt and its approximation to international standards.	WB TA	Existing Law on Public Debt	Updated Law on Public Debt Management adopted by the Government of Georgia		Updated Law on Public Debt Management adopted by the Government of Georgia	
2.3	Developing the government securities market	On the basis of sharing best international Practice: 1. Regular use of Buy-Back and Switch operations in the government securities market as part of liability management operations; 2. Transition to the pilot program system of primary dealers (depending on market readiness); 3. Establishing a large benchmark	Developing Government Bond Markets - A Handbook developed by the World Bank and International Monetary Fund	Lack of government securities market; non-diversified market (at the end of 2022: share of non-bank investors - 8.77%; share of non-resident investors - 4.19%); Low level of secondary market development.	Increase of the government securities market; diversification of the investor base (non-resident + non-banking investors share increase by up to 20%); implementing the operations of managing obligations; primary dealers system implementation. Implementation of a plan to get into international indexes.	Possible instable environment in the region; Insufficient efficiency of the system of primary dealers; A devaluation of the local currency. In this case, meeting the requirements (market size expressed in US dollars and/or benchmark size) to be included in the indices may be delayed.	PEFA assessment report; Changes made to the law; Statistical indicators. Minutes of the meeting of the working group of primary dealers; Updated Memorandum of Understanding signed with primary dealers; Implementation of the plan developed for inclusion in international indexes.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		and gradually increasing the size of the treasury securities market in order to be included in international indices.						
3	Management, Accounting and Reporting of public funds							
3.1	Accounting and reporting reform in the public sector	Publishing the General Government Consolidated Financial Statements	PEFA FTE - fiscal transparency evaluation (IMF, 2017); EU Directive (2011/85/EU); SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-12.1 – B PI-12.2 – C PEFA PI-22 – A PEFA PI-29 – C+ GRPFM-7 - C	PEFA PI-12.1 – A PI-12.2 - B PEFA PI-22 - A PEFA PI-29 - A GRPFM-7 – B (A is possible)	In the case of change in PEFA assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores; Extending the deadline specified for the development of the Treasury General Ledger more than planned; Adaptation to standards issued annually by the International Federation of Accountants (IFAC).	PEFA assessment report; General Government Consolidated Financial Statements published in 2021	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
3.2	Development of the electronic system of the treasury (e-Treasury)	Fully functioning accrual-based Treasury General Ledger	PEFA FTE - Fiscal Transparency Evaluation (IMF, 2017); EU directive (2011/85/EU) SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – C+	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – A	In the case of change in PEFA assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores; Lack of qualified personnel; Lack of qualified personnel working in the e-Treasury system	PEFA assessment report - 2021 Reports prepared on the basis of the Treasury General Ledger	
4	Tax and Customs Issues							
4.1	Further improvement of tax legislation taking into account the best international practices and preparation of the drafts for relevant legislative amendment	Improved tax legislation in accordance with the best international practices	Documents developed as a result of the analysis of international practices	The existing tax policy needs to be refined to meet new challenges	Revising the relevant provisions of the Tax Code with consideration of the best international practices.	Lack of staff and experts of respective level	Draft of amendments prepared, amendments made to the law	
4.2	Fulfillment of obligations undertaken within the framework of association agreement	Tax legislation complying with the EU directive	Association Agreement signed between Georgia and EU; EU Directive (2006/112/EC); (2003/96/EC)	Analysis of compliance of the legislation of Georgia with EU directives was carried out and the action plan was developed for	Making changes to the tax code of Georgia with the view of harmonizing the legislation of Georgia with the directives	Lack of staff and experts of respective level	Draft of amendments prepared, amendments made to the law	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
				implementing the changes.	2006/112/EC and 2003/96/EC and ensuring compliance between the above-mentioned directives			
4.3	Issuance of public decisions based on the analysis of existing taxation practices	Public decisions shall be issued		As of today, there are 4 public decisions. Currently, 4 projects are being developed.	In order to eliminate the tax risks of taxpayers, thematic public decisions shall be made based on existing taxation practices.	Lack of staff	Adopted decisions are published in the Legislative Herald	
4.4	Improvement of customs legislation	The main directions of effective customs policy have been developed	Association Agreement signed between EU and Georgia; Regulation of the European parliament and EC of October 9, 2013 (EU) № 952/2013 and the regulation N1186/2009 of EU of November 16, 2009 on establishing the system of EU exempting from customs duty.	Current customs policy cannot fully respond to the existing challenges	A customs policy has been developed which is effective against the challenges	Lack of human resources and experts of the appropriate level	"Law on Amendments to the Customs Code of Georgia" adopted by the Parliament	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
4.5	Tax Base erosion and profit shifting (BEPS) project	Introduction of international standards developed within the scope of the BEPS project in the tax field	Commitment undertaken by being an associate member of the BEPS Inclusive Platform	<p>Measure 5 - the international financial company and the virtual zone person was assessed as "potentially harmful but actually not harmful" in 2017 as a result of assessing the legislation whereas the free industrial zone and the special trade company was regarded as non-harmful (out of scope of FTHP);</p> <p>Measure 6 - agreements signed by the government of Georgia do not include the minimal standard of BEPS Measure 6;</p> <p>Measure 14 - insufficient regulations of implementing the procedures of agreement (MAP)</p>	Implementing and monitoring minimum standard of BEPS measure 5 (harmful tax practices elimination), measure 6 (improper tax settlements use elimination), measure 14 (improving dispute resolution efficiency)	Lack of staff and experts of respective level	Assessment report	
4.6	Global Forum on Transparency and Exchange of Information for Tax Purposes	Existence of practices and legislation in line with the standards of Global Forum on Transparency and Exchange of	Commitments made by membership of the Global Forum on Transparency and Exchange of Information for Tax Purposes	In 2016, the Global Forum on Transparency and Exchange of Information for Tax Purposes of the Organization for Economic Co-	Assessing Georgian jurisdiction in accordance with the new 2016 methodology of global forum and retaining the status	Lack of staff and experts of respective level	Georgia Jurisdiction Assessment Report and Assessment Rating	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		Information for Tax Purposes		operation and Development approved the second phase of the Jurisdiction Assessment Report of Georgia, according to which Georgia was rated "largely compliant".	of assessment of 2013-16 (largely compliant).			
4.7	Strengthening the tax risk management process in the area of compliance with the law	Strengthening of the tax risk management system and development of advanced analytical capabilities; Improvement of tax refund system.	TADAT assessment P2-4 Reducing risks in accordance with the compliance improvement plan; P2-5 Monitoring and evaluating measures to reduce the compliance-related risks; P4-12 Indicators of timely declaration; P4 -13 Measures for ensuring timely declaration; P8-28 Refund of overpaid taxes;	TADAT assessment P2-4 C score P2-5 D score P4-12 C score P4-13 D score P8-28 C score	TADAT assessment P2-4 A score P2-5 A score P4-12 A score P4-13 A score P8-28 B score	Lack of human resources; Legislative changes; Inappropriate development of technological processes; In the case of change in the TADAT assessment methodology, the discrepancy between the achieved progress and the target indicator. In the case of change in TADAT assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores.	TADAT assessment/self-assessment report(s); Annual Report of the Revenue Service.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
4.8	Development of customs risk management and preliminary information exchange system	Establishment of a modern, flexible and multi-functional customs risks management platform	Memorandum signed within the framework of the Export Control and Related Border Security (EXBS) program of the United States of America; Memoranda signed on the exchange of preliminary information;	Existing risk management system;	A modern, flexible and multi-functional customs risk management platform is developed and functional;	Impediments from partner countries; Insufficient human resources.	Annual and Action Plan Report of the Revenue Service;	
4.9	Improvement of the tax debt management system	Improving the efficiency of the Tax Debt Collection System and reducing acknowledged tax debts	TADAT assessment P5-18 Amount and dynamics of tax debt;	TADAT assessment P5-18 C score	TADAT assessment P5-18 B score	Legislative changes; Insufficient human resources. In the case of change in the TADAT assessment methodology, the discrepancy between the achieved progress and the target indicator.	TADAT assessment/self-assessment report(s); Annual Report of the Revenue Service.	
4.10	Development of services tailored to the needs of stakeholders	Increase in the rate of use of e-services as a result of optimization of services; Preparation of video guides and user manuals for using the services;	Public Administration Reform (PAR); Small and Medium Entrepreneurship Development Strategy – 2021-2025;	Rate of use of e-services by taxpayers is 65% (the share of the user's electronically registered applications in the total applications)	Rate of use of e-services by taxpayers is increased by 85% (the share of the user's electronically registered applications in the total applications); Video guides and user manuals for using the services are prepared;	Insufficient human resources.	Annual Report of the Revenue Service.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					90% of services are covered.			
4.11	Improvement of IT systems	Transition of automated main business processes to completely new technology; Modernization of Customs Information System.	Self-assessment report conducted according to the IT Diamond module of the World Bank; Memorandum signed within the framework of the Export Control and Related Border Security (EXBS) program of the United States of America.	As part of the strategic plan for the development of the information technology center, 5% of the automated main business processes are transferred to the new technology. Customs information systems are not modernized.	The automation of the main business processes is implemented; 100% of the main business processes are transferred to the new technology; 15% of customs information systems are modernized.	Insufficient human and financial resources, high rate of outflow of qualified personnel, delays from partner countries.	Annual report of the action plan of the Revenue Service	
4.12	Bringing information security system in line with modern standards	ISO/IEC 2700:2022 and implementation of the best international practices in information security (ISO 27001:2022); Compliance with the updated requirements of the Law of Georgia "On Information Security".	OECD/Global Forum /AEOI Project Team Assessment Report.	Absence of a system corresponding to information security management standards in the organization;	Implementation of good international practices in information security (ISO27001) and compliance with the updated requirements of the Law of Georgia "On Information Security".	Insufficient human resources; Lack of critical financial resources for the implementation of the information security management system;	Minutes of the meeting of the Information Security Council; Evaluation of the OECD Global Forum within the framework of the data security and privacy project; Reporting to regulatory agencies.	
4.13	Implementation of organizational	Implementation of the organizational	TADAT assessment	There is no systematized process of	An organizational risk management system is	Lack of expert support;	TADAT assessment/self-assessment report(s);	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
	risk management system	risk management system in the Service.	P2-6 Management of operational risks	organizational risk management in the Service P2-6 D score	introduced in the Service P2-6 B score	In the case of change in the TADAT assessment methodology, the discrepancy between the achieved progress and the target indicator.	Annual Report of the Revenue Service.	
4.14	Support for the integration processes with the European Union	Reaching an agreement on the mutual recognition of the program of authorized economic operators between Georgia and the European Union; Completion of the accession procedure to the UN Conventions on Common Transit;	Regulation of the Union Customs Code - (EU) No 952/2013; Regulation of Union Customs Code Implementing Act - (EU) 2015/2447 Union Customs Code Delegated Act - (EU) 2015/2446; EU Authorized Economic Operator Program Guide; Association Agreement signed between Georgia and the European Union.	There is no mechanism for mutual recognition of authorized economic operators between Georgia and the European Union There is no common system (mechanism) of transit movement between member states of the conventions and Georgia.	An agreement was reached between Georgia and the European Union on the program mutual recognition agreement. The procedure of accession to the UN Conventions on Common Transit is completed.	Lack of readiness to start negotiations by the European Commission. Duration of the period required for accession to the Convention	Issuance of authorization to conduct negotiations on mutual recognition of the program of authorized economic operators with the European Union; Convention on Common Transit is in force, ratified and published at matsne.gov.ge	
5	Macroeconomic analysis and forecasting							
5.1	Macroeconomic analysis and forecasting	DSGE and medium-term fiscal framework planning based on macro-econometric models	FTE - Fiscal Transparency Evaluation PEFA	2.1.2 meets FTE good practice criteria (Good) (2017 evaluation); PI-14.2 – A (PEFA, 2021 assessment); PI -3 – C+	2.1.2 – meets FTE advanced practice criteria (Advanced) PI-14.2 – maintaining A score PI -3 – Improvement by at least one point B	Change in FTE evaluation methodology; Change in PEFA assessment methodology; (In case of a change in the methodology, the achieved progress	PEFA assessment report - 2021 (www.pefa.org); FTE - Fiscal Transparency Evaluation report	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
						may not be enough to get a better score)		
5.2	Improvement of coverage of public finances	Reflecting the data of all state-owned enterprises belonging to the public sector in the statistics of public finances.	FTE - Fiscal Transparency Evaluation	1.1.1 – meets FTE basic criteria (Basic) (2017 evaluation);	1.1.1– meets FTE good practice criteria (Good)	Change in FTE evaluation methodology; (In case of a change in the methodology, the achieved progress may not be enough to get a better score)	Public finance statistics published on the web-site of the Ministry of Finance (www.mof.ge); FTE - Fiscal Transparency Evaluation report	
5.3	Improvement of Quantitative Assessment of Lost Revenues caused by Tax Exemptions and Optimization of Tax Benefits	A tax expenditure assessment document is published regularly, at least once a year	FTE - Fiscal Transparency Evaluation PEFA Assessment of public finance management in Georgia	PI-1.1.4 – does not meet FTE criteria (Not met), (2017 evaluation); PEFA PI-5 - A	PI-1.1.4 – meets FTE good practice criteria (Good) (Good) PEFA PI-5 - A	Change in FTE evaluation methodology; Change in PEFA assessment methodology; (In case of a change in the methodologies, the achieved progress may not be enough to get a better score)	Web-site of the Ministry of Finance (www.mof.ge) PEFA assessment report - (www.pefa.org; FTE - Fiscal Transparency Evaluation report	
6	Fiscal Risk Management							

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
6.1	Development and approval of the legislative framework for SOEs	An appropriate legal framework developed in consideration of best standards and practices	"Organization for Economic Cooperation and Development" (OECD) guidelines, reports of the corresponding period of partner international organizations	As of the end of 2022, the corresponding regulatory framework has not been developed.	The legislative framework on state-owned enterprises has been developed and adopted, which creates a clear legal basis for the main directions of the comprehensive reform of state enterprises (introduction of corporate management standards, ensuring commercial goals, determining the policy of ownership of enterprises, promoting competition, strategic management of enterprises) and defines the obligation of all public corporations to observe the norms defined by the mentioned legislation.	Low awareness of state-owned enterprises on the best practices of corporate governance and its importance.	Legislative Herald of Georgia. Fiscal risk analysis document attached to the draft state budget.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
6.2	Financial supervision of SOEs	Function of the financial supervisor is performed effectively, in accordance with the established rule,	"Organization for Economic Co-operation and Development" (OECD) reviews SOEs ownership models	As of the end of 2022, six state-owned enterprises submitted the statement of corporate intent in accordance with the requirements defined by the government decree.	Performance of the functions of the financial supervisor of SOEs by the Ministry of Finance in the prescribed manner.	Delays in the implementation and introduction of financial supervision functions may hinder the accumulation of knowledge and experience in this direction in the Ministry.		
6.3	Fiscal risk analysis	The scope of fiscal risk analysis is consistent with best standards and good practices and responds to current challenges.	Recommendations prepared by international partner organizations	As of the end of 2022, the Fiscal Risk Analysis document additionally includes an assessment of fiscal risks stemming from litigation, climate and demographic change.	Fiscal Risk Analysis document fully reflects the analysis of all possible sources of fiscal risks considering the recommendations of international partner organizations.	Lack of information needed for the analysis of newly identified fiscal risks.	Fiscal Risk Analysis document attached to the draft state budget.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
6.4	Maintaining an Adequate Level of Risks / Contingent Liabilities arising from PPP Projects	An adequate level of risks / contingent liabilities arising from PPP projects is maintained in accordance with fiscal rules and risk levels.	Fiscal rule IMF TA; Recommendations prepared by international partner organizations	As of the end of 2022, the fiscal risks arising from Guaranteed Purchase Agreements (PPAs) are assessed in the framework of the fiscal risk analysis document, taking into account the new model and concept of the electricity market.	The analysis of fiscal risks arising from energy sector projects and the process of making decisions based on the analysis are qualitatively improved. On the other hand, it is encouraged to focus on ensuring the long-term economic efficiency of support schemes.	Postponing the implementation of the new electricity market model (regulation, market opening) and the introduction of alternative support mechanisms	Fiscal Risk Analysis document attached to the draft state budget.	
7	Public Internal Financial Control							
7.1	Development of financial management and control system	Establishing a system of risk management and managerial accountability, both at the central, autonomous and local government levels	The concept of Public Internal Financial Control (PIFC) is developed for candidate countries under the initiative of the European Commission; Internal Control – Integrated Framework (COSO); The concept of Public Internal Financial Control (PIFC) is developed.	Middle managers of 6 central ministries (Ministry of Finance; Ministry of Education and Science; Ministry of Environment Protection and Agriculture; Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs; Ministry of Culture, Sport and Youth; Ministry of Internal Affairs) have undergone risk management	Risk management is carried out in all central ministries (100%), in 20% of ministries of autonomous republics; and in 20% of municipalities; Considering specific goals, indicators and responsibilities, delegation is carried out in 50% of the central ministries and 20% of the ministries of the autonomous republics.	Lack of donor support; Lack of human resources of the Harmonization Center; Lack of motivation of managers/public servants.	Risk registers; Regulations on delegation of authority.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
				training. Work is underway in the mentioned ministries in terms of developing/updating risk registers and establishing a system of delegation of powers.				
7.2	Development of internal audit	Raising and certifying the qualifications of internal auditors through the introduction of the national certification program for internal auditors; Increasing the share of efficiency and systematic audits; Development of a methodological framework for information technology (IT) audit.	International Professional Practices Framework (IPPF) developed by the Institute of Internal Auditors (IIA)	The concept of the national program for the certification of public sector internal auditors has been developed, the "localization group" is operating, 10 trainers have been instructed, the manuals for the certification modules is being developed; Most internal auditors only perform compliance and financial audits, and less performance and system audits are performed, and almost no IT audits are performed; Negotiations are underway with donors to develop an IT audit methodology.	100% of the central Ministries, 50% of the Ministries of the autonomous republics, 50% of the legal entities under public law and 50% of the municipalities employ at least 1 certified internal auditor certified by the internal auditor certification program; Internal auditors of all central ministries (100%), 70% of public law legal entities and 50% of municipalities carry out performance and system audits; Information technology (IT) audit methodology has been developed for	Lack of donor support; Lack of human resources of the Harmonization Center; Lack of motivation of internal auditors	Register of certified internal auditors; Annual reports of internal audits; Annual report of the Harmonization Center; Harmonization Center website. Public Expenditure and Financial Accountability Report (PEFA 2026 PI – 26)	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					internal auditors of the Ministry of Internal Affairs and three Autonomous Republics.			
8	Supervision of accounting, reporting and audit							
8.1	Effective functioning of reporting portal	Maintaining and increasing reports submission rate.	Directives 2013/34/EU and Regulation N1606/2002 provided for in the Association Agreement	About 77 000 enterprise reports are published on the reporting portal (www.reportal.ge) through the report submission system. As of the 2021, for PIEs, I, II and III category enterprises - 94%, and for IV category enterprises - 77%.	Maintaining and increasing the rate of report submission. Among them, for PIEs, I, II and III category enterprises, the annual average rate of submission is 94-95%. And for IV category enterprises - 80-85%	Software malfunction. There was no legislative change that would tighten the sanctions in case of non-submission of the report. A legislative change that will weaken the administrative capabilities of IV category enterprises.	Reporting portal (www.reportal.ge); Annual report of the Service for Accounting, Reporting and Auditing Supervision.	
8.1.2	Conducting awareness-raising activities regarding the introduction of the digital reporting standard XBRL/iXBRL.	By 2026, raising awareness regarding submission of reports by enterprises of category I and II in compliance with by XBRL/iXBRL standard;	2013/34/EU, Directive and Regulation N 1606/2002 provided for in the Association Agreement	-	3 awareness-raising activities were conducted for PIEs, I, II category enterprises regarding the digital reporting standard XBRL/iXBRL.	Unable to find appropriate funds/donor to hire experts familiar with XBRL standard;	Annual report of the Service for Accounting, Reporting and Auditing Supervision.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
8.2	Promoting the growth of reporting quality	Increasing the degree of compliance of financial statements with international financial reporting standards through the verification of statements with a risk-based approach.	Regulation N 1606/2002 and Directive 2013/34/EU provided for in the Association Agreement	The process of detailed review of the reports was launched in 2019 and, as of the end of 2022, overall 98 reports have been examined.	Examination of 10% of reports submitted by PIEs, I and II category enterprises, and 5% of III category enterprises.	Outflow of qualified personnel;	Reporting portal (www.reportal.ge); Annual report of the Service for Accounting, Reporting and Auditing Supervision.	
8.3	Promoting the growth of audit service quality	Promoting growth of audit services quality through monitoring the quality control system of audit firms.	Regulation N537/2014 and Directive 2006/43/EC provided for in the Association Agreement	225 scheduled / unscheduled monitoring and thematic inspections were carried out. 56% of the market is covered. PIEs. 36 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered. Active non-PIEs. 113 scheduled / unscheduled monitoring were	448 scheduled / unscheduled monitoring and thematic inspections were carried out. 93% of the market is covered. PIEs. 73 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered. Active non-PIEs. 220 scheduled / unscheduled	Failure to find/outflow of qualified personnel;	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge ;	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
				<p>carried out. The number of auditors is 195 (according to the law, the scheduled audit cycle is 6 years). 58% of the market is covered.</p> <p>Non-active non-PIEs.</p> <p>76 scheduled monitoring were carried out. The number of auditors is 155 (according to the law, the scheduled cycle of the audit is 6 years). 49% of the market is covered.</p>	<p>monitoring were carried out. The number of auditors is 247 (according to the law, the scheduled audit cycle is 6 years). 89% of the market is covered.</p> <p>Non-active non-PIEs.</p> <p>79 scheduled monitoring were carried out. The number of auditors is 150 (according to the law, the scheduled cycle of the audit is 6 years). 100% of the market is covered.</p>			
8.4	Investigation of auditors/audit firms	Detection of violations and its prevention	Regulation N 537/2014 and Directive 2006/43/EC provided for in the Association Agreement	-	12 auditors were surveyed	Failure to find/outflow of qualified personnel;	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge ; Annual report of the Service for Accounting, Reporting and Auditing Supervision.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
8.5	Supervision of professional education	Supervision of professional education through recognition of continuing education and certification programs.	Regulation N537/2014 and Directive 2006/43/EC provided for in the Association Agreement	3 certification and 15 continuing education programs are recognized	7 certification and 27 continuing education programs are recognized	Failure to find/outflow of qualified personnel;	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge ; Annual report of the Service for Accounting, Reporting and Auditing Supervision.	
8.6	Supervision of Money Laundering and Financing of Terrorism	Establishment of a comprehensive legal framework; Registers of accountants and accounting firms providing professional services have been established and are functioning.	Financial Action Task Force (FATF) recommendations and European directives 2015/849; 2018/843; 2018/1673	-	A legal framework has been created that complies with the recommendations of the Financial Action Task Force (FATF) and the requirements of EU directives; Registers of accountants and accounting firms providing professional services have been established and are functioning. 80% of accountable persons are registered.	Failure to find/outflow of qualified personnel; Obstruction/delay in the implementation of legislative changes due to objective reasons; Changes made in the legislation regarding sanctions relief.	Evaluation Report of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). Annual report of the Service for Accounting, Reporting and Auditing Supervision. Registers of accountants and accounting firms providing professional services are publicly available on the website of the Service.	

	Strategy directions and objectives	Goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
8.7	Raising awareness on money laundering and financing of terrorism	Raising awareness of the circle of accountable persons on money laundering and financing of terrorism	Financial Action Task Force (FATF) recommendations and European directives 2015/849; 2018/843; 2018/167	In 2022, 3 awareness raising campaigns are held for accountable persons.	Qualification of employees is raised; By 2026, 16 awareness raising campaigns are held for accountable persons.	Outflow of qualified employees. Finding appropriate funds/donors to hire experts in facilitating the prevention of money laundering and financing of terrorism;	Annual report of the Service for Accounting, Reporting and Auditing Supervision. Website of the Service: https://saras.gov.ge/ .	
8.8	Carrying out inspections of persons accountable for facilitating the prevention of money laundering and financing of terrorism;	Increasing compliance of accountable persons with the legal requirements to facilitate prevention of laundering and financing the terrorist.	Financial Action Task Force (FATF) recommendations and European directives: 2015/849; 2018/843; 2018/167	-	170 accountable persons have been inspected, which is 10% of the total population.	Failure to find/outflow of qualified personnel;	Annual report of the Service for Accounting, Reporting and Auditing Supervision.	

1. Budgeting

Over the past years, reforms have been continuously implemented to improve public financial management, including the budgetary system. The overall objectives and measures planned in Budgeting have been implemented within the framework of the PFM reform in order to ensure effective management and transparency of public finances; mobilization of available resources for the implementation of the policy set for the development of various sectors under the conditions of maintaining fiscal stability; and implementation of fiscal policy, which ensures economic growth in parallel with meeting social obligations.

Since 2005, the **Medium Term Expenditure Framework** has been established with the objective of presenting the state budget revenue and expenses in a multi-year perspective and related them to the strategic goals and objectives of the country. In 2009, the Parliament of Georgia adopted the **Budget Code of Georgia**, which comprised the regulatory provisions of the budgets of the state, autonomous republics and municipalities. The legislative framework of the budget system was regulated with a revised and detailed budgetary process and budget calendar. The role of medium-term planning and annual budget in the budget process was defined.

Reforms ensured the improvement of the links between policy directions; Medium-term planning was introduced. Since 2012, **program budgeting** has been introduced in the budgetary process. Since 2013, the budgets of autonomous republics and municipalities are prepared in the program budget format. In 2015 and 2018, the program budget methodology was updated, both in terms of format and content. The new regulations have been further defined to introduce modern good practice and greater transparency. The Budget Code of Georgia ensured the compliance of the medium-term action plans of the ministries of Georgia, the annual budget and country's BBD document. **Basic and new policy directions were distinguished** in the budget documentation. In the Basic Data and Directions Document, the new policy directions and information on the corresponding fiscal impact were highlighted separately. **Mechanism for linking (Tagging) programs / sub-programs with different policy directions** was introduced in the electronic budgeting management system (e-Budget) and accordingly, it became possible to link programs / sub-programs with different policy directions (UN Sustainable Development Goals (SDGs), gender aspects, issues related to climate change and other international obligations) in the Annex of program budgeting.

Important steps have been taken to improve the **quality of reporting on result-oriented budgeting**. Performance reporting allows to evaluate the programs / sub-programs provided by the state budget in relation to the planned outcomes and indicators, as well as provides information on the causes of deviations between the planned and achieved outcomes.

The Budget Management Electronic System (e-Budget) is an important instrument for preparing, implementing, executing and reporting on the state budget. The e-Budget was coordinated with the Treasury Electronic System (e-Treasury), which allows spending agencies, the Budget Department of the Ministry of Finance and the Treasury Service to control and manage their budget resources in real time.

For the purpose of consolidated management of public finances, reporting on planning, implementation and performance of budgets of Legal Entities under Public Law (LEPLs) has been integrated into the Public Finance Management electronic system, through the Treasury Accounts System and the operations of LEPLs are fully incorporated in the annual budget process. From January 1, 2015, as part of the PFM reform, all levels of budget (State, Autonomous republics, municipalities) and the budgets of all budget organizations were fully integrated into the **Single Treasury Account** both in the Planning and Execution stages. As a result of the reform, the circle of institutions included under the term "Budget Organization" has been expanded and the Budget Code regulates all level of budget organization (established by central, autonomous republics and local government) except for legal entities with entrepreneurial status and the National Bank of Georgia.

Important steps have also been taken to establish a unified system of public **investment / capital projects management** in the country. In 2016, with support of the World Bank, Public Investment Management Guideline and Detailed Methodology were developed, which specify the rules and procedures for developing investment

projects, as well as the roles and responsibilities of the responsible agencies prior to the implementation of projects and for all subsequent stages of Public Investment Management process. These documents are intended to ensure that proposed different capital investments are evaluated so as to determine the priority of the projects in the strategic planning and budget preparation process for both the economy and its different fields. Since 2017, international partners (WB, EU, IMF) have been actively supporting in terms of organizing and conducting trainings, as well as improving process management. In 2019, the Public Investment Management Guideline was updated and extended to all investment projects within the established limits, regardless of the source of financing, and the regulations were also improved in the direction of more effective management of processes. In 2022, the Public Investment Management Assessment (PIMA) of investment projects was prepared within the framework of the International Monetary Fund (IMF) Technical Assistance Mission and recommendations were prepared for proper implementation of the current reform.

Fiscal Transparency Evaluation (FTE) was again carried out in 2023 within the framework of the IMF's technical assistance. Compared to the 2017 evaluation, progress was made in all three main areas of the IMF's Fiscal Transparency Code, and ratings improved for 15 of the 36 indicators. **According to the Fiscal Transparency Evaluation (FTE), Georgia has best and good practices in 27 out of 36 indicators.**

Georgia has achieved impressive success in the direction of **budget transparency** and according to the 2021 budget transparency assessment conducted by the International Budget Partnership, it ranked first among 120 countries of the world, which is the result of consistent and properly planned reforms in the field of public finance management. The positioning of Georgia in terms of citizens' involvement in the budget planning process according to the assessment of the International Budget Partnership should also be highlighted, which is one of the important challenges even for developed countries. In this direction Georgia ranks 4th in the world.

The budget documentation prepared by the Ministry of Finance of Georgia at all stages of the budget process is published on the website of the Ministry. Since 2016, the "Citizens Guide" to the State Budget has been regularly prepared and printed and published with the support of donors.

Important steps have been undertaken to **strengthen accountability**. Since 2015, the Ministry of Finance of Georgia has been preparing an action plan on the implementation of the State Audit Office recommendations on the report of the state budget execution (which is approved by the Government of Georgia with the government resolution).

It is noteworthy that the 2019-2021 PEFA assessment report reflects the results of the reforms implemented in the field of Public Finance Management. The PEFA scores have significantly improved in comparison with the 2018 assessment, which confirms the implementation of the measures planned in the direction of budgeting under the 2018-2022 PFMRS.

In addition to the above, assessments carried out by the International Monetary Fund (IMF) and other international partners has enabled the analysis of the different fields within the framework of the PFM reform and at the same time, these assessments provided the background to the development of medium-term action plans to ensure the consistent and proper implementation of the reforms. The overall objectives and activities planned in Budgeting are to ensure: effective management and transparency of public finances; mobilization of available resources for the implementation of the policy set for the development of various sectors under the conditions of maintaining fiscal stability; and implementation of fiscal policy, which ensures economic growth in parallel with meeting social obligations.

Objectives and Goals

1.1 Enhancing Effectiveness of Medium-Term Planning

The reform aims to continue to improve medium-term planning over the 2023-2026 period. The following will be ensured:

- Compatibility of the program of the Government of Georgia and strategies of various sectors with medium-term parameters;
- Sustainable and effective medium-term (not less than 4 years) budget planning, which includes:
 - ✓ To provide complete information on compatibility of fiscal parameters with fiscal rules established by law;
 - ✓ To provide the government revenues and expenditure forecasts in the medium-term period within the existing policy (baseline information) and in case of new policy initiatives, including the analysis of changes in the expenditure policy in the context of gender;
 - ✓ To prepare gender impact analysis on new policy directions in case of changes in the Revenue and Expenditure Policy;
 - ✓ To provide information on the deviation from the medium-term parameters of the previous period and its causes;
 - ✓ In order to improve the effectiveness of the budgeted programs, selecting, studying of large programs, spending review of selected programs and, if necessary, updating the programs / sub-programs with consideration of the good practices introduced in other countries.

With the support of the Academy of the Ministry of Finance, workshops and meetings will be still held with budget organizations to better coordinate and develop the budgetary process.

1.2 Establishment of an Unified Cycle of Public Investment / Capital Projects Management

Working on the implementation of an effective investment / capital project management system will continue. Decisions on the implementation of each project will be made on the basis of proper research and analysis, and all new investment / capital projects included in the annual state budget and in the Medium-term budgetary framework will pass through the appropriate stages of the requirements defined by the legislation. Introduction of the system will allow the project to be considered from a gender point of view and to be implemented with the established methodology by the pre-determined responsible structural units and stakeholders. In accordance with the methodology of investment/capital projects, the results of the gender impact analysis will be reflected in the economic analysis of new, large projects. The economic analysis will provide information on the impact of the project on climate change, including mitigation measures.

With the support of the financial-analytical service, an electronic system of Public Investment Management (e-PIM) will be introduced, which will be integrated with the electronic budget management system (e-Budget), which will contribute to the efficient and proper management of the process. At the same time, the effective use of public finances will be improved.

The coordination mechanism of the mentioned process will be strengthened. Implementation of appropriate measures will continue in the direction of training and raising the qualification of the staff of the agencies participating in the process (including with the support of the Academy of the Ministry of Finance).

1.3 Enhancing Effectiveness of Result-Oriented Planning

The Ministry of Finance, with the involvement of international partners, will continue to support budget organizations in order to further develop program budgeting system, improve its format and content with consideration of gender aspects and use it as a basic instrument in the process of budget planning and execution. Program budgeting reform needs to be further developed in parallel with the Internal Financial Control reform and to designate each responsible structural unit/person for each result within each spending unit so as to implement stronger internal control systems.

Indicators for the evaluation of the expected intermediate and final results of the service delivery programs / subprograms will include data in the context of gender aspects. The program budget will reflect information on gender equality as well as the linkages of programs/sub-programs with climate change.

Within the framework of ongoing reform meetings and workshops will continue with the line-ministries and representatives of municipalities with the support of the Academy of Ministry of Finance for the purpose of reviewing the basic principles of result-oriented budgeting, which will ensure further improvement of result-oriented planning.

1.4 Introducing a High Standard of Accountability and Transparency

Active work on improvement of budget transparency will continue. Basic budget documentation will be available to the public through the web-page of the Ministry of Finance of Georgia. A more effective mechanism for public participation in the budget planning process will be established.

State budget citizen's guide will be further developed and improved. Requirements of international instruments related to open budget survey and other transparency issues will be considered for further development.

Reporting against the set goals and outcomes will be strengthened in the quarterly and annual execution reports of the budget and compatibility of annual outcomes with medium-term action plans will be enhanced. In the program budget performance report, indicators for the evaluation of the expected intermediate and final results of the service delivery programs / subprograms will include data in the context of gender aspects.

SOEs belonging to public sector, as well as schools and early and pre-school education institutions will be transferred to a single treasury system.

In order to improve the transparency of the state and local budgets, public involvement in the budget planning process will be ensured through the developed electronic platforms.

Appropriate measures will be implemented to improve the transparency of the budget process in terms of public participation in the budget preparation process. The process will be also supported by donors and financial-analytical service of the Ministry of Finance of Georgia.

1.5 Improvement of Financial Management by the Municipality

Within the framework of fiscal decentralization reform, work will continue to improve the independence of the municipality and the predictability of their finances. Workshops and trainings for representatives of municipalities will be held with the support of international partners to enhance their capacities.

In order to improve the result-oriented planning and program budgeting process of municipalities, the program budgeting methodology will be updated, which will facilitate improvement of municipal priorities document, medium-term action plans and budget preparation processes and formats;

Considering the results of the PEFA performance assessment conducted for the municipalities, the target indicators planned within the framework of the memorandums signed with the municipalities will be updated, and based on the improvement of the results, the municipalities will receive additional funding from the state budget in a predetermined amount.

1.6 Strengthening the Link between Strategic/Sectoral Policy Documents and the Budget

In order to strengthen the links between strategic and policy documents and the budget, the electronic budget management system will integrate a "Policy Classifier" that will allow budget organizations to adapt their programs / sub-programs / activities to the relevant Policy Classifier (for example: UN Sustainable Development Goals (SDGs), gender equality, climate change, as well as sectoral strategies and action plans, etc.). Links between the Policy Classifier and programs are reflected in the program budget. According to a separate classifier, relevant expenses will be identified and reflected in the budget documentation.

2. General Government Debt Management

The Ministry of Finance of Georgia is the leading agency in terms of cooperation with international donors and their support. The main purpose of this cooperation is to increase the efficiency of donors' support and adjust the projects and programs funded by donors to the country's economic and social development priorities. In addition, one of the main objectives of the Ministry of Finance is to attract financial resources from international donor organizations under the most favorable terms in order to maintain favorable parameters of the government debt.

In 2008 the Ministry of Finance issued Eurobonds and thereby introduced the country to international capital markets and its many large institutional investors. This development constituted one of the key elements of the strategy of encouraging diversified capital inflows. In 2011, Georgia successfully issued another 10-year Eurobond. Its financial parameters, in terms of attractiveness, equaled the securities of sovereign states with higher credit rating. As part of this transaction, the refinancing of 5-year Eurobonds issued in 2008 was advanced. In April 2021, the Ministry of Finance of Georgia issued the third 5-year Eurobonds worth 500 million USD. The demand recorded during the bidding was 4 times higher than the available volume. It is noteworthy that the semiannual coupon rate was 2.750%, which is significantly lower than the coupon rate recorded in case of previous Eurobonds (6.875%).

Treasury Bonds and Treasury Bills are securities issued by the Ministry of Finance denominated in GEL. Treasury Bonds and Bills support development of domestic financial and capital markets. Such securities allow the diversification of budget financing sources by attracting highly credible capital denominated in national currency. In order to develop the domestic capital market and to meet demand from investors, the Ministry of Finance of Georgia gradually increases the volume of treasury securities by issuing treasury securities with a maturity of 6 months to 10 years.

Currently, among the residents of Georgia, commercial banks are the main owners of government securities. However, in order to develop the market, attraction of other local and foreign investors is a priority. For foreign investors, the small market and the underdeveloped secondary market is seen as a hindrance. In addition, the existing volumes of securities on the market cannot ensure the interest of large investment funds. Therefore, the more the volume of each issue and the net issue of government securities increases, the more the foreign investors will be attracted and the interest rates and risks associated with debt service will be reduced.

In response to the above-mentioned hindering factors, the Ministry of Finance of Georgia started the issuance of so-called benchmark bonds since 2018 on its primary market. Benchmark Bonds increase the predictability of the primary market. The increased volume of issues contributes to secondary market trades, the interest of large investment funds and the corporate market participants. It is an important instrument for the development of capital market in Georgia.

In 2019, the Ministry of Finance of Georgia implemented buy-back operations for the first time in order to manage the refinancing risk arising from the increased volumes of benchmark bonds. Due to the objectives of liability management, the buy-back operations shall be regular and shall be considered in the annual calendar.

In order to develop the secondary market, in 2020, the Ministry of Finance of Georgia, together with the National Bank, in cooperation with the World Bank and the International Monetary Fund, launched the pilot program for primary dealers. At this stage, benchmark bonds with initial maturities of 2 years, 5 years and 10 years specially selected for the program are included in the mentioned program. Over time, the pilot program for primary dealers will be transformed into a full system of primary dealers, which implies its extension to treasury obligations and bonds of all maturities.

It is worth noting that since 2019, the Ministry of Finance of Georgia has started developing the medium-term General Government Debt Management Strategy, which is updated annually, and published on the Ministry's website. The strategy reflects the plan of the Government of Georgia, which should ensure the implementation of an effective public debt management policy and the achievement of debt management goals. Currently, the 2023-

2026 General Government Debt Management Strategy is approved¹⁴.

Objectives and Goals

2.1 Public Debt Management in accordance with the Debt Management Strategy

The Government Debt Management Strategy document will be updated annually and will cover the government's policy in terms of the Government Debt Management goals, as well as the action plan of measures to be implemented to achieve the goals and objectives of the Government Debt Management Strategy and the desired portfolio composition of the government debt. This will lead to:

- The transparency of Government debt management policy; and
- Increased awareness of creditors, investors, rating agencies and public on debt management.

2.2 Update of Law on Public Debt

In order to effectively manage the Public Debt and ensure its compliance with international standards, the Law of Georgia on Public Debt is being updated. After the completion of the process of updating the law, the relevant by-laws will be created and updated.

2.3 Development of Government Securities Market

Introduction of a new liability management tool - exchanges operations (often referred to as "switches"). Along with this tool, it is important to regularly use another liability management tool - Buy-Back operations. The above-mentioned instruments will facilitate the effective management of the debt portfolio, reduction of refinancing risks, increase the liquidity of government securities and the Benchmark Bonds Issuance Policy. Appropriate legislative changes will be prepared and initiated with consideration of recommendations of international organizations.

Introduction of a pilot system for primary dealers. Currently, the pilot program of primary dealers includes benchmark bonds with initial maturities of 2, 5 and 10 years selected specifically for the program. The introduction of a fully-fledged primary dealers system is planned, which will ensure increased activity in both primary and secondary markets. As a result, a diversified investor base will be created.\

Establishing a large benchmark and gradually increasing the size of the treasury securities market in order to be included in international indices. In 2018, the Ministry of Finance started issuing benchmark securities, which amounted to 240 million GEL. Currently, the largest benchmark amounts to 1.078 million GEL, which is a significant achievement. It is essential to concentrate the portfolio on a strong benchmark with several maturities. Therefore, it is important to gradually establish large benchmarks. It should be noted that the size of the market and the size of the benchmark are one of the main criteria for Georgia to include government securities issued in local currency in 15 international indices (JP Morgan GBI-EM, FTSE Frontier Emerging Markets Government Bond Index).

3. Accounting and Reporting in the Public Sector

As part of the accounting reform in the public sector, the gradual introduction of International Public Sector Accounting Standards (IPSAS) in public budget organizations began in 2009, when by the Order N701 of November 3, 2009 of the Minister of Finance was approved the implementation of International Public Sector Accounting Standards (IPSAS), based on which stages and time frames of implementation of the standards were

¹⁴ <https://www.mof.ge/5231>

determined. Initially, the reform was carried out only within the budget organizations. Since 2017, IPSAS standards have been implemented in autonomous republics, municipalities and their subordinate units (the Order №485 of December 29, 2017 of the Minister of Finance of Georgia on Amendments to the Action Plan for Implementation of IPSAS Standards). In order to implement the reform, on the basis of the Resolution №38 of the Government of Georgia of February 19, 2010, a permanent deliberative body of the Government - the Georgian Public Sector Accounting Standards Board was established, which is responsible for reviewing issues related to accounting and reporting in the public sector and developing recommendations. Within the framework of the Memorandum of Understanding with the International Federation of Accountants (IFAC), the International Public Sector Accounting Standards are officially translated into Georgian and published for publicity. Accrual Basis IPSAS standards have been gradually introduced in the budget organizations since 2012, while in autonomous republics, municipalities and their subordinate units -since 2017. Since 2012, consolidated financial statements have been prepared annually for the central government, which are published on the Treasury Service website www.treasury.gov.ge in order to ensure accountability and publicity. Financial statements of autonomous republics and municipalities are published on the website of the Treasury Service since 2021. The consolidated financial statement for 2021 was prepared in accordance with the Accrual Basis 24 IPSAS standards and include the consolidated financial statements of the budget organizations. The consolidated financial statements of autonomous republics and municipalities are attached to it as annexes. At the same time, in order to facilitate the introduction of standards, the qualification of the accountants of the budget organizations is being improved every year both at the level of the state budget and local self-governing units.

Despite the measures taken under the accounting reform, the existing accounting system at the level of the state budget and local self-governing units, as well as the qualification level of accountants employed in the public sector, cannot fully respond to modern challenges, for which it is necessary to implement further measures to comply with the international requirements of state finance management practices.

The State Treasury electronic service system is introduced in the public sector since 2010¹⁵. As a result of the introduction of e-Treasury, the Regional offices of Treasury Service were abolished and the organizations (both in Tbilisi and in regions) served by the Treasury gradually moved to the new type of system.

Since January 1, 2011, only electronic payment system works among the state treasury and its services. As a result of the transition to a new system, the movement of paper documents was largely eliminated between budgetary organizations and treasury services that resulted in a significant saving of time and financial resources, improved service quality and increased levels of transparency.

Since January 1, 2015, the Ministry of Finance of Georgia initiated enhancement of the Treasury Single Account for the purpose of ensuring that Municipalities, Autonomous Republics, Legal Entities under Public Law (LEPL) and Non-commercial (Non-profit) Legal Entities (N(N)LEs) established and/or accountable to Central or Local Governments are covered. According to the amendments made to the Budget Code of Georgia, autonomous republics and municipalities, as well as LEPLs and Non-commercial (Non-profit) Legal Entities (NNLEs) were gradually transferred to the State Treasury Service. As a result of the reform, the number of organizations served by treasury has increased from 450 to around 1647 public entities. In order to properly record the revenues of budget organizations, treasury codes of budget revenues have been established, and all their accounts have been included within the Treasury Single Account and the controls mechanisms for the funds on these accounts have been introduced.

To date, budget planning, execution and accounting-reporting modules have been integrated in the Public Finance Management Information System (PFMIS). This web- based system ensures real-time implementation of budgetary operations and maintains reliable and timely reporting. These are the following modules:

¹⁵ Decree №32 of February 2, 2023 of the Minister of Finance of Georgia On the Approval of Instruction on the State Treasury Electronic Service System"

- Electronic Budgeting Module (e-Budget) - This module is used to manage the financial data of receivables, payables and balance changes, as well as the budgets of LEPLs and N(N)LEs in order to fulfill the functions and obligations of the central, autonomous republics and local governments of Georgia.
- Electronic Module of Debt Management System (e-Dms) - this module is used for donor funded projects. The public debt and investment project management system is a set of tools necessary for the automation of public debt management system, where information about public debt and grants are provided;
- Electronic Module of Human Resources Management System (e-Hrms) - this module is used for the electronic management of personnel employed in the public sector, which provides organizational structure, staff schedule, salary, appointment / dismissal dates, etc.;
- Electronic Module of Revenue Service - this module is used for refunding the overpaid amounts, deposited funds or electronically transferring transactions to the budget;
- Electronic Module of the State Procurement Agency - with this module, it is possible to download the information about registered contracts with the State procurement system in the State Treasury system, as well as providing information to the State Procurement Agency about the payments made by the organizations from the electronic treasury in real time, etc.

For the purpose of acquiring skills for working with the modules of Treasury Electronic System, training and informational workshops are held for representatives of the financial services of budgetary organizations.

For accountability and transparency purposes, Treasury now can produce more complete, timely and reliable information on budgets execution and available finance resources from the Public Financial Management Integration System.

Although state budgetary organizations, autonomous republics and local self-government budgets, as well as their LEPLs and N(N)LEs are served by the Treasury, certain part of Legal Entities of Public Law and Non-commercial (Non-profit) Legal Entities (such as Public schools and kindergartens), also SOEs belonging to public sector remain outside the system. In addition, the accrual-based Treasury General ledger is not fully functional in the system, in which it would be possible to reflect all operations with the double accounting principle. Timely access to complete financial information would, in turn, improve the effectiveness of fiscal decisions and the quality of transparency.

Objectives and Goals

3.1 Accounting and Reporting Reform in the Public Sector

Within the framework of accounting and reporting reform in the public sector, the following measures will be implemented:

- Additional introduction of Accrual Basis IPSAS standards in the public sector;
- Qualification and training of public sector accountants in additional IPSAS standards introduced in order to facilitate the introduction of IPSAS standards;
- Preparation of consolidated financial statements for the entire government and publication on the website of the Treasury Service to ensure accountability and transparency of public finances.

3.2 Development of Treasury Electronic Service System (e-Treasury)

Treasury Electronic Service System that was established in 2010 is constantly being updated and further expanded. It is planned to implement the following measures: 2

- Fully developing the functionality of the accrual-based Treasury Ledger, which ensures the integration of all public finance transactions and records into a single electronic system, introduction of IPSAS-

based unified chart of accounts, and real-time government asset-liability balance, which in turn facilitates Increase the accountability of budget organizations and prepare information for management to make decisions about the efficient spending of financial resources;

- Strengthening the interconnection between the various functionalities of the public financial management system and integrate all stages of the budget process into one space;
- Integrating public schools, kindergartens and SOEs belonging to public sector into e-Treasury system in order to improve their accountability and transparency;
- Refining and simplifying the current business processes of the e-Treasury system and modernizing the existing information system;
- Training and raising the qualifications of representatives of budget organizations in order to acquire skills in working with electronic treasury system modules.

4. Tax and Customs Issues

Tax policy of the Government of Georgia is aimed at ensuring the formation of a stable and attractive tax environment for private sector and foreign investments, as well as for start-ups and existing business. The strategic goal is to increase the efficiency of the tax administration in order to ensure the simplicity, clearness, fairness, completeness of tax system and optimal tax rates.

The following tax reforms have been implemented in recent years:

- Harmonization of tax law with the EU legislation, elimination of ambiguous provisions for its optimization, liberalization of sanctions for taxpayers, further improvement of tax law.
- Statute of limitation was gradually reduced from 6 years to 3 years;
- Criminal prosecution for certain categories of economic crimes was limited (decriminalized);
- Sanctions were eased for violating the rules of operation without cash machines and a bill of lading, as well as for late submission of the declaration;
- One-year period of postponement of tax debts was increased to 3 years;
- Profit tax reform was implemented, as a result of which provisions of the new taxation model were put into effect; In particular, only distributed profit and specific expenses/payments are subject to corporate profit tax.
- In order to promote the development of the capital market, individuals and non-residents are exempted from income and profit taxes on income derived from sale of debt and equity obligations and on income received as interest on debt obligations, if those securities are issued by resident companies in Georgia by public offering and those securities are listed on organized securities market recognized by the national bank of Georgia.
- A new version of the VAT legislation came into force on 1 January 2021, bringing the Georgian legislation in line with the VAT legislation of the Council of Europe on the common system of value added tax with Council Directive 2006/112 / EC of 28 November 2006.
- A resolution of the Government of Georgia on the status of an "international company" was adopted, within the framework of which companies can benefit from tax benefits.

A new Customs Code has been adopted, which is in line with the Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code and the Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty. The Customs Code of Georgia fully complies with EU standards, which will become an important incentive for attracting investments from the EU and will facilitates the integration of Georgian business in the EU market.

The new Customs Code of Georgia simplifies the customs formalities between Georgia and the European Union, the costs related to foreign trade have been reduced for the private sector. The same customs regulatory environment, simple and fair rules have been established for business representatives of Georgia and the EU.

The new Customs Code of Georgia provides important innovations, such as: simplified customs procedures; new rules for simple registration and declaration forms; possibility of refunding the paid import tax; consideration of the interests of taxpayers as much as possible during customs decision-making; possibility of using a new type of guarantee (surety). An important prerequisite has been created for businesses to benefit from simplified customs procedures in the EU and other countries.

In 2014-2021, the Ministry of Finance of Georgia has been actively working to expand the scope of international tax agreements. Agreements on the avoidance of double taxation on income and on capital entered into force during that period with Sweden, Portugal, Belarus, Iceland, Cyprus, Korea, Liechtenstein, Moldova, Saudi Arabia, Japan and Hong Kong. The agreement with the Kyrgyz Republic was ratified by the Parliament of Georgia. At the same time, negotiations were held and the text of the agreement was initialed with Morocco and a renewed agreement was signed with Poland.

In 2014-2016 Global Forum on Transparency and Exchange of Information conducted a review to assess compliance of Georgia's jurisdiction to international standards on transparency and exchange of information for tax purposes. On March 11, 2016 Global Forum approved the report on Phase II review. Legislation and practice in the field of tax transparency and information exchange in Georgia are in line with international standards. Since 2017, Georgia has been actively working on the second phase of assessments planned for 2022, in accordance with the new, 2016 methodology.

On October 29, 2014, Georgia was elected a member of the Global Forum Expert Group (PEER REVIEW GROUP (PRG)). Georgia was re-elected as a member of this group in 2020, for a term of 2 years. The group works to refine the international standard for tax transparency and information exchange and to evaluate the legislation and practices of member and non-member countries of the Global Forum. 30 states are members of the expert group.

In June 2016, Georgia became an associate member of the Inclusive Framework to implement BEPS package and has committed to implement BEPS 4 minimum standards. While on July 1, 2016, within the first meeting of Inclusive Framework on BEPS, Georgia was elected a member of a Steering Group of the Inclusive Framework. In 2018, Georgia was re-elected for the second term in the IF Steering Group.

In order to introduce the minimum standard of the 5th measure of the BEPS project, the Forum on Harmful Tax Practices (FHTP OECD) in 2017 started to study the preferential tax regimes in Georgia (international financial company, free industrial zone, special trading company, virtual zone person). The assessment found that according to OECD standards, a free industrial zone and a special trading company are "out of the scope of the minimum standards", while two modes - an international financial company and a virtual zone person - are "potentially harmful". But not really harmful. " Accordingly, in line with the OECD recommendation, the status of an international financial company was abolished in 2020.

Georgia has introduced a standard for spontaneous exchange of information on advance tax decisions in order to meet its commitments under Part 2 of BEPS Project 5. In particular, in 2018, the Ministry of Finance issued an order "On the implementation of mandatory measures under the project to reduce the tax base and transfer profits." Evaluation of this standard started in 2019 and is evaluated annually by the OECD (no recommendations);

In addition, since March 2017, Georgia was elected as a member of the FHTP Bureau, and since May 2017, Georgia is a member of the focus group for reviewing the criteria of the Harmful Tax Practice Forum.

In order to implement the 6th measure of the BEPS project (prevention of misuse of tax agreements), on June 7, 2017, in France, during the OECD Week in Paris, the first signing ceremony of the Multilateral Convention on the Implementation of the Tax Agreements on the Reduction of the Tax Base and the Transfer of Profit was held as part of the meetings of the Council of Ministers. The multilateral instrument was signed by high-level representatives of more than 70 countries, including Georgia.

The Convention amended the tax treaties on the avoidance of double taxation on income and on capital. The signatory states of the Convention are empowered to make reservations, present positions and choices on a number of provisions of the instrument. To this end, in 2016-2017, several working meetings were held with representatives of donor organizations and international experts, as well as bilateral talks with the following countries: Serbia, Slovakia, South Korea, Luxembourg, Slovenia, India, Switzerland, Estonia, Israel, Singapore, Liechtenstein, New Zealand. In addition, an analysis of the double taxation agreements signed and entered into force by Georgia was conducted and the Georgian position on MLI was submitted to the OECD Secretariat.

On December 29, 2018, the Parliament of Georgia ratified the Multilateral Instrument, which is valid for Georgia from July 1, 2019.

For the successful implementation of the Multilateral Convention on the Implementation of Tax Arrangements for the Reduction of the Tax Base and the Transfer of Profits by 2022, in accordance with the OECD Recommendation, synthesized texts have been prepared with the following countries: Ireland, Netherlands, United Kingdom, Lithuania, Finland, Lithuania, Luxemburg, Finland, Singapore, India, Serbia, Slovenia, Belgium, Latvia, Greece, France, Czechia, Israel, Hungary, Slovakia, Norway, San Marino, Portugal, Cyprus, Korea, Liechtenstein, Croatia and Iceland.

In order to introduce the minimum standard for the 13th BEPS Project Measure (Transaction Assessment Documentation and Country Reporting), on June 30, 2016, within the framework of the BEPS Inclusive Platform Meeting, Georgia signed a Multilateral Agreement on the Exchange of Accounts by Country (CbC MCAA). In 2019, Georgia, in cooperation with the OECD, worked intensively to create the legal environment needed to introduce a reporting standard by country. On July 14, 2020, Parliament approved the primary legislation.

The introduction of the minimum standard for the 14th BEPS project event is ensured by the FTA MAP Forum. Georgia has been participating in the FTA MAP Forum since May 2017. Is also actively involved and represented in the aforementioned forum bureau. As part of the 14th event, Georgia's assessment by the FTA MAP Forum was scheduled for 2020 and postponed by the OECD. In addition, in 2020, a draft order on the mutual agreement procedure was prepared together with the experts of the World Bank.

Since 2017, Georgia has been actively involved in the OECD's activities related to digital taxation, and on July 1, 2021, Georgia joined the OECD's announcement of a new framework for international tax reform. The framework provides for a two-column plan to ensure that multinational companies pay a fair share of their payments.

The Revenue Service, as an open, sustainable and development-oriented public administration, in order to promote public welfare, creates the most favorable environment for improving voluntary compliance. The Revenue Service successfully cooperates with tax and customs administrations of different countries and partner international organizations in order to become a more flexible and result-oriented institution.

Important reforms have been implemented in the Revenue Service in recent years, in particular:

The automatic VAT refund system was launched in 2019, which considers modern approaches to VAT Risk management and provides simplified VAT refund procedures.

In 2020, the system became fully automated - refundable amount calculated by the automatic refund program is reflected on the personal bank account of taxpayers automatically, without submitting an additional request.

New compliance risk management programs have been fully implemented in the Revenue Service since 2021, which involves informing the taxpayer at an early stage about possible non-compliances related to the activity and effective use of current control measures.

The following programs were implemented as part of the measure:

- ✓ Comprehensiveness of the registration database, the purpose of which is to timely and completely reflect the registration data about the entities carrying out entrepreneurial activities in the database, as well as to inform the stakeholders about their registration obligations;

- ✓ Determination of the status of qualified VAT taxpayers, aimed to respond to risks in a timely manner and reduce the number of non-targeted registrations as VAT taxpayers;
- ✓ The program of the register of hired persons, aimed to control the correctness of the information provided by employers about employees;
- ✓ Validation of the information presented in the declaration, aimed to validate the register of taxpayers according to taxes and ensure timely declaration;
- ✓ The automatic VAT refund system risk module, aimed to reduce errors made by taxpayers in the VAT declaration process;
- ✓ Management of taxable documents, aimed to reduce the number of untaxed documents;
- ✓ Data quality control, aimed to ensure correctness and completeness of data on taxpayers in the Revenue Service database;
- ✓ Inventory management, aimed at reducing the number of taxpayers at risk of undeclared inventory.

The mechanism of imputed tax has been introduced in the Revenue Service, which implies the recording of tax by the tax authority for a specific tax period and its reflection on the personal registration card of the taxpayer who has not submitted a declaration for the relevant period within the period established by the law.

Since the reporting period of February 2022, estimated accrual is carried out in relation to monthly income tax declarations and tax declarations withheld at the source of payment not submitted by taxpayers registered as VAT payers (except natural persons).

In the following years, the estimated accrual mechanism will gradually be extended to other types of taxes.

Although most taxpayers voluntarily declare and pay their dues, debt management remains a challenge for the Revenue Service. Within the framework of the reform, a debt management department was established in the Revenue Service, the main function of which is the effective administration of tax debt. In 2021, the tax **debt management strategy for 2022-2024** was approved, which aims to improve the rate of timely payment of tax debts and reduce the volume of accumulated tax debts.

In order to achieve the above-mentioned goal, it is planned to perform 3 main tasks in the following years:

- ✓ Strengthening of preventive mechanisms for avoiding payments;
- ✓ Improvement of debt recovery rate;
- ✓ Reduction of old debt.

An electronic system of audit procedures was introduced in the Revenue Service. The purpose of the new Microsoft Dynamics CRM system is to digitize tax audit processes and manage them effectively, which enables electronic supervision of the entire tax audit process. Through the new program, all stages of the tax audit (from planning to completion) are programmatically reflected, and employees have electronic access to all those documents (legislative acts, dispute resolution, audit report, etc.), which are needed in the current tax audit process.

A data processing and analysis system has been introduced and is functioning in the Revenue Service, which ensures the collection of data available in the Service and to be obtained from third parties, as well as contributes to strengthening the service's analytical capacities and making strategic and operational decisions based on reliable information. Also, operational access to information was simplified, which in turn ensures effective implementation of daily activities of the Service. Information received from various state agencies is integrated into the system. As of 2022, a memorandum of cooperation on receiving/exchange of information has been signed with 20 state agencies. In addition, the Service systematically continues to work in the direction of improving/developing the data processing and analysis system.

In the second half of 2019, in order to effectively manage taxpayer registration data, the Revenue Service implemented **Tax Registration Project** aimed at ensuring the reliability of taxpayer data available in the Service. Within the framework of the project, the principles of collecting and processing information on taxpayers were defined, measures to ensure data reliability were developed, and effective approaches to responding to entities without proper registration were introduced in accordance with the procedure established by Georgian legislation.

A two-factor authentication was established, which ensures the protection of user rights, security and privacy of information on the page of the taxpayer's electronic services, and improves the tax administration process with updated data on the taxpayer. The taxpayers' information card has been updated, in which active and inactive

taxpayers are identified and separated. This ensures to reflect an accurate information about their main activity, place of management and facility in the declaration. This process helps to have a complete and accurate database of taxpayers and an accurate projection of tax returns to be submitted.

In order to ensure compliance of the Tax Code with the EU VAT Directive, amendments were made to the Tax Code and **new VAT regulatory provisions were formulated**. VAT reform based on international best practices improves the investment environment, reduces disputes and simplifies the fulfillment of tax obligations.

As a result of the reform:

- ✓ List of services that are not taxed outside Georgia is expanded;
- ✓ The operations exempted from the right of deduction from VAT related to the transportation of goods are expanded and specified;
- ✓ Temporary importation of goods is no longer considered a taxable operation;
- ✓ Along with medical and educational activities, provision of directly related and auxiliary services or goods is exempted from taxation;
- ✓ Medical and educational and separate social activities for the purpose of raising funds by the organization will not be taxed;
- ✓ Transfer of a sample of goods or a gift of small value will not be taxed;
- ✓ Regulations related to VAT taxation of free supply of goods are simplified;
- ✓ VAT payer (individual) will no longer be limited to keep records using the cash method.

As part of the harmonization of tax legislation with the EU VAT Directive, the amendment made to the Order N996 of December 31, 2010 of the Minister of Finance of Georgia on Administration of Taxes entered into force on October 1, 2021, on the basis of which the **rule for calculating VAT and settlement with the budget by a non-resident taxable person without registration as a VAT payer was introduced**. In particular, a non-resident taxable person, who is not based or does not reside in Georgia or does not have a permanent establishment in Georgia and provides digital services to physical persons in the territory of Georgia, is obliged to report and pay VAT for the provision of digital services. For this purpose, the Revenue Service has developed a special platform through which non-resident taxable persons will undergo simplified registration and calculate VAT and settle with the budget - <https://nr.rs.ge/>. As a result of the change, digital services will be fairly taxed, which in turn will ensure the mobilization of additional budget revenues.

A new Customs Code has been adopted, which is in line with EU standards and ensures a significantly improved environment for customs regulation. Georgia has become the first country in the region, which, along with modern customs infrastructure, fully meets the requirements of European standards with the new Customs Code, which will become an important incentive for attracting investments from the EU and will facilitates the integration of Georgian business in the EU market.

Objectives and Goals

4.1 Further Improvement of the Tax Code and Preparation of Relevant Legislative Amendment Projects by Taking into Account the Best International Practices

It is planned to revise the relevant provisions of the Tax Code in accordance with international best practices. Also, in accordance with the international standard, change the structure of the excise tax and formulate thematically according to the object of taxation in separate chapters (energy products, alcohol, tobacco products, automobiles, etc.) and prepare a draft of amendments to the relevant tax code. Work is also underway with donors to analyze tax breaks and draft relevant tax changes.

4.2 Fulfilment of Obligations under the Association Agreement and Further Improvement Tax Legislation

With Council Directive 2006/112 / EC of November 28, 2006 on the Common System of Value Added Tax (VAT), within the period specified in the Association Agreement - harmonization for September 2019, effective from January 1, 2021.

It is planned to prepare a draft of amendments to the Tax Code of Georgia in line with the Council Directive 2003/96 / EC of October 27, 2003 on the restructuring of the tax legislation of Georgia within the framework of the European Union for the production of energy products and electricity.

It is planned to issue public decisions on the application of the norm of tax legislation based on the decision of the dispute review body or the analysis of the existing practice of taxation of taxpayers by the tax authority.

4.3 Issuance of Public Decisions based on the Analysis of Existing Taxation Practices

It is planned to issue public decisions on the application of the norm of tax legislation based on the decision of the dispute review body or the analysis of the existing practice of taxation of taxpayers by the tax authority.

4.4 Enhancement of Customs Legislation

Working on the development of the main directions of the customs policy and preparation of the drafts of relevant legislation and by-laws to improve the customs legislation.

4.5 Tax Base Erosion and Profit Shifting (BEPS) Project

Georgia has implemented the standards set out in BEPS Action 5 (Harmful Tax Practice) to meet its commitments under the Associated Membership of the Inclusive Framework on tax Base Erosion and Profit Shifting (BEPS). Georgia has also taken appropriate measures to implement BEPS Action 6 (Prevention of Tax Treaty Abuse). In order to better implement the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, in accordance with the OECD recommendation, it is planned to prepare synthesized texts with countries that have not yet signed the multilateral convention. In addition to the above, the goal of the Ministry of Finance is to apply the norms stipulated by the multilateral tax convention to all agreements signed by Georgia and entered into force.

In addition, in order to introduce the minimum standard of BEPS Action 13, the by-law related to the reporting by countries is being developed, and it is planned to issue an order on the mutual agreement procedure in order to introduce the minimum standard of BEPS Action 14.

It is also planned to analyze the tax legislation of Georgia and prepare an action plan in order to gradually implement the agreements reached on the first and second pillars (Pillar 1 and Pillar 2) developed by the OECD.

4.6 Global Forum on Tax Transparency and Information Exchange

Introduction and improvement of international tax standards within the framework of the Global Forum on Tax Transparency and Information Exchange. At the same time, in accordance with the evaluation methodology of the new Phase 2 of the Global Forum, implementation of measures provided by law for the assessment of the jurisdiction of Georgia. In accordance with the new Phase 2 assessment methodology, the assessment of Georgian jurisdiction was scheduled for 2020 and postponed to 2022.

Increasing compliance related to the fulfillment of tax and customs obligations.

The Revenue Service is constantly focused on promoting compliance with tax and customs obligations. Therefore, in parallel with the improvement of services, the Revenue Service is constantly in the process of introducing effective approaches to the management of compliance risks, within the framework of which the experience of tax and customs administrations of different countries is shared, as well as close cooperation with partner international organizations is ensured in order to deal with such global challenges as tax evasion, fraud, import of goods bypassing customs control and others.

4.7 Strengthening Tax Risk Management Process in the Field of Legal Compliance

In order for taxpayers to fulfill their basic tax obligations, which implies registration as a taxpayer, timely submission of declarations, reflection of correct and complete information in declarations, as well as timely payment of taxes on the basis of declarations, it is important for the Revenue Service to have mechanisms to ensure the management of risks related to the fulfillment of said obligations.

4.8 Development of Customs Risk Management and Preliminary Information Exchange System

In order to improve the process of fulfilling the obligations stipulated by the customs legislation, modern mechanisms and systems of data processing and analysis are introduced, which will improve the feedback system of decision-making, implementation and control outcomes. In cooperation with the relevant agencies of the partner countries, the area of preliminary exchange of data related to international trade will be expanded, which is an important prerequisite for the fast and safe movement of cargo and the strengthening of customs control capacities.

4.9 Improvement of Tax Debt Management System

In the process of tax administration, special attention is paid to the implementation of measures against the accumulation of tax debts. Although most taxpayers voluntarily declare and pay their dues, debt management remains a challenge for the Revenue Service. Accordingly, one of the strategic objectives of the Service in the coming years is to strengthen the tax debt management process by implementing targeted actions, timely response and reasonable enforcement, as well as by optimizing administrative resources.

4.10 Development of Services Tailored to the Needs of Stakeholders

The Revenue Service offers a wide range of services to taxpayers and other interested parties. A person who has the desire to voluntarily fulfill the obligations imposed by the law should be able to fulfill the tax and customs obligations as easily as possible and in the shortest possible time. Accordingly, the services offered to the taxpayers by the Revenue Service must comply with high standards, respond to modern technological trends, meet the needs of the user, facilitate the fulfillment of tax and customs obligations and increase voluntary compliance.

Development and Sustainability of the Organization's Institutional Capacity

4.11 Improvement of IT Systems

In the coming years, it is planned to make significant investments in the development of information technologies to ensure the automation of key business processes and the strengthening of advanced analytical capacities.

In addition, upgrading information technologies will contribute to the efficient functioning of electronic systems and ensure the safety of taxpayers' data, which is the greatest responsibility of the Revenue Service.

4.12 Bringing Information Security System in Line with Modern Standards

Considering that the Revenue Service carries out processing and analysis of critically important data, in order to ensure adequate control of information confidentiality, integrity and availability, it is planned to implement the information security standard - ISO 27001.

4.13 Introduction of Organizational Risk Management System

Introduction of a modern, effective organizational risk management system and its proper functioning is a mandatory step in the immediate organizational development of the Service, in which the Service plans to consistently invest appropriate human, financial, time and technological resources, in order to contribute to the achievement of programmatic, strategic and operational goals and objectives by the Revenue Service.

4.14 Support for Integration Processes with the European Union

The Revenue Service continues to support the fulfillment of international obligations undertaken by Georgia, including the obligations assumed by the Association Agreement between Georgia and the European Union, which provides for convergence with European directives and regulations, accession to international conventions, as well as introduction of tax/customs policy and international principles of administration.

5. Macroeconomic Analysis and Fiscal Policy

Over the past years, efforts have been made to improve macroeconomic analysis and forecasting. Ministry of Finance of Georgia has established Department of Macroeconomic Analysis and Fiscal Policy Planning, which, along with other topics, works on improvement of medium-term and long-run macroeconomic forecasting. An important step towards improvement was the development and disclosure of macroeconomic risk analysis of the fiscal sector. The scope of macroeconomic forecasting covers all sectors of economy: real sector, external sector, public finances and monetary sector. Based on existing forecasts, a four-year fiscal framework is published, which reflects the response of fiscal policy to current challenges. This framework is a base for a medium-term budget framework. Basic indicators are forecasted using so-called probabilistic forecasts with corresponding fan-charts for current, planned, and following three years that include point projections, along with given probability bounds referring to intervals at which scenario is expected to occur.

Since 2014, the Risk Analysis document, which is part of budgetary documentation, considers exogenous risk factors that can affect forecasts and cause development of events by positive or negative scenario. At the same time, analysis includes assessment of the impacts of realized risks from currently expected risks, together with corresponding policy response. Based on statistical analysis, budgetary documentation covers scenario analysis of expected forecast based on baseline, most likely happening scenario, along with development of exogenous factors under alternative scenarios. Macroeconomic forecast is published in three scenarios based on alternative macroeconomic assumptions: baseline – the most anticipated, positive and negative. Mentioned scenarios are reflected in the budget documentation together with forecasts. Analysis of positive and negative scenarios also includes fiscal policy responses in terms of their possible development.

Macroeconomic analysis and forecasting are positively assessed according to various international standards. In the 2018 Public Expenditure and Financial Accountability (PEFA) Assessment Report, it is rated with the best (A) score. According to the International Monetary Fund's Fiscal Transparency Assessment Mission, evaluation and disclosure of macroeconomic risks is rated with the highest score, and macroeconomic forecasting is also evaluated as “good”. Relatively high inaccuracy is considered a relative weakness. However, the transparency assessment document emphasizes that inaccuracy is partially explained by the high volatility of the Georgian economy. In addition, the fact that the deviation of forecasts has decreased significantly during the last period was emphasized. The macroeconomic forecasting methodology is in the process of constant improvement and in the future, it is one of the most important directions to increase its accuracy, which will facilitate further development of modelling techniques for prediction and policy analysis. In order to improve macroeconomic modeling, a new division (Macroeconomic Modeling Division) was established in 2022, which will work on the development and improvement of macroeconomic and fiscal models, in order to improve forecasting and conduct policy analysis.

The lack of comparability of forecasts was identified as a weakness by the Fiscal Transparency Assessment. The Ministry of Finance has already started working in this direction. Analysis of macroeconomic forecasts was already implemented in 2017 according to the Fiscal Transparency Action Plan. It was discussed in detail how the average-term forecasts changed compared to previous year, with the explanation of the relevant causes. The document is attached to the annual budget of the next year. In recent years, reconciliation has been improved in the direction of explaining possible changes in forecasts because of the identification of macroeconomic factors and fiscal policy and other changes. After developing of fiscal policy analysis model, it will be possible to analyze the factors that led to the deviation from the prediction. It will also be possible to define the contribution of specific shocks to the forecasting error.

Apart from forecasting, the macroeconomic analysis has also been significantly improved. "Current Economic Trends" and quarterly Publication - "Economic Trends Quarterly Review" are published monthly, which is a thorough review of the development of the Georgian economy. The publications cover all the important sectors and allows familiarity with the latest information about the macroeconomic processes and risks in Georgia. In addition, an estimate of the monthly inflation forecast and an analysis of the reasons for the deviation from the actual one is prepared for domestic consumption in order to refine the forecast. Presentations are also made on monthly trade analysis and key trends in tourism and remittances.

5.1 Macroeconomic Analysis and Forecasting

The current situation in most positions is evaluated with the highest score, however, against the background of new challenges, work is underway to eliminate weaknesses, as well as to maintain and further refine strengths. Processes will be further refined to improve analysis of the expected outcomes as an input to decision making.

It is planned to further improve econometric modelling. Dynamic macro econometric model based on quarterly data will make it possible to assess the impact of fiscal shocks to macroeconomic indicators timelier and to respond to the detrimental economic changes faster.

- To better plan the medium-term fiscal framework, a dynamic stochastic model of the overall equilibrium is used, which was developed in collaboration with an IMF panel of experts. The model is used to assess the impact of shocks under different scenarios and update forecasts and is also subject to continuous improvement. The model is being adapted to the main aspects of the Georgian economy. The model methodology document is being worked on, which will help new employees to be involved in the work process on time.
- It is planned to develop new econometric models and to improve the current ones for short-term forecasts. Consideration and comparison of different alternative forecasts is very important in the analysis and planning process.
- Another priority of the reforms in the coming years is to increase the qualification of analysts in this field. It is planned to fully staff the Macroeconomic Modeling Division and raise the qualifications of employees, in which the International Monetary Fund plays an important role. It should be noted that in the previous years, with the joint efforts of the International Monetary Fund and the Academy of the Ministry of Finance of Georgia, regular trainings were organized for the Departments of Macroeconomic Analysis and Fiscal Policy Planning and other employees of the Ministry, the purpose of which was to consistently provide trainings tailored to the economy of Georgia to the employees of the Ministry and turn the employees into highly qualified experts.
- For the purpose of improvement macroeconomic analysis, a thorough analyses and assessment of vulnerability of external macroeconomic risks that impact on Georgian economy is planned. The staff of the department have been acquainted with international methodology for assessing external vulnerability within the training course organized by the International Monetary Fund. It is important to constantly monitor the newly identified risks and reflect their impact in the assessment of economic indicators, which will have a periodic character.

5.2 Improvement of Coverage of Public Finances

As a result of cooperation with the International Monetary Fund, working on the amendments in budget classification to move to GFSM 2014 is completed. The updated data using the GFSM 2014 methodology are being published on the website of the Ministry of Finance. In order to improve public finance data and to fully cover government operations, only those LEPLs and N(N)LPs are reflected in budget statistics that meet the criteria of the government in accordance with international standards. In addition, the rule is set out to determine the criteria for classification of LEPLs and N(N)LPs that will be in compliance with GFSM 2014 and other internationally recognized methodologies. The rule for reviewing historical data of statistics has been developed and published. Also, work is being done to reflect the data of LEPLs and N(N)LPs in monthly and quarterly data. It is important to constantly improve the accounting of public finances and adjust it to international standards. In the medium term, it is also planned to reflect the SOEs belonging to public sector and transferred to a single treasury system in the public finance statistics.

5.3 Improvement of Quantitative Assessment of Lost Revenues caused by Tax Exemptions and Optimization of Tax Benefits

Together with experts of the International Monetary Fund, a quantitative assessment of lost revenues caused by tax exemptions was carried out, which allows for the assessment of indirect subsidies of the government. In

addition, within the framework of the mission, experience and knowledge about the methods and models used by them were shared with the employees of the relevant departments of the Ministry of Finance. Within the framework of the aforementioned, there was a quantitative assessment of tax revenues related to income, profit and value added tax.

Fulfillment of this objective was preceded by the assessment of tax expenditures related to income and profit tax, which was carried out within the framework of the "Good Governance Initiative" (GGI) project funded by the USAID. Assessment of the tax expenditures related to the value added tax was carried out within the technical assistance mission of the International Monetary Fund.

After sharing the methods and experience of the quantitative assessment, it is planned to carry out the assessment of tax expenditures independently and submit the report together with the draft budget as an annex, as well as to conduct a cost-benefit analysis regarding tax expenditures, and by the end of 2026, it is planned to optimize 5 tax benefits from the identified expenditures.

6. Fiscal Risks

Georgia launched a fiscal risk assessment and management system in 2014 to identify, study and disclose fiscal risks. Following the recommendations of the International Monetary Fund, the Ministry of Finance of Georgia has established a Fiscal Risk Management Department to identify specific fiscal risks facing the budget and to develop recommendations for their reduction and management. Various measures were taken within the framework of the aforementioned. The Ministry of Finance annually prepares a fiscal risk analysis document, the coverage area of which increases and improves in terms of content from year to year. With the progress achieved in this direction, Georgia is leading among the countries of Central Asia and Eastern Europe. A logical continuation of the progress made in this direction is the development of mechanisms needed to move directly from fiscal risk analysis to fiscal risk management, the need for which has been further emphasized since the outbreak of the pandemic in 2020. This period was used for implementing the preparatory works needed prior to the reform of state-owned enterprises, for example, sectorization of state-owned enterprises was carried out, as a result of which the enterprises that are candidates for reform were precisely determined. In the same period, the Government adopted the Code of Corporate Governance of State-Owned Enterprises, the draft of the reform strategy of state-owned enterprises was also developed. In addition, for the purpose of effective management of potential fiscal risks and timely response to them, under the Decree of the Government of Georgia, the Ministry of Finance was assigned the role of financial supervisor in relation to 7 main state enterprises.

Accumulation of contingent liabilities from PPP projects was stopped / reduced, in turn, this laid the foundation for the implementation of best practices in the energy sector.

Objectives and Goals

For the next 4 years, the following activities are planned for the improvement of fiscal risk assessment and effective management:

6.1 Development and Approval of the Legislative Framework on State-owned Enterprises

Georgian legislation does not recognize the term "State-owned Enterprise", which allows for interpretation for different purposes. In addition, the sector of state-owned enterprises is an important component of PFM, which is significantly lagging behind the reforms implemented in this field in recent years.

In order to maintain the results achieved after the implementation of the state-owned enterprise reform, it will be necessary to have an appropriate legal framework that should ensure the sustainability of the sector in various directions, such as corporate management practices, rationality of ownership/establishment of enterprises, commerciality and competitive neutrality.

6.2 Financial Supervision of SOEs

Regardless of the ownership model of SOEs, the Ministry of Finance, as the fiscal supervisor, will always have the role of financial supervisor with respect to SOEs, among other possible functions.

For this purpose, the Government of Georgia, by Decree N1012 of June 10, 2022, assigned the role of financial supervisor of some enterprises (large enterprises) to the Ministry of Finance of Georgia. To fulfill this function, the Ministry of Finance has developed the tool of Corporate Statement of Intent, which provides financial and non-financial objectives to be achieved by the enterprise.

From 2023, the performance of the functions of the Ministry of Finance as a financial supervisor will go into an active phase. In the same period, the **enterprises defined by the decree will have to present the first report regarding the fulfillment of the goals set by the Corporate Statement of Intent.**

6.3 Fiscal Risk Analysis

In this direction, the Ministry of Finance of Georgia follows the best international practices from year to year and in some cases is the establisher of the best practices. In the following years, the achieved progress will be maintained, on the one hand, and the coverage area of the fiscal risk analysis will increase, on the other hand, with consideration of the current processes in the country and globally, for example, the focus on long-term fiscal risks, including climate changes and demographic challenges (population aging).

6.4 Maintaining an Adequate Level of Risks/Contingent Liabilities arising from PPP Projects

Since 2020, conclusion of Guaranteed Purchase Agreements (PPAs) was limited, thus stopping the further accumulation of contingent liabilities and reducing fiscal risks arising from the energy sector.

During the same period, work began on the development of electricity support schemes, which should ensure the attraction of investments in the sector, but should not substantially increase fiscal risks. The Ministry of Finance of Georgia and the Ministry of Economy and Sustainable Development of Georgia, with the support of partner international organizations, continue to work in the direction of developing the best practices for supporting the energy sector. It will enter the active phase from 2023, immediately after the opening of the electricity market.

7. Development of Public Internal Financial Control System

Based on the Law of Georgia on Public Internal Financial Control, the Public Internal Financial Control system consists of three elements in accordance with the model developed by the European Commission, in particular:

1. Management and governance systems - **financial management and control system;**
2. Independent and objective assurance activities for systems evaluation - **internal audit;**
3. Harmonization and coordination unit of financial management and control system and internal audit - **harmonization center.**

The Public Internal Financial Control system in the public sector is being developed according to the strategy and action plan developed by the Harmonization Center (Department of Public Internal Financial Control of the Ministry of Finance of Georgia) and approved by the Government of Georgia. It should be noted that significant results were achieved within the framework of the 2017-2019 system development strategy and action plan. The activities envisaged by the 2021-2022 action plan of the 2021-2024 strategy were also successfully implemented. Progress in the direction of the **financial management and control system** implies the improvement of the methodological base and promotion of awareness and accountability in the target institutions (which were mostly central ministries in the past period) by activities carried out within the framework of the pilot implementation. In the direction of internal audit, development of methodological and auxiliary manuals, evaluation of the quality of the activities of **internal audit** subjects, raising the qualifications of internal auditors both at the central and local level, and the development of the concept of certification of internal auditors can be distinguished.

Objectives and Goals

7.1 Development of Financial Management and Control System

The objective of the Harmonization Center for strengthening the financial management and control system is to establish **the risk management system and managerial accountability, both at the central, autonomous and local government levels**, which implies the identification of managers responsible for achieving goals in institutions through the determination of powers and control mechanisms. This will help to achieve the goals of the institutions legally, economically, efficiently and productively.

The risk management system involves the processes of determining, evaluating, controlling and monitoring the possible events and situations that affect the achievement of the goals and objectives of the institution, its structural subdivision (unit) or its subordinated unit.

For the proper functioning of financial management and control system, a managerial accountability system shall be established in the institution, which implies that the head of the institution at all hierarchical levels is responsible for achieving the goals on time, within the given budget, in compliance with the existing legislation and regulations. Managerial accountability extends from the top management of the institution to the operational manager. The existing accountability system should be fully compatible with the effective implementation of the institution's strategy and goals with consideration of budget targeting and time factor.

7.2 Development of Internal Audit

Raising and certifying the qualifications of internal auditors through the introduction of the national certification program for internal auditors was defined as a necessary objective for promoting the development of internal audit. In addition, it is important to **increase the share of efficiency and systematic audits and to develop a methodological framework for information technology (IT) audits** so that internal auditors can carry out said audits.

In order to ensure a more or less uniform level of development of highly qualified internal auditors and continuous upskilling, it is critical to implement a national internal auditor certification program for public sector internal auditors. The necessity of the existence of the system is emphasized by the fact that there are no local representatives of the International Institute of Internal Audit in Georgia.

A systematic audit provides an assessment of the adequacy and effectiveness of the financial management and control system. Performance audit provides analysis and evaluation of economy, efficiency and productivity of the activities and decisions made in the field of development of state programs, and usage and management of investment, financial, human, material and other resources. By means of IT audit, the adequacy of information technology and the protection of system security are checked and evaluated in order to ensure the confidentiality, integrity and availability of information. Accordingly, the above-mentioned types of internal audits bring significant additional value to the institution, however, at the current stage, the share of efficiency and system audits in the total number of internal audits is small due to their complexity. As for the IT audit, these types of audits are almost never performed in the public sector, except for rare exceptions.

8. Supervision of Accounting, Reporting and Auditing

Georgia is undergoing an unprecedented reform of bringing it closer to the European family - the Business Transparency Reform implemented since 2016 based on the European Union Association Agreement. Within the framework of the reform, which is implemented through the Service for Accounting, Reporting and Auditing Supervision of the Ministry of Finance ((hereinafter the Service), the reporting portal (www.reportal.ge) was established - the first public information resource that includes financial and management reports of entities registered in Georgia. Through the reporting portal, enterprises can show a wide audience how reliable and stable their businesses are. It should be noted that during the five-year existence of the reform, the information available on the reporting portal was viewed by many interested parties. Publicity of quality and reliable reports contributes to the growth of access to finance for enterprises, the development of the capital market, the protection of the interests of creditors and other stakeholders and the development of business, which, in turn, has a positive impact on the country's economy.

Pursuant to the Law of Georgia on Accounting and Auditing, Public Interest Entities, first and second category enterprises are obliged to prepare and submit on the reporting portal audited financial and governance statements in accordance with International Financial Reporting Standards (IFRS, IFRS for SMEs). The third category enterprises are obliged to prepare and submit on the reporting portal financial statements prepared according to the IFRS for SMEs standard, while the fourth category enterprises shall submit financial statements prepared according to the local standard.

Report of an independent auditor contributes to increasing the reliability of the statements submitted to the reporting portal. To ensure the quality of audit services, the Service monitors work performed by auditors and audit firms. Monitoring results are publicly available in the auditors/audit firms register on the website of the Service.

The Service is in the initial stage of supervision of accountants, auditors, accounting and auditing firms providing professional services in the direction of facilitating the prevention of money laundering and financing of terrorism aims to carry out effective measures for the purposes of facilitating the prevention of money laundering and financing of terrorism with consideration of international standards.

Objectives and Goals

8.1 Effective Functioning of Reporting Portal

According to the Law of Georgia on Accounting, Reporting and Auditing adopted within the framework of the obligation assumed by the Association Agreement, enterprises are required to submit and publish financial on the reporting portal (Reportal.ge). Pursuant to the Law, Public Interest Entities, the first, second and third category enterprises are obliged to prepare and submit to the service reports prepared in accordance with International Financial Reporting Standards (IFRS, IFRS for SMEs). The fourth category of enterprises will benefit from the local, simplified financial reporting standard and self-study guide, developed with the support of international donor organizations, with the involvement of representatives of the service, public/private sector and profession, in accordance with the requirements of European directives and international practice. The submission rate remains high year after year. In 2022, the submission rate for PIEs, I, II, III categories enterprises were 94%, and for IV category enterprises - 77%. In total, as of today, up to 77 thousand enterprises have submitted reports. Maintaining and increasing the mentioned indicator is one of the prerequisites for the effective functioning of the reporting portal.

As of today, reports are submitted in PDF format, from which only about 30% are submitted in digital format. However, on the path of European integration, it is important to submit reports in a fully digital format, which will increase the quality of submitted and publicized reports and significantly simplify the processing of this information. Since 2022, the Service, with the support of the World Bank, has been carrying out the feasibility study for the implementation of XBRL/iXBRL standard, which highlighted the need to implement the standard. The use of XBRL standard contributes to comparability of data, effective exchange of information, compliance with international standards, and increase in the quality and reliability of information.

8.2. Promoting the Growth of Reporting Quality

In order to increase the quality of the reports submitted on the reporting portal and to ensure the compliance of the international financial reporting standards/law requirements by the enterprises, the service ensures compliance of the submitted information with the law, rules and standards.

Within the framework of the mentioned process, reports submitted by PIEs and I and II category enterprises are audited in full in terms of compliance with the law and rules. The reports submitted by III category enterprises are audited statistically using a risk-based approach, and if the report does not meet the criteria established by the legislation, audit is carried out in detail through the corresponding audits of the enterprise category embedded in the system. As for the audit of the reports submitted by the IV category enterprises, it is carried out by the system, automatically, in accordance with predetermined audits, and those entities that cannot pass the mentioned systematic audit will be further audited in detail.

Since 2020, the Service has been conducting a review of reporting in terms of compliance with the standard. The average total number of PIEs, I and II category enterprises are 1100, and the average total number of III category enterprises is about 4500. Financial data of III category enterprises are processed according to coefficients and entities with significant deviations are selected. Currently, within the existing resources, only 40 financial statements are audited annually, which is only 0.7% of the total amount. It is planned to increase the resources in this direction and the number of reviewed annual statements will increase in the following years.

In order to simplify the process and increase the quality of reporting, since 2020, the Service annually publishes the guidance document regarding the priorities for reviewing the reports of the following years, which reflects the information on the selection criteria of the submitted and/or publicized reports and the detection of inconsistencies in the submitted and/or publicized reports and their correction. The mentioned document provides information on the priorities and approaches that the Service will pay special attention to when reviewing the reports of the respective years.

At the same time, in order to promote the improvement of the quality of compliance of submitted financial statements with international standards, the Service annually prepares a summary document of the review of financial statements prepared for the previous reporting period: "Inconsistencies Identified as a result of Review of Financial Statements", in which the main inconsistencies identified by the Service in the process of reviewing the compliance of financial statements with IFRS standards are discussed.

8.3. Promoting the Growth of Audit Service Quality - Monitoring the Quality Management System of Auditors/Audit Firms

The credibility of the reports posted on the reporting portal should be enhanced by the audit findings. According to the legislation, PIEs, I and II category enterprises are required to submit audit reports. According to the Law of Georgia on Accounting, Reporting and Auditing, one of the main functions of the Service for Accounting, Reporting and Auditing Supervision is to monitor the quality control system of auditors / audit firms. Since 2017, monitoring has been carried out by the Service based on both a planned and a risk-based approach. The purpose of monitoring is to assess the compliance of auditor services performed by auditors and audit firms with international standards and requirements set by law. The decisions made by the Service (Auditor Evaluation Category) contributes to the improvement of the quality of audit and professional services and promotes fair practice. The service annually publishes a general report on the audit quality.

Authorization to audit of PIEs is only granted to those firms who have undergone the quality control system monitoring and are awarded the respective degree/qualification according to the rules set by the relevant Quality Category Service. The monitoring results are available in the registries of auditors / audit firms, which are published on the official web page of the service. <https://www.saras.gov.ge/>.

The performance of the registered auditors / audit firms in Georgia will increase after the implementation of the measures to be taken, which will make audits more credible and will simplify the process of granting the authorized status.

8.4 Promoting the Growth of Audit Service Quality – Investigation of Auditors/Audit Firms

The Law of Georgia On Accounting, Reporting and Auditing provides for the obligation of the Service to consider the statements entered into the system of the Service and effectively respond to violations conducted by auditors/auditing firms. For this purpose, the "Rules of Investigation of Auditors/Audit Firms (hereinafter - the Rule)" came into force in November 2022, which regulates the procedure and methodology of investigation.

From 2023, the Service will start the investigation. It is a kind of leverage to ensure thorough performance of the functions of the Service, including monitoring of compliance with the legislation by auditors and audit firms. The investigation may be conducted by the Service both on its own initiative and on the basis of an anonymous notification and statement to protect the rights of third parties. Through investigation, the Service can carry out an on-site inspection on the basis of the person's consent or the court ruling, which is a more effective means of conducting investigation and detecting violations.

As a result of the planned measures, compliance with the legislation regulating the auditors/audit firms will be effectively defined, and the correctness of the information reflected in the register will be controlled. The purpose of the investigation is to detect violations and prevent them.

8.5 Supervision of Professional Education

Since 2017, the Service has established a professional certification standard and a continuing education standard for recognizing persons as certified accountants and maintaining their qualification, which are in line with the requirements of the European Union directives and the International Education Standards (IES) established by the International Federation of Accountants (IFAC). As a result, professional organizations provide the time and physical resources to submit comprehensive certification programs and training processes to the Service for recognition. The Service recognizes certification programs and examination processes submitted by professional organizations. Professional organizations analyze and consider the recommendations given by the Service in the process of recognition.

Also, professional organizations ensure the process of continuing education with the continuing education standard developed by the Service. In accordance with the law, after certification a certified accountant confirms the qualification in accordance with the continuing education standard, and professional organizations must monitor the continuing education of certified public accountants and conduct appropriate accounting.

Through professional certification, a CPA candidate acquires the level of qualification necessary to fulfill the role of a professional accountant. However, learning and development is an ongoing process necessary to maintain and develop professional competence that continues throughout the CPA's career through the continuing professional education program. Professional competence is acquired within the initial professional development program, and professional competence is maintained and developed within the framework of continuing professional education, which is necessary for the performance of quality audit services, thus ensuring the protection of public interests and increasing confidence in the profession.

These are continuous, complex and difficult processes, which serve to control the thorough implementation of the standards established by the professional organizations in the country.

8.6-8.8 Supervision of Money Laundering and Financing of Terrorism

In 2019, pursuant to the Law of Georgia on Facilitating the Prevention of Money Laundering and Financing of Terrorism, the Service for Accounting, Reporting and Auditing Supervision was defined as the supervisory body of the following accountable entities:

- Certified accountant, a legal entity that provides accounting services and, on whose behalf, the certified accountant acts;
- Auditor, auditing firm.

With the legislative change of December 2022, the circle of accountable persons was expanded and now it includes:

- Accountants providing professional services; and
- Accounting firms.

The mentioned legislative change filled the existing gap. A step was taken towards approximation with international standards.

The purpose of the Service for Accounting, Reporting and Auditing Supervision is to establish a full-fledged legal framework, raise awareness of the circle of accountable persons and implement risk-based supervision of money laundering and financing of terrorism.

In order to achieve the above-mentioned goals, registers of accountants and accounting firms providing professional services will be established, legal acts that have already been developed or are in the process of development will be issued, thus helping accountable persons to fully analyze and fulfill their obligations, and the Service - in the implementation of supervision in accordance with the recommendations of the Financial Action Task Force (FATF) and the requirements of European directives.

IV. KEY OUTCOMES ACHIEVED WITHIN THE FRAMEWORK OF PREVIOUS STRATEGIES OF PFM REFORM IN GEORGIA

According to the latest updated estimates of the Public Expenditure and Financial Accountability (PEFA), it can be said that the achievements in areas of strengths underlined in the 2018-2021 reform strategy are still confirmed, and the progress is obvious in areas of weaknesses:

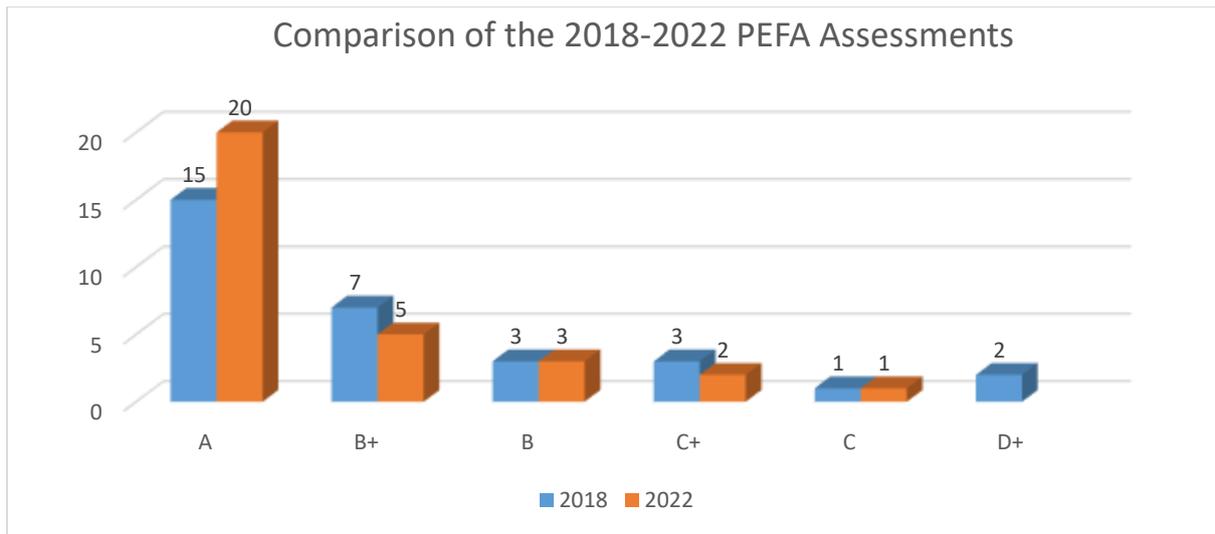
- There is still a significant progress in terms of transparency of public finances in accordance with international standards, and regardless of the restrictions related to the pandemic, the country ensured not only maintenance but also improvement of the transparency standard and **ranked first** in the world in terms of state budget transparency;
- Against the backdrop of the crisis caused by the Covid-19 pandemic, fiscal discipline has been tested in practice. The special conditions (the so-called Escape Clause - emergency and recession, in accordance with the criteria defined by law) have been established, according to which it is possible to deviate from the limits established by Fiscal Rule to ensure an appropriate fiscal response to the crisis. It should be noted that the fiscal discipline showed appropriate flexibility during the development of the crisis and, at the same time, ensured the return to the limits of the Fiscal Rule in the 3-year period determined by the organic law;
- Despite the difficulties caused by the pandemic, significant progress is still evident in terms of revenue administration and accounting, and effective administration.
- There was no delay in the implementation of reforms to ensure a flexible, simple and efficient tax policy. In addition, under conditions of the crisis caused by the Pandemic, transition to the fully automatic VAT refund system was ensured, which was an important step in terms of both tax reform and business. Implementation of this reform had a significant support effect in crisis conditions;
- Works have been actively carried out in the direction of the aggregate assessment of fiscal risks from state-owned enterprises. Financial supervision of the public sector has been improved. The strategy for the management of SOEs has been prepared together with the IMF, the World Bank and other partners and a dual management model has been defined, which involves the sharing of responsibilities between the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Finance of Georgia.
- There are good capacities for macroeconomic and fiscal analysis, which is of great importance in the context of the pandemic and the crises caused by Russia's invasion of Ukraine, when forecasting is particularly complicated for both domestic and international financial institutions due to the rapid change of external factors and events;

- Important reforms have been implemented at both the Central Government and Subnational levels, in particular:
 - Strengthening of results-oriented planning - Program Budgeting;
 - Expansion of Treasury Single Account, which fully covers the operations of both the central and municipal budgets, as well as operations of all LEPLs and N(N)LPs (except public schools and kindergartens). At the same time, it is planned to expand the scope and cover the public schools, kindergartens and SOEs belonging to public sector by the Treasury Single Account system;
 - Strengthening of internal controls and accounting systems facilitated by the Public Financial Management Information System (PFMIS);
 - E-Systems (ePFMS) for budgeting, treasury and other related areas have been established and are fully functioning and measures are taken to include in the system those SOEs that were classified as budgetary units within the framework of the sectorization reform of state enterprises;
 - The State Audit Office has transformed from a traditional controlling-auditing organization into a new, modern institution conducting the financial, compliance and performance audits in line with international audit practice of Supreme Audit Institutions;
 - The legal and methodological basis of internal audit has been established and its harmonization is being rolled out throughout the Government including municipalities.
 - Trainings tailored to the needs of PFM reforms and initiatives are carried out with the support of the Academy of the Ministry of Finance;
 - The State Procurement Agency moved from paper based to e-procurement in 2011. All government including municipalities contracts are procured through the Georgian e-Government Procurement System. Procurement records are maintained on the system and they are publicly available. Active work was carried out in the direction of development of new procurement legislation of international standard;
 - Parliamentary oversight was strengthened within the framework of the reform, in particular, the Budget and Finance Committee of the Parliament established a system that, through a working group specially created for this purpose, improves the oversight of the state audit reports reviewing process and supervises development and implementation of recommendations.

All of the above-mentioned are confirmed by the results of the **Public Expenditure and Financial Accountability (PEFA) Performance Assessment**, regularly conducted by Georgia. According to the 2017 PEFA performance assessment report, Georgia was assessed by higher scores in case of 29 out of 31 indicators compared to the average scores of other 24 countries (which have been assessed using the 2016 PEFA methodology). In the 2017 PEFA assessment report, the scores of 27 out of 28 indicators were improved or maintained compared to the 2012 assessment, which confirms the successful implementation of the PFM reform in Georgia.

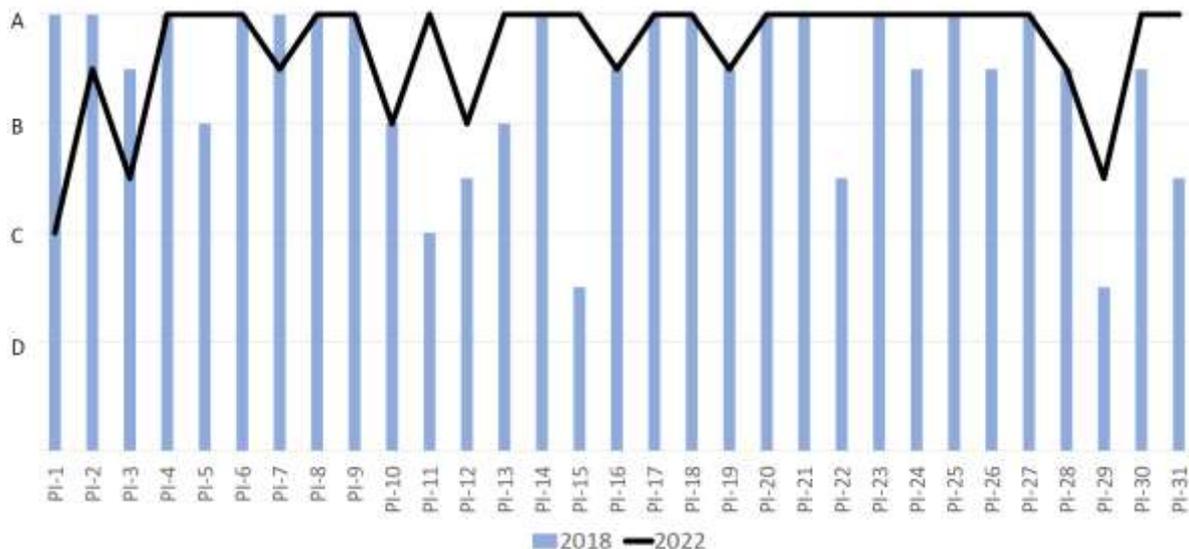
The 2022 PEFA assessment and its validated report confirm further progress, especially in the conditions when the current assessment is based on the data of 2019-2021. Of the three years to be evaluated, two years deviated sharply from the trend given the negative impacts of the COVID-19 crisis on the 2020 parameters, and the higher than expected recovery in 2021.

Despite these impressive achievements resulting from previous reforms, there are still steps to be taken towards the stable and efficient functioning of the system, and there are still weaknesses that the 2022 Central Government and Municipality PEFA assessments have revealed. Therefore, despite the progress achieved, reforms are planned in the direction of more complex and deeper aspects.

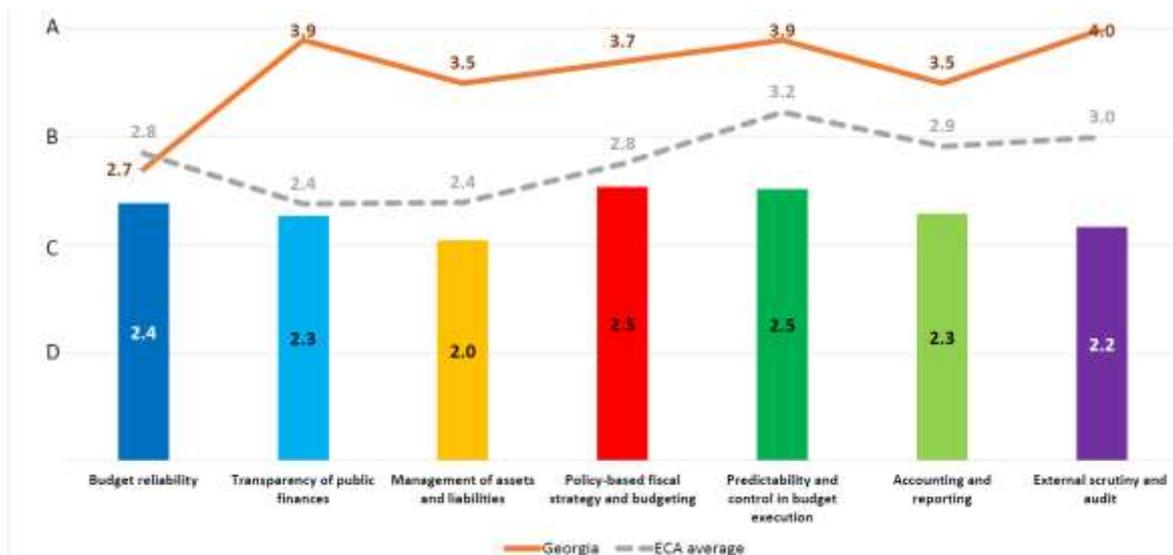


According to the 2022 assessment, 5 more indicators scored A (total of 20 indicators) compared to the 2017 assessment. In addition, it should be noted that the indicators (PI-1– PI-3) that have been traditionally scored A and measure the performance of aggregated indicators of the budget revenues and expenditures with respect to the initially approved plans in order to assess the reliability of the forecast, have deteriorated in the 2022 assessment due to objective reasons related to pandemic, which are also mentioned in the report. In particular, budget revenues were characterized by deficits due to the 2020 pandemic, and at the same time, the structure of the spending part was significantly changed due to the need for funding the measures for the response to the crisis. Given the better-than-expected economic recovery, the 2021 ended with significantly improved parameters compared to initial conservative forecasts. Accordingly, the number of qualitatively improved indicators is higher, especially if we consider that the score below A of at least three indicators is caused by factors related to the pandemic and does not indicate structural deterioration.

It is noteworthy that unlike the 2018 PEFA assessment, none of the indicators scored D+ and/or D.



On December 20, 2022, at the public hearing of the 2022 PEFA Assessment Report, the Evaluation Group of the World Bank working on the technical assistance of the European Union noted that according to the PEFA results, Georgia showed the best result among the 59 countries undergoing PEFA assessment and ranked first. It was also noted that the results of Georgia are higher in 6 out of 7 main directions than the average rate of the countries of the Europe and Central Asia (ECA) region.



It should be noted that the 2022 PEFA assessment report, as well as the 2018 PEFA assessment report were prepared using the 2016 PEFA methodology. In total, 66 of the 94 detailed dimensions under 31 indicators were maintained at the 2018 level, 21 dimensions were improved, and only 7 dimensions were deteriorated (mostly due to deviations related to COVID-19).

According to the report, the following areas have been improved despite the pandemic:

- Management of contingent liabilities and fiscal risks;
- Transparency of asset management;
- Transparency of investment project management;
- Direction of debt management strategy;
- Direction of fiscal risk management strategy;
- Reporting on fiscal parameters;
- Appeal mechanisms stipulated by the Law on Public Procurement;
- Effectiveness of mechanisms of service delivery programs;
- Quality and standard of internal audit;
- External audit reporting standards;
- Recommendations issued by representative bodies based on the audit findings and the mechanisms for responding to them.

According to the Evaluation Group, the findings confirmed by the PEFA assessment revealed that:

- The PFM system showed high efficiency during the crisis caused by the COVID-19 pandemic, including in relation to the investment project management, IPSAS standards, internal and external audits.
- Aiming to comply with EU regulations, significant changes have been in the direction of public procurement and new legislation has been developed;
- Works have been carried out in the direction of PFM reforms at the municipality level;
- With the funds management mechanisms implemented by the State Treasury, the PFM system not only ensures the timely mobilization of funds for the measures provided for by the allocations, but also generates additional revenues through auctions conducted with available cash assets;
- The scope and quality of the report has been improved in terms of fiscal risk management, including the fiscal risks arose from state-owned enterprises.

Following the progress and achievements stated in the PEFA report, some areas have been identified in the PFM that remain on the PFM reform agenda. According to the 2022 PEFA assessment report, indicators that have worsened compared to the 2018 assessment are largely related to the consequences of the COVID-19 pandemic, which is fully consistent with the complication of global forecasting. In particular, the following areas of weakness identified are:

- Threshold parameters stipulated by the fiscal rules, but only under special conditions stipulated by the organic law as the co-called "escape clause" (state of emergency and economic recession). In 2 years out of 3 years to be evaluated, special conditions, the so-called "escape clauses" were applied;
- Actual performance of fiscal parameters in relation to planned indicators;
- Share of own revenues in the revenues of municipalities in relation to transfers from the central government;

It is noteworthy that according to the 2022 PEFA assessment, none of the indicators scored D+ and/or D. At the same time, according to each detailed dimension of the indicator, there are still aspects that are evaluated with a low score (C and C+):

- **Fiscal Risk Reporting (PI-10):** Although the indicator is evaluated with B score, the detailed dimension of the indicator is still evaluated with C score, which is mainly related to the preparation of audited financial statements of state-owned enterprises within the time frame provided by the PEFA standard;
- **Public Asset Management (PI-12):** Non-financial asset monitoring and transparency of asset disposal at the central government level has improved and the indicator is evaluated with B score (C+ score in 2018). However, the detailed dimension still maintains a C score, which reflects the need to expand the scope of non-financial asset management;
- **Public Investment Management (PI-11):** The indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects. Although the indicator is evaluated with A score in the 2022 assessment (with C score in the 2018 assessment), the Government still needs to actively work on the sustainable implementation of this tool in practice. It should be considered that the Public Investment Management Assessment (PIMA) tool of the International Monetary Fund was used for the preparation of the assessment in 2022. Among them, the reform provides for consideration of the gender aspect in the process of managing investment projects.
- **Annual Financial Reports (PI-29):** The indicator assesses issues related to International Public Sector Accounting Standards (IPSAS) and timely submission of financial statements to the State Audit Office. Evaluation of the indicator has been improved from D+ score to C+ score. The introduction of IPSAS standards and comprehensive financial reporting, including gender-sensitive reporting, are still part of the ongoing reform.
- **Fiscal Strategy (PI-15):** The indicator assesses the aspects of reporting on the fiscal impact of policy changes on the budget and fiscal outcomes, including the progress achieved in relation to fiscal strategy goals. Evaluation of the performance indicator has improved from D+ score to B score. It should be noted that since fiscal year 2020, this performance indicator meets the standard required for scoring A, although the methodology requires to submit information for the last 3 fiscal years, and as of the 2022, these criteria are met only for the last 2 fiscal years.
- **Revenue administration (PI-19):** In the 2022 assessment, the indicator again scored B+. All detailed dimensions of the indicator are evaluated with A score, except monitoring of tax arrears, which is evaluated with D score. It should be considered that 89% of the arrears are historical arrears and do not indicate the current risks and problems. The solution to improve the mentioned score is largely technical in nature, however, considering its seniority status, it requires a careful approach, although not an immediate response.

The following areas of weaknesses identified at the municipal level are:

- **Transfers from the state budget to municipalities (HLG-1):** The current practice and deadlines for providing information to municipalities on earmarked grants (broken down by capital and current) have a negative impact on the budget process of municipalities, in terms of predictability of resources.
- **Budget Preparation Process (PI-17):** Timeliness of provision of information about grants and limited time for budget preparation poses certain difficulties in the budget process.

- **External Audit (PI-30):** The identified problems are related to the frequency of audits conducted in the municipalities and the timing and depth of review of audit reports in municipal councils.
- **Performance Information for Service Delivery (PI-8):** Identified weaknesses are related to the quality of result-oriented planning components (non-financial indicators) in relation to service delivery programs;
- **Debt Management (PI-13):** Despite the fact that the municipalities actually take debt only from the central government, through re-borrowing, and complete information on the parameters of the consolidated budget is provided, thorough reflection of this information by the municipalities in their reports is still a challenge;
- **Revenue Outturn (PI-3):** The accuracy of revenue forecasting is significantly related to the limited ability of municipalities to forecast their own revenues, since the necessary parameters are largely developed by the central government.
- **Predictability of in-year Allocation (PI-21):** The scale of annual budget adjustments is also related to the timeliness of providing information on transfers to municipalities by the central government.

It should be noted that, with the support of the UN Women, gender aspects of PFM were analyzed for the first time using the methodology developed by the PEFA Secretariat. According to the mentioned assessment, out of 9 performance indicators provided by the methodology, 6 indicators scored D and 3 indicators scored C. Accordingly, consideration of gender aspects is an important part of the PFMRS in the medium-term period.

For the PFM's future strategy, the Evaluation Group recommended that the progress achieved in PFM reform, which has demonstrated resilience to face challenges of the COVID-19 pandemic, be maintained and that the next stages of reform be built on this solid basis, including:

For the central budget:

- To continue the PFM process, implement IPSAS standard of accounting and introduce fully consolidated financial reporting system;
- To regulate the timeliness of submission of financial statements to the State Audit Office;
- To ensure the auditing of the consolidated financial statements prepared by the Ministry of Finance of Georgia by the State Audit Office;
- To strengthen asset management monitoring.
- To regulate the issue of historical tax arrears (**this issue is of a technical nature and the Ministry of Finance of Georgia does not consider it as a high-priority task, since 89% of the mentioned arrears are historical arrears and do not indicate any type of problem currently existing in the direction of tax administration**)

For the municipal budgets:

- To ensure compliance of the system of special transfers to municipal budgets with their budgetary process so that it is possible to consider this type of revenue at an early stage, including for medium-term planning purposes;
- To promote the improvement of the quality of indicators of intermediate and final outcomes expected within the framework of result-oriented budgeting;
- To strengthen the direction of efficiency audits with the support of the Central Harmonization Unit of the Ministry of Finance of Georgia, including in the direction of preparation of efficiency audits by

internal auditors of municipalities and conducting thematic audits by the State Audit Office for selected municipalities;

- To develop the mechanisms for reviewing reports of the State Audit Office and responding to the recommendations by representative bodies;

For taking gender aspects into account:

- In order to take gender aspects into account in budgeting, it is advisable to build a gender tag system into the budget management system, which will make it possible to:
 - Consider gender aspects in the budgeting process;
 - Analyze the impact of gender aspects on the budgeting process in terms of gender equality;
 - Reflect data by gender in service delivery programs and analyze the impact from a gender point of view;
 - Collect gender-disaggregated data in service delivery programs;
 - Supervision of gender aspects by representative bodies.
 - Gender-sensitive reporting by representative bodies.

The results of the measures implemented during the last two decades within the framework of Public Finance Management Reform have been also confirmed by the Fiscal Transparency Evaluation report¹⁶ prepared by the International Monetary Fund (IMF) in the framework of the Technical Assistance Mission. Based on the Fiscal Transparency Code, three main directions - reporting, fiscal forecasts and budgeting and analysis of fiscal risks and management - evaluated 36 indicators, from which 18 indicators were evaluated as the best or good, including medium-term planning, budget legislation, frequency of preparation of quarterly and annual reports, budgeting classification, program budgeting, macroeconomic and fiscal risks, macroeconomic forecasts and more. This report is planned to be prepared again in the first half of 2023, which will most likely confirm the further progress indicated in the 2022 PEFA assessment.

As a result of the implemented reforms, the Open Budget Survey 2017 scored Georgia at 82¹⁷ and ranked 5th among the 115 countries assessed¹⁸. and was among the completely transparent countries (according the same survey in 2015 Georgia scored 66 and ranked 16rd and was among the significantly more transparent countries). Georgia is the only country in the region that moved to the rank of significantly more transparent countries, and according to recent studies, only 5-6 countries in the world meet this standard. Accordingly, Georgia ranks among the countries with exceptional success in the field of public finance management, such as: New Zealand, South Africa, Sweden and Norway. According the same survey in 2019 Georgia ranked 5th and maintained the status of the most transparent country, and as a result of the same survey in 2022, Georgia **ranked 1st** in the world, which is a great achievement, especially in light of the pandemic, when additional challenges for transparency and engagement mechanisms have been faced due to remote working and physical distancing.

¹⁶ <https://www.mof.ge/images/File/public%20finances%20in%20Geo/georgia-fiscal%20rules%20report%202018.pdf>

¹⁷ <https://internationalbudget.org/summaries/georgia-2017/>

¹⁸ <https://internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

Table №2. Ministry of Finance: Results Matrix of PFM 2018-2022 strategy

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
1	Budgeting						
1.1	Increasing efficiency of medium-term planning	The medium-term framework is an effective instrument of planning	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBI – Open Budget Index; FTE - fiscal transparency evaluation (IMF, 2017); EU directive (2011/85/EU) IMF - strengthening the fiscal discipline framework (2017)	PI-5 - B PI-15.1 – D PI-16 – B+ (PEFA 2017 Assessment); OBI - based on the result of the open budget survey, Georgia is on the fifth place with 82 points among 115 countries and is among completely transparent countries;	PI-5 - A PI-15.1 – C improvement by not less than one point - C (2021); PI-16 – A; OBI - maintaining the open budget index;	PI-5 – A PI-15 – A PI-15.1 – D The requirement stipulated by the indicator has been fulfilled in the state budget package for 2021 and 2022. However, based on the PEFA methodology (this performance indicator is evaluated based on the previous three years), the progress could not be reflected in the assessment.	The 2023-2026 BBD document. PEFA assessment report - 2021 (www.pefa.org); OBS - Open budget survey 2021 (www.internationalbudget.org/open-budget-survey/)
1.2	Fiscal discipline enhancement	Fiscal policy is based on pre-defined reasonable fiscal rules	SDG (UN Sustainable development plans) 16.6. indicator; PEFA OBI – Open budget index; FTE – Fiscal transparency evaluation (IMF, 2017); EU Directive (2011/85/EU) IMF - Fiscal discipline framework enhancement (2017)	PEFA PI-15.3 – D PEFA PI-11 – C	PEFA PI-15.3 - A PEFA PI-11 – B	PI-15.3 - A PI-11 – A	The 2021 state budget compliance annual report which is submitted to the parliament of Georgia (https://mof.ge/4564); The 2023-2026 BBD document PEFA assessment report - 2021_ (www.pefa.org);
1.3	Establishment of a Unified Cycle of Public Investment / Capital Projects Management	At all stages of investment/capital project management, decisions on project implementation are made with a systematic approach based on appropriate analysis.	SDG (UN sustainable development goals) 16.6 indicator; PEFA; OBI; World Bank (WB) - Public Investment Management Assessment (PIMA)	"PEFA PI-11 – C Public Investment Management Assessment (PIMA) was prepared in 2017 together with the action plan	"PEFA PI-11 – B World Bank (WB) - Carrying out activities envisaged by the action plan of Public Investment Management Assessment (PIMA)	PI-11 – A	The 2023-2026 BBD document Budget documentation; PEFA assessment report - 2021 (www.pefa.org);

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
1.4	Strengthening the effectiveness of result-oriented planning	Planning of expenditure is carried out according to expected results	SDG (UN sustainable development goals) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF); EU Directive (2011/85/EU)	PEFA: PI-2 – A PI-5 – B PI-8 - A	PEFA: PI-2 – A PI-5 – A PI-8 - A	PI-2 – B+ (evaluates the structural deviation of expenditures, which has worsened due to the spread of COVID-19) PI-5 – A PI-8 - A	PEFA assessment report - 2021 (www.pefa.org); 2023-2026 Program Budget Annex. Annual report on the performance of the 2021 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);
1.5	Introducing the high standard of accountability and transparency	At all stages of public finance management, information is available and public in accordance with internationally recognized practices	SDG (UN sustainable development goals) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF); EU Directive (2011/85/EU)	PEFA: PI-5 – B PI-9 – A OBI - based on the result of the open budget survey, Georgia ranks fifth with 82 points among 115 countries and is among completely transparent countries;	PEFA: PI-5 – A PI-9 – A OBI - Maintaining an open budget index;	PI-5 – A PI-9 – A OBI - based on the result of the open budget survey, Georgia ranks first among 120 countries.	PEFA assessment report - 2021 (www.pefa.org); OBS - Open Budget Survey 2021 (www.internationalbudget.org/open-budget-survey/) Budget documentation posted on the website of the Ministry of Finance of Georgia (www.mof.ge) Annual report on the performance of the 2021 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);
1.6	Enhancing municipal PFM	Finances are better planned at the local level in the medium-term period	PEFA	PEFA HLG1 – medium score D+ PI-8 PI-17	PEFA HLG1 – B (in case of 50 % of municipalities); PI-8 - improvement by not less than 1 point in case of 50% of municipalities; PI-17 - improvement by not less than 1 point in case of 50% of municipalities.	In 2022, the assessment of the municipalities of Tbilisi, Batumi and Martvili was launched with the support of the World Bank and the European Union. PI-17 indicator has been improved in the case of all three municipalities; PI-8 indicator has been maintained at B+ and B in the case of Tbilisi and Batumi, and in the case of Martvili it has been improved	PEFA assessment report - 2021 (www.pefa.org);

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
						from D+ to B. In the following years, it is planned to re-evaluate the already evaluated municipalities.	
1.7	Strengthening the link between strategic/sectoral policy documents and the budget	Electronic budget management system (e-budget) has a mechanism for linking strategic / sector policy documents and budgeted programs	GRPFM methodology approaches to budgeting and gender aspects	In the electronic budget management system (e-budget) a classifier has been added to the software budget section to integrate strategic / sectoral policy documents	In the case of at least one ministry in the program budget for 2023- 2026, the programs / sub-programs are linked to the relevant classifier of strategic / sector policy	Electronic budget management system (e-budget) has a mechanism through which budgetary organizations have the opportunity to link programs / subprograms to policy classifiers (SDG, climate change, gender aspects, etc.). This is reflected in the 2023 program budget annex.	The 2023-2026 program budget annex, which will be submitted to the Parliament together with the 2023 state budget and which is posted on the website of the Ministry of Finance of Georgia.
2 General Government Debt Management							
2.1	Development and publication of the General Government Debt Management Strategy	Developing and publishing of general government debt management strategy (providing support to local governments in debt management)	PEFA	PI 13.3 - D	PI 13.3 - A	PI 13.3 - A	General Government debt management strategy is adopted by the Government of Georgia and published on the website of the Ministry of Finance of Georgia (www.mof.ge)
2.2	Developing the government securities market	On the basis of sharing best international Practice 1. Diversified investor base and increased market liquidity; 2. Introducing new instruments within the scope of management operations obligations; 3. Introducing the system of primary dealers.	Developing Government Bond Markets - A Handbook of the World Bank and International Monetary Fund	Lack of government securities market; non-diversified market (non-resident + non-banking investors share in the government securities portfolio as of end of 2018 was 2.61 %); low level of secondary market development.	Increase of the government securities market; diversification of the investor base (non-resident + non-banking investors share increase by up to 20%); implementing the operations of managing obligations; primary dealers system implementation.	The capitalization of the government securities market has almost doubled in 2021 compared to 2018 data; The share of non-banking investors has been increased up to 11.3%; In 2019, the BuyBack operation of liability management was introduced; A pilot program for primary dealers has been launched since 2020.	PEFA assessment report; Changes made to the law; Statistical indicators.

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
3	Management, Accounting and Reporting of public funds						
3.1	Accounting and reporting reform in the public sector	Publishing the General Government Consolidated Financial Statements prepared in accordance with accrual based IPSAS standards	PEFA FTE - fiscal transparency evaluation (IMF, 2017); EU Directive (2011/85/EU); SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-12.1 – B PI-12.2 – C PEFA PI-22 – C+ PEFA PI-29 – D+	PEFA PI-12.1 – A PI-12.2 - B PEFA PI-22 - A PEFA PI-29 - A	General Government Consolidated Financial Statement is prepared in accordance with Accrual Basis IPSAS standards and, for the purposes of accountability and transparency, is published on the website of the Treasury Service www.treasury.ge . PEFA PI-12.1 – B PI-12.2 - C PEFA PI-22 - A PEFA PI-29 – C+	PEFA assessment report; Published General Government Consolidated Financial Statements
3.2	Development of the electronic system of the treasury (e-Treasury)	Fully functioning accrual-based Treasury General Ledger	PEFA FTE - Fiscal Transparency Evaluation (IMF, 2017); EU Directive (2011/85/EU) SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – D+	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – A	The e-Treasury is developed and tailored to the needs of users; Treasury General Ledger, developed on the basis of the e-treasury system, functions perfectly. PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – C+	PEFA Assessment report – 2021; Reports prepared on the basis of the Treasury General Ledger
3.3	Cash management reform	Monetary instruments and mechanisms are used for cash management	PEFA	PEFA PI-21 - A	PEFA PI-21 - A	PEFA PI-21 - A	PEFA Assessment report – 2021

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
4	Tax and Customs issues						
4.1	Fulfillment of obligations undertaken within the framework of Association Agreement	Tax legislation complying with the EU directive	Association Agreement signed between Georgia and EU; EU Directive (2006/112/EC); (2003/96/EC)	Analysis of correspondence of the legislation of Georgia with EU directives were carried out and the action plan was developed for implementing the changes	Making changes to the tax code of Georgia with the view of harmonizing the legislation of Georgia with the directives 2006/112/EC and 2003/96/EC and ensuring correspondence between with the above-mentioned directives	Work is being carried out on projects for relevant changes.	Draft of amendments prepared, amendments made to the law
4.2	Improvement of customs legislation	The customs legislation of Georgia is brought into compliance with the customs legislation of the European Union	Association Agreement signed between EU and Georgia; Regulation of the European parliament and EC of October 9, 2013 (EU) № 952/2013 and the regulation N1186/2009 of EU of November 16, 2009 on establishing the system of EU exempting from customs duty.	Customs legislation which is not approximated to the EU customs legislation.	Adopting the customs legislation approximated to the EU customs legislation as much as possible	A new Customs Code of Georgia has been adopted and, based on it, the Order №257 of August 29, 2019 on Approval of Instructions for Movement and Clearance of Goods on the Customs Territory of Georgia has been issued by the Minister of Finance of Georgia.	Customs Code of Georgia adopted by the Parliament of Georgia

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
4.3	Tax Base erosion and profit shifting (BEPS) project	Introduction of international standards developed within the scope of the BEPS project in the tax field	Commitment undertaken by being an associate member of the BEPS Inclusive Platform	<p>Measure 5 - the international financial company and the virtual zone person was assessed as "potentially harmful but actually not harmful" in 2017 as a result of assessing the legislation whereas the free industrial zone and the special trade company was regarded as non-harmful (out of scope of FTHP);</p> <p>Measure 6 - agreements signed by the government of Georgia do not include the minimal standard of BEPS Measure 6;</p> <p>Measure 14 - insufficient regulations of implementing the procedures of agreement (MAP)</p>	Implementing and monitoring minimum standard of BEPS measure 5 (harmful tax practices elimination), measure 6 (improper tax settlements use elimination), measure 14 (improving dispute resolution efficiency)	To prevent tax treaty abuse, Georgia has signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and 16 newly added synthesized texts have been published on the website of the Ministry of Finance of Georgia; The rest will be added gradually.	Assessment report
4.4	Global forum on taxation transparency and information exchange	Existence of practices and legislation in accordance with the standards of the Global Forum on Transparency and Exchange of Information in the field of taxation	Commitments made by membership of the Global Forum on Tax Transparency and Information Exchange	In 2016, the Global Forum on Transparency and Exchange of Information for Tax Purposes of the Organization for Economic Co-operation and Development approved the second phase of the Jurisdiction Assessment Report of Georgia, according to which Georgia was rated "largely compliant".	Assessing Georgian jurisdiction in accordance with the new 2016 methodology of global forum and retaining the status of assessment of 2013-16 (largely compliant).	Work is in progress regarding the commitments made by the membership of the Global Forum on Tax Transparency and Exchange of Information; the completed questionnaire for the next phase assessment has been sent to the GF Secretariat.	Assessment report of Georgian jurisdiction and assessment rating
4.5	Management of VAT refunds	Activating the automatic VAT refund system	TADAT P8-24; Adequacy of processing application for	Automatic refunding of VAT has started - 10% TADAT - D	Automatic refunding of VAT by 90%	Through the automatic VAT refund program, the refundable amount is reflected in the	Statistical data

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
			tax refund		TADAT - B	personal bank account of taxpayers automatically, without submitting an additional request. The software logic of the assessment of the automatic VAT refund mechanism and the relevant statistics are fully compliant with the requirements of TADAT.	
4.6	Implementation of a structured approach to compliance risk	There is a strategy of compliance as well as the methodology in respect of taxpayers' segment and the tax types	TADAT POA 2-3 identification, assessment, differentiation and determination of risk compliance. POA 2-4 Reduction of risks based on compliance reduction plan. POA 2-5 Monitoring and evaluation of risks reduction for compliance	TADAT – C	In assessments - POA 2-3 POA 2-4 POA 2-5 TADAT - B	TADAT assessment P2-3 B score P2-4 C score P2-5 D score	TADAT 2020 Report
4.7	Creating the taxpayers registry	Data about taxpayers' in registry are accurate and proves the possibility to fully analyze information for tax administration purposes	TADAT; POA 1-1-1 Accurate and reliable information about taxpayers TADAT; POA 1-1-2 Availability of information about the potential tax base	TADAT – D TADAT - C	TADAT - B	TADAT assessment P1-1 B score P1-2 A score	TADAT 2020 report

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
4.8	Creation of a unified methodological base	Launch of an online data retrieval platform	TADAT: P 3-8 Volume, updateability and availability of information; P 3-9 Time required to provide the requested information			From January 1, 2023, the information and methodological hub corresponding to the latest digital requirements - infohub.rs.ge is launched in test mode. infohub.rs.ge is a single electronic information management system, where different types of data will be centrally combined. After the launch of the new software, information will become even more accessible to all users, and the process of obtaining information will be significantly simplified.	Annual report of the Service
4.9	Tax Debt Management Reform	Transition to a new tax debt management system	TADAT: P 5-18 Tax Debt Volume and Growth Dynamics			TADAT assessment P5-18 C score The debt management strategy for 2022-2024 was developed in order to improve the rate of timely payment of tax debts and reduce the volume of accumulated tax debts; Appropriate measures were implemented in order to switch to the new system; A complete transition is planned from 2023.	TADAT 2020 report; Annual report of the Service
4.10	Implementation of new approaches to the administration of large taxpayers	Systematic maintenance of large taxpayers' service and implementation of activities provided by the statute	Commitment to the International Monetary Fund (Tax Administration Reform RMTF FAD_GEO_2018_01) 2. IMF short-term expert reports.			The 2022-2024 strategy for the administration of large taxpayers was approved, with the aim of improving the tax administration of large taxpayers through centralized, fair and transparent approaches.	Annual report of the Service
5	Macro-economic analysis and forecasting						

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
1	Improving macro-fiscal forecasting	Planning the medium-term fiscal framework on the basis of the DSGE model	FTE - fiscal transparency evaluation PEFA assessment in Georgia	2.1.2 Good practice (FTE, 2017 evaluation); PI-14.2 – B (PEFA, 2017 assessment)	2.1.2 – respective best practice requirements will be met (Advanced practice); PI-14.2 – improving by one point - A (2021)	According to the fiscal transparency evaluation, a "good practice" assessment has been received. In the component of macroeconomic and fiscal forecasting, the preparation of the forecast of the main fiscal indicators by the government has received the highest rating, although the accuracy of forecasting has deteriorated, which is mainly caused by the increase in economic uncertainty caused by the pandemic. PI-14.2 - A	PEFA assessment report - 2021 (www.pefa.org); FTE - fiscal transparency evaluation
2	Development of a rule for reviewing historical data of public finance statistics	Development of the methodology data revision to ensure compatibility of current and historical data	FTE - Fiscal transparency evaluation	PI-1.3.3 – does not meet FTE criteria (Not met), (2017 evaluation);	PI-1.3.3 Meets FTE's good practice criteria (Good)	The updated fiscal transparency evaluation report has not been published, although the Rule of Reviewing Public Finance has been developed and published on the website of the Ministry of Finance.	The rule of reviewing the historical data of public finance statistics published on the web-site of the Ministry of Finance (www.mof.ge)
3	Calculation of tax expenditure	Improving reporting	FTE - Fiscal transparency evaluation PEFA	PI-1.1.4 – does not meet FTE criteria (Not met), (2017 evaluation);	PI-1.1.4 – Meets FTE's basic criteria (Basic), PEFA PI-5 - A	This year, with the support of the International Monetary Fund mission, a quantitative analysis of tax benefits was carried out, and the relevant document is in the process of completion, which includes the tax expenditures of profit, income and value added tax. According to PEFA, the relevant indicator regarding budget documentation has been improved (partially met by 2021).	
6	Fiscal Risk management						

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
1	Assessment of economic shocks of SOEs'	Sensitivity analysis and stress tests of SOEs'	FTE; Fiscal Rule IMF TA; IMF Program; WB	No sensitivity analysis is done as of the end of 2017	Sensitivity analysis and stress tests are performed for 7-10 major SOEs'	Using the SOEs' sensitivity analysis model and methodology developed with the support of the International Monetary Fund's technical assistance mission, three-year historical and five-year financial forecasts are prepared for 6 large enterprises since 2018. The model reflects the sensitivity (stress tests) of enterprises to various economic factors, economic shocks and modeled scenarios, including GDP growth, exchange rate and interest rate shocks. The sensitivity analysis and the results of the impact of shocks on SOEs are published in the fiscal risks document.	Fiscal Risk Analysis, attachment to the State Budget
2	Improvement of reporting quality and increase of transparency of central government SOEs	Additional norms / regulations are introduced to assess and monitor SOEs' performance	PEFA FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.1 - B	PEFA PI 10.1 - A	The Ministry of Finance has developed the register of enterprises important for the analysis of fiscal risks. Most of the enterprises that are important for the analysis of fiscal risks have submitted audited financial statements and clarified financial indicators within the established deadlines. The total turnover of enterprises included in the SOEs' analysis is up to 90% of the turnover of all SOEs, including 100% of public corporations. The analysis includes both total and separate financial indicators and ratios	Fiscal Risk Analysis, attachment to the State Budget

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
						<p>of enterprises and information about potential fiscal risks.</p> <p>The document is published and available on the website of the Ministry of Finance of Georgia. In addition, the Decree N217 of February 11, 2021 of the Government of Georgia defines the obligation to submit audited financial and other statements by SOEs identified as Public Interest Entities to the Service for Accounting, Reporting and Auditing Supervision by July 1 of the following fiscal period and the obligation to submit unaudited financial and other statements by April 1 of the following fiscal period. It should be noted that this norm sets a higher standard for SOEs compared to private sector enterprises. It is expected that the SOEs will gradually be able to fulfill the mentioned norm in practice.</p> <p>Despite the unprecedented progress made in the direction of fiscal risk analysis and transparency, the improvement of the score in this part is not expected due to the pandemic years (2020-2021). In some enterprises, one-time disruptions due to pandemic reasons may, on the contrary, lead to a one-step deterioration of the score, which will certainly be improved in the post-pandemic period.</p>	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
3	Improvement of reporting quality and increase of transparency of municipal SOEs	Additional norms / regulations are introduced to assess and monitor SOEs' performance	PEFA; FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.2 - C	PEFA PI 10.2 - B	<p>The Decree N217 of February 11, 2021 of the Government of Georgia defines the obligation to submit audited financial and other statements by SOEs operating with equity participation of the municipality and identified as Public Interest Entities under the Legislation to the Service for Accounting, Reporting and Auditing Supervision by July 1 of the following fiscal period and the obligation to submit unaudited financial and other statements by April 1 of the following fiscal period.</p> <p>It should be noted that in 2021, the share of municipal SOEs in the total number of SOEs used for fiscal risk analysis was 51.3 percent, which is an improved indicator compared to previous years.</p>	Fiscal Risk Analysis, attachment to the State Budget
4	Accounting for contingent liabilities, including those that are based on PPP/PPA	Accounting for contingent liabilities, including those that are based on PPP/PPA	PEFA; FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.3 - B	PEFA PI 10.3 - B (maintaining the score)	<p>The Ministry of Finance of Georgia, based on the best international practice and in accordance with IPSAS-32 international accounting standard of the public sector, evaluates the current value of the contingent liabilities assumed by the government on PPP projects in the country.</p> <p>As of January 1, 2022, PPP liabilities, in accordance with IPSAS-32, amount to GEL 384 576 908.</p> <p>Contingent liabilities of the government arising from PPA</p>	Fiscal Risk Analysis, attachment to the State Budget

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
						<p>projects are also being evaluated.</p> <p>Information on fiscal risks arising from PPP and PPA projects is provided in the Fiscal Risks Document and is submitted annually to the Parliament for approval as part of the State Budget of Georgia.</p> <p>In addition, the Ministry of Finance of Georgia, with the support of the Asian Development Bank and USAID's Good Governance Initiative (GGI), developed and approved the Practical Guide to Public Private Partnership (PPP) Projects by the Order N100 of April 28, 2020 of the Minister of Finance.</p> <p>Given that compared to the 2018 PEFA assessment (PI 10.3 – B), the Fiscal Risks Document has been expanded and, along with the assessment of PPP/PPA projects, already covers information on the risks of public corporations, quasi-fiscal activities, natural disasters and climate change, in PEFA 2021 assessment, the score of PI 10.3 should be improved from B to A.</p>	
5	Development and further improvement of fiscal risk analysis and management mechanisms					In order to manage fiscal risks, the Ministry of Finance publishes a fiscal risk analysis document and attaches it to the state budget document by considering the best international practices, as well as the recommendations of the	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
						<p>International Monetary Fund, the World Bank and other international institutions. The document provides information on contingent liabilities and fiscal risks arising from state-owned enterprises and PPP/PPA projects, assessments of long-term fiscal risks of climate change and fiscal risks arising from litigation, and more.</p> <p>Under the Decree N1012 of June 10, 2022 of the Government of Georgia, within the framework of the planned reform of state-owned enterprises, the Ministry of Finance of Georgia was assigned the role of financial supervisor in relation to 7 major SOEs, which implies supervising their activities, agreeing on the main parameters of the enterprise budget, dividend policy, statement of corporate intent and quasi-fiscal activities.</p>	
7	Public Internal Financial Control						
1	Introducing the system of financial management and control focusing on the principle of managerial accountability	The guide of financial management and control system introduction is developed for the ministries of Georgia.	<p>Association Agreement (Article 279) between EU and European Atomic Energy Union and their member states and Georgia;</p> <p>Georgia-EU agenda;</p> <p>Internal financial control conception (PIFC) developed for the aspirant countries upon the EU initiative</p>	The instructions on the rules and procedures for establishing the financial management and control system have been approved; A financial management and control manual have been developed.	Instructions for the implementation of the second stage of the financial management and control system have been developed; In at least 50% of the central ministries, the goals and indicators of the institution are being developed on a pilot basis, as well as the establishment of a risk management system.	The instruction for the introduction of the second stage of the financial management and control system was developed; Development of institution's goals and indicators, as well as establishment of a risk management system, are underway in six central ministries in a pilot mode.	Documented goals and indicators; Risk registers.

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
2	Development of internal audit entities, both at the level of central government, local self-government and autonomous republics	The quality assurance program is established	PEFA (PI-26); International Professional Practice Framework (IPPF).	External assessment instruction and questionnaire have been developed by the harmonization center.	External assessment is implemented by the harmonization center for the subjects of internal audit - 3 ministries, 10 self-governing units, 3 legal entity of public law and 3 internal audit subjects of the ministry of the autonomous republic	External assessment of the quality of internal audit activity was carried out at the level of 9 central ministries, 44 self-governing units, 2 legal entities of public law and 2 ministries of the Autonomous Republic. PI-26 – A	External evaluation report
3	Strengthening of local self-governing units by internal audit function	The assessment of the internal audit of public expenditure and financial accountability has been improved.	PEFA (PI-26); International Professional Practice Framework (IPPF).	The activities of internal audit subjects in self-governing entities mostly do not comply with international standards and local legal requirements; PEFA scores range from D to B+.	In 15 self-governing units where assessment was lower than B, assessment improved by minimum 1 point, according to PEFA PI-26 indicator.	PI-26 – A	Public Expenditure and Financial Accountability Performance Assessment Report.
8	Supervision of accounting, reporting and audit						
1	Effective functioning of reporting portal	Creating an information platform for investors, the banking sector, analysts, regulators, other interested parties to make investment, credit or other decisions or to conduct research.	Directives 2013/34/EU and regulation N 1606/2002 provided for in the Association Agreement	Regulation 2013/34/EU and regulation N 1606/2002 envisaged by the association agreement are partially reflected in the Georgian legislation.	Directives 2013/34/EU envisaged by the association agreement and regulation N1606/2002 are fully reflected in the Georgian legislation; On SARAS reporting portal (www.reportal.ge) SDP, 95% submission of reports / disclosure by first, second and third category entities, and 50% submission rate for fourth category enterprises.)	About 77,000 enterprise reports are published on the reporting portal (www.reportal.ge) through the report submission system. By 2022, GDP is 94% for I, II and III category enterprises, and 77% for IV category enterprises.	Reporting portal (www.reportal.ge); Annual Report of the Service for Accounting, Reporting and Auditing Supervision
2.	Promoting the quality enhancement of audit service	Promoting the quality enhancement of audit service by monitoring the system of quality control of the audit firms. It is planned	Regulation No. 952/2013 and Directive 2006/43/EC provided for in the Association Agreement	17 scheduled monitoring was carried out. 6% of the market is covered. PIEs. 14 scheduled monitoring were carried out. The number of auditors is 14	243 scheduled / unscheduled monitoring and thematic inspections were carried out. 63% of the market is covered PIEs.	225 scheduled / unscheduled monitoring and thematic inspections were carried out. 56% of the market is covered PIEs. 36 scheduled / unscheduled monitoring and thematic	Public register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
		to carry out quality control system monitoring of average 30 audit companies annually. End goal is to carry out quality control system monitoring of up to 120 audit companies by 2022.		<p>(according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 3 scheduled monitoring were carried out. The number of auditors is 114 (according to the law, the scheduled audit cycle is 6 years). 3% of the market is covered.</p> <p>Non-active non-PIEs. Scheduled monitoring was not carried out. The number of auditors is 155 (according to the law, the scheduled audit cycle is 6 years). 0% of the market is covered.</p>	<p>14 scheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 139 scheduled / unscheduled monitoring were carried out. The number of auditors is 195 (according to the law, the scheduled audit cycle is 6 years). 71% of the market is covered.</p> <p>Non-active non-PIEs. 76 scheduled monitoring were carried out. The number of auditors is 155 (according to the law, the scheduled audit cycle is 6 years). 49% of the market is covered.</p>	<p>inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 113 scheduled / unscheduled monitoring. The number of auditors is 195 (according to the law, the scheduled audit cycle is 6 years). 58% of the market is covered.</p> <p>Non-active non-PIEs. 76 scheduled monitoring were carried out. The number of auditors is 155 (according to the law, the scheduled audit cycle is 6 years). 49% of the market is covered.</p>	Annual Report of the Service for Accounting, Reporting and Auditing Supervision.

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Achievements	Source of verification
3.	Detailed overview of reports	Increase the degree of compliance of financial statements with international financial reporting standards through a risk-based approach to auditing accounts. A detailed review of an average of 35 reports are planned.	Regulation No. 1606/2002 provided for in the Association Agreement and Directive 2013/34/EU	As of now, the Service has completed a detailed review of the reporting of 25 enterprises through the third quarter and has reflected the results in a written communication. I quarter - 6 II quarter -12 III quarter -7 Written communication: I quarter - 4 II quarter - 8 III quarter - 7	A detailed review of the reporting of 25 enterprises was carried out. A detailed overview of the reporting of several entities is current status in the fourth quarter.	The process of detailed review of the reports started in 2019 and by the end of 2022, 80 reports have been reviewed.	Reporting portal (www.reportal.ge); Annual Report of the Service for Accounting, Reporting and Auditing Supervision

V. INFORMATIVE ANNEX 1. MINISTRY OF FINANCE: RESULTS MATRIX OF PFM

Table №3. Ministry of Finance: Result Matrix of the 2023-2026 PFM Strategy

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
1	Budgeting									
1.1	Increasing efficiency of medium-term planning	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	The medium-term framework is an effective planning tool	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBI – Open Budget Index; FTE - fiscal transparency evaluation (IMF, 2017); EU directive (2011/85/EU) GRPFM assessment report 2022	PI-5 - A PI-15.1 – A PI-16 – B+ (PEFA 2021 assessment); OBI - based on the result of the open budget survey, Georgia ranks first among 120 countries; GRPFM-1 – D GRPFM-4 - C	PI-5 - A PI-15.1 – A PI-16 – B+; OBI - maintaining an open budget index; GRPFM-1 – B GRPFM-4 - B	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores); OBI - possible change in Open Budget Survey methodology; Possible change of methodology	The 2027-2030 BDD document; PEFA assessment report - 2026 (www.pefa.org); OBS - Open Budget Survey 2026 (www.internationalbudget.org/open-budget-survey/)

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
1.2	Establishment of a Unified Cycle of Public Investment / Capital Projects Management	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	At all stages of investment/capital project management, decisions on project implementation will be made with a systematic approach based on appropriate analysis.	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA; OBI; World Bank (WB) - Public Investment Management Assessment (PIMA) GRPFM assessment report 2022	PEFA PI-11 – A Public Investment Management Assessment report, together with action plan was prepared in 2017. GRPFM-2 - D	PEFA PI-11 – A World Bank (WB) - Implementation of measures provided by the action plan of Public Investment Management Assessment GRPFM-2 - A	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores); Reform scale and difficulty; Lack of qualified staff in respective agencies.	The 2027-2030 BDD document; Budget documentation; PEFA assessment report - 2026 (www.pefa.org);
1.3	Strengthening the effectiveness of result-oriented planning	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Planning of expenditure is carried out according to expected outcomes.	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF);	PEFA: PI-2 – B+ PI-5 – A PI-8 – A GRPFM-4 – C GRPFM-5 - C GRPFM-8 - D	PI-2 – A PI-5 – A PI-8 – GRPFM-4 – B GRPFM-5 – A GRPFM-8 - B	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be	PEFA assessment report - 2026 (www.pefa.org); The 2027-2030 Program Budget Annex. Annual report on the performance of the 2025 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
						EU directive (2011/85/EU)			sufficient to improve the scores); Inadequate qualification of staff in respective line ministries and agencies	
1.4	Introducing the high standard of accountability and transparency	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	Implementation of necessary measures to maintain the target indicators and gradual improvement of the corresponding quality will be continued.	At all stages of public finance management, information is available and public in accordance with internationally recognized practices	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Evaluation in Georgia (IMF); EU directive (2011/ GRPFM assessment report 2022	PEFA: PI-5 – A PI-9 – A OBI - based on the result of the open budget survey, Georgia ranks fifth with 82 points among 115 countries and is among completely transparent countries; GRPFM-4 - C GRPFM-7 - D	PEFA: PI-5 – A PI-9 – A OBI - Maintaining an open budget index; GRPFM-4 - B GRPFM-7 - B	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores); OBI - possible change in Open Budget Survey methodology	PEFA assessment report - 2026 (www.pefa.org); OBS – Open Budget Survey 2021 (www.internationalbudget.org/open-budget-survey/) Budget documentation posted on the website of the Ministry of Finance of Georgia (www.mof.ge) Annual report on the performance of the 2021 state budget submitted to the Parliament of Georgia (https://mof.ge/4564);

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
1.5	Enhancing municipal PFM	The memorandums signed with the municipalities will be gradually updated and will be focused on achieving results in various directions (including budget planning, transparency, population involvement, accountability)	The memorandums signed with the municipalities will be gradually updated and will be focused on achieving results in various directions (including budget planning, transparency, population involvement, accountability)	The memorandums signed with the municipalities will be gradually updated and will be focused on achieving results in various directions (including budget planning, transparency, population involvement, accountability)	Finances are better planned at the local level in the medium-term period	PEFA	PEFA HLG1 – medium score D+ PI-8 medium score B PI-17	PEFA HLG1 – B (in case of 50% of municipalities); PI-8 - improvement by not less than 1 point in case of 50% of municipalities; PI-17 - improvement by not less than 1 point in case of 50% of municipalities.	Inadequate qualification of staff in municipalities; Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores).	PEFA assessment report - 2021 (www.pefa.org);

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
1.6	Strengthening the link between strategic/sectoral policy documents and the budget	Electronic budget management system (e-budget) has a mechanism through which budgetary organizations have the opportunity to link programs / subprograms to policy classifiers (SDG, climate change, gender aspects, etc.).	Relevant programs/sub-programs implemented by at least 50% of state budget spending institutions and municipalities are linked to policy classifiers (including SDG, climate change, gender aspects, human capital goals, etc.).	Relevant programs/sub-programs implemented by all the state budget spending institutions and municipalities are linked to policy classifiers (including SDG, climate change, gender aspects, human capital goals, etc.).	Information on policy classifiers is attached to the budget; Documentation attached to the budget includes information on links to policy classifiers and their fiscal impacts.	GRPFM Methodology Approaches to Budgeting and Reflecting Gender Aspects in the Budget	PEFA PI-8 - A GRPFM-3 (Gender Responsive Budget Circular) - D GRPFM-6 (Tracking Budget expenditure for gender equality) - D Electronic budget management system (e-budget) has a mechanism through which budgetary organizations have the opportunity to link programs / subprograms to policy classifiers (SDG, climate change, gender aspects, etc.).	PEFA PI-8 - A GRPFM-3 and GRPFM-6 indicator improvement . Programs/sub-programs in the 2027-2030 program budget are linked to the appropriate classifier of strategic/sectoral policies;	The complexity and inadequacy of the issue of linking programs to the relevant policy classifier due to the innovativeness of the issue	The 2027-2030 program budget annex, which will be submitted to the Parliament together with the 2023 draft state budget and which is posted on the website of the Ministry of Finance of Georgia.
2	General Government Debt Management									

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
2.1	Updating the medium-term Government Debt Management strategy	Development and publication of the General Government Debt Management Strategy	Development and publication of the General Government Debt Management Strategy	Development and publication of the General Government Debt Management Strategy	Developing and publishing of general government debt management strategy (providing support to local governments in debt management)	PEFA	PI 13.3 - D	PI 13.3 - A	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores).	General Government debt management strategy is adopted by the Government of Georgia and published on the website of the Ministry of Finance of Georgia (www.mof.ge)
2.2	Revision of the Law on Public Debt	Revision of the Law on Public Debt and its approximation to international standards.	Revision of the Law on Public Debt and its approximation to international standards.	Revision of the Law on Public Debt and its approximation to international standards.	Revision of the Law on Public Debt and its approximation to international standards.					

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
2.2	Developing the government securities market	Based on sharing the best international experience: 1. Use of buy-back operations in the government securities market as part of liability management operations 2. Inclusion of 10-year treasury securities in the pilot program of primary dealers.	Based on sharing the best international experience: 1. Use of buy-back operations and introduction of switch operations in the government securities market as part of liability management operations 2. Inclusion of new treasury securities in the pilot program of primary dealers.	Based on sharing the best international experience: 1. Use of buy-back operations and introduction of switch operations in the government securities market as part of liability management operations 2. Inclusion of new treasury securities in the pilot program of primary dealers, transition to the full system of primary dealers depending on market readiness.	Based on sharing the best international experience: 1. Regular use of buy-back and switch operations in the government securities market as part of liability management operations 2. Transition of pilot program of primary dealers to full system (depending on market readiness).	Developing Government Bond Markets - A Handbook developed by the World Bank and International Monetary Fund	Lack of government securities market; non-diversified market (non-resident + non-banking investors share in the government securities portfolio as of end of 2018 was 2.61 %); low level of secondary market development.	Increase of the government securities market; diversification of the investor base (non-resident + non-banking investors share increase by up to 20%); implementing the operations of managing obligations; primary dealers system implementation.	Possible instable environment in the region; insufficient efficiency of the system of primary dealers;	PEFA assessment report; Changes made to the law; Statistical indicators.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
3	Management, Accounting and Reporting of Public Finances									
3.1	Accounting and reporting reform in public sector	Preparation and publication of the consolidated financial statements of the government in accordance with the additionally introduced IPSAS standards; Public sector accountants trained in IPSAS standards	Preparation and publication of the consolidated financial statements of the government in accordance with the additionally introduced IPSAS standards; Public sector accountants trained in IPSAS standards	Amendments made to accounting and reporting regulatory acts regarding the implementation of additional IPSAS standards; Public sector accountants trained in IPSAS standards	Publication of the consolidated financial statements of the government; Public sector accountants trained in IPSAS standards	PEFA FTE - fiscal transparency evaluation (IMF, 2017); EU directive (2011/85/EU) SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-12.1 – B PI-12.2 – C PEFA PI-22 – C+ PEFA PI-29 – D+ GRPFM-7 - C	PEFA PI-12.1 – A PI-12.2 - B PEFA PI-22 - A PEFA PI-29 - A GRPFM7 - B	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores). Extending the deadline specified for the development of the Treasury General Ledger more than planned; Adaptation to standards issued annually by the International Federation of Accountants (IFAC)	PEFA assessment report; General Government Consolidated Financial Statements published in 2021; GRPFM assessment report 2026

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
3.2	Development of the electronic system of the treasury (e-Treasury)	Appropriate functionality developed in e-Treasury system to include additional organizations; Employees of budgetary organizations trained in the use of e-Treasury system	Organizations additionally included in e-Treasury system; Employees of budgetary organizations trained in the use of e-Treasury system	Organizations additionally included in e-Treasury system; Employees of budgetary organizations trained in the use of e-Treasury system	Fully functioning accrual-based Treasury General Ledger; Organizations additionally included in e-Treasury system; Employees of budgetary organizations trained in the use of e-Treasury system	PEFA FTE - Fiscal Transparency Evaluation (IMF, 2017); EU directive (2011/85/EU) SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – D+	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – A	Change in PEFA assessment methodology (in the case of change in assessment methodologies, maintaining or improving existing practices may not be sufficient to improve the scores). Lack of qualified personnel; Lack of qualified personnel working in the e-Treasury system	PEFA assessment report - 2021 Reports prepared on the basis of the Treasury General Ledger
4 Tax and Customs Issues										
4.1	Further improvement of tax legislation considering the best international practices and preparation	Improved tax legislation considering the best international practices	Improved tax legislation considering the best international practices	Improved tax legislation considering the best international practices	Improved tax legislation considering the best international practices	Documents developed as a result of the analysis of international practices	The existing tax policy needs to be refined to meet new challenges	Revising the relevant provisions of the Tax Code considering the best international practices.	Lack of staff and experts of respective level	Draft amendments prepared; amendments made to the law

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
	of the drafts for relevant legislative amendment									
4.2	Fulfillment of obligations undertaken within the framework of Association Agreement	Tax legislation complying with the EU directive	Tax legislation complying with the EU directive	Tax legislation complying with the EU directive	Tax legislation complying with the EU directive	Association Agreement signed between Georgia and EU; EU Directive (2006/112/EC); (2003/96/EC)	Analysis of correspondence of the legislation of Georgia with EU directives was carried out and the action plan was developed for implementing the changes	Making changes to the tax code of Georgia with the view of harmonizing the legislation of Georgia with the directives 2006/112/EC and 2003/96/EC and ensuring Correspondence between with the above-mentioned directives	Lack of staff and experts of respective level	Draft amendments prepared; amendments made to the law
4.3	Publication of public decisions based on the analysis of existing taxation practices	Provision of common practice of taxation of taxpayers	Provision of common practice of taxation of taxpayers	Provision of common practice of taxation of taxpayers	Public decisions shall be published		As of today, there are 6 public decisions. Issues of public decisions to be issued by 2023 are being processed	In order to eliminate the tax risks of taxpayers, thematic public decisions shall be published based on existing	Lack of staff	Adopted decisions are published in the Legislative Herald

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
								taxation practices.		
4.4	Improvement of customs legislation	The main directions of effective customs policy have been developed	The main directions of effective customs policy have been developed	The main directions of effective customs policy have been developed	The main directions of effective customs policy have been developed	Association Agreement signed between EU and Georgia; Regulation of the European parliament and EC of October 9, 2013 (EU) № 952/2013 and the regulation N1186/2009 of EU of November 16, 2009 on establishing the system of EU exempting from customs duty.	The existing customs policy cannot fully respond to the existing challenges	A customs policy has been developed which is effective against the challenges	Lack of human resources and experts of the appropriate level	Law on Amendments to the Customs Code of Georgia" adopted by the Parliament
4.5	Tax Base erosion and profit shifting (BEPS) project	Introduction of international standards developed within the scope of the BEPS	Introduction of international standards developed within the scope of the BEPS project in the tax field	Introduction of international standards developed within the scope of the BEPS	Introduction of international standards developed within the scope of the BEPS project	Commitment undertaken by being an associate member of the BEPS Inclusive Platform	Measure 5 - the international financial company and the virtual zone person was assessed as "potentially harmful but	Implementing and monitoring minimum standard of BEPS measure 5 (harmful tax practices	Lack of staff and experts of respective level	Assessment report

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		project in the tax field		project in the tax field	in the tax field		actually not harmful" in 2017 as a result of assessing the legislation whereas the free industrial zone and the special trade company was regarded as non- harmful (out of scope of FTHP); Measure 6 - agreements signed by the government of Georgia do not include the minimal standard of BEPS Measure 6; Measure 14 - insufficient regulations of implementing the procedures of agreement (MAP)	elimination), measure 6 (improper tax settlements use elimination), measure 14 (improving dispute resolution efficiency)		
4.6	Global Forum on Transparency and Exchange of Information	Availability of practices and legislation in line with	Availability of practices and legislation in line with the Global Forum on Transparency and	Availability of practices and legislation in line with the Global	Availability of practices and legislation in line with the Global	Commitments made by the membership of the Global Forum on Transparency	In 2016, the Global Forum on Transparency and Exchange of Information	Assessing Georgian jurisdiction in accordance	Lack of staff and experts of the appropriate qualification	Georgia Jurisdiction Assessment Report and Assessment Rating

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
	for Tax Purposes	the Global Forum on Transparency and Exchange of Information for Tax Purposes	Exchange of Information for Tax Purposes	Forum on Transparency and Exchange of Information for Tax Purposes	Forum on Transparency and Exchange of Information for Tax Purposes	and Exchange of Information for Tax Purposes	for Tax Purposes of the Organization for Economic Cooperation and Development approved the second phase of the Jurisdiction Assessment Report of Georgia, according to which Georgia was rated "largely compliant".	with the new 2016 methodology of Global Forum and retaining the status of assessment of 2013-16 (largely compliant).		

4.7	Strengthening the tax risk management process in the area of compliance with the law	<p>1) Implementation of measures for the reduction of compliance risks defined on the basis of the 2022-2023 compliance improvement plan of the Revenue Service;</p> <p>2) Determination of the 2024-2025 compliance improvement plan of the Revenue Service;</p> <p>3) Achieving VAT refund rates at B score corresponding to TADAT P8-28;</p>	<p>1) Implementation of measures for the reduction of compliance risks defined on the basis of the 2024-2025 compliance improvement plan of the Revenue Service;</p> <p>2) Evaluating and documenting the effectiveness of measures for the reduction of compliance risks defined on the basis of the 2022-2023 compliance improvement plan of the Revenue Service;</p> <p>3) Assessment of automatic VAT refund system and maintenance of B score corresponding to TADAT P8-28 of VAT refund indicators;</p> <p>4) Adding new data sources to the Data Warehouse.</p>	<p>1) Implementation of measures for the reduction of compliance risks defined on the basis of the 2024-2025 compliance improvement plan of the Revenue Service;</p> <p>2) Determination of the 2026-2027 compliance improvement plan of the Revenue Service;</p> <p>3) Updating the automatic VAT refund system risk module and maintenance of B score corresponding to</p>	Strengthening the tax risk management system and developing advanced analytical capabilities; Improvement of the Tax Refund system.	TADAT assessment	TADAT assessment P2-4 C Score P2-5 D Score P4-12 C Score P4-13 D Score P8-28 C Score	TADAT assessment P2-4 A Score P2-5 A Score P4-12 A Score P4-13 A Score P8-28 B Score	Lack of human resources; Legislative changes; Inappropriate development of technological processes; In the case of a change in the TADAT assessment methodology, the discrepancy between the achieved progress and the target indicator.	TADAT assessment/self-assessment report(s); Revenue Service Annual Report(s).
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		4) Adding new data sources to the Data Warehouse.		TADAT P8-28 of VAT refund indicators; 4) Introduction of systems required for advanced analytics						
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	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
4.8	Development of customs risk management and preliminary information exchange system	Introduction of modern analytical programs in the customs risk management system	Using the "KIBANA" platform for analytical purposes in the process of managing customs risks	Integration of data in various software modules on the analytical platform "KIBANA" in order to carry out extensive and complete analysis.	Creation of a modern, flexible and multi-functional customs risk platform.	Memorandum signed within the framework of the Export Control and Related Border Security (EXBS) program of the United States of America; Memoranda signed on the exchange of preliminary information;	Existing risk management system;	A modern, flexible and multi-functional customs risk platform is created and operated;	Delays from partner countries; Insufficient human resources	Revenue Service Action Plan Annual Report
4.9	Improvement of the tax debt management system	Full transition to a new debt management system, targeted use of coercive measures	Providing timely information to taxpayers and creating appropriate conditions for debt repayment	Development of bad debt write-off mechanisms	Improving the efficiency of the Tax Debt Collection System and reducing acknowledged tax debts	TADAT assessment	TADAT assessment P5-18 C Score	TADAT Assessment P5-18 B Score	Legislative changes; Lack of human resources; In the case of a change in the TADAT assessment methodology, the discrepancy between the achieved progress and	TADAT assessment/self-assessment report(s);

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
									the target indicator.	
4.10	Development of services tailored to the needs of stakeholders	Increase in rate of use of e-services by taxpayers up to 70% (share of applications registered electronically by the user in total applications).	Increase in rate of use of e-services by taxpayers up to 75% (share of applications registered electronically by the user in total applications).	Increase in rate of use of e-services by taxpayers up to 80% (share of applications registered electronically by the user in total applications).	As a result of the optimization of services, rate of use of e-services has increased; Video guides and user manuals for using the services have been prepared.	Public Administration Reform (PAR) 2021-2025 SME Development Strategy of Georgia.	The rate of use of e-services by taxpayers 65% (share of applications registered electronically by the user in total applications)	The rate of use of e-services has increased to 85%; (share of applications registered electronically by the user in total applications)	Lack of human resources.	Annual Report of the Revenue Service;
4.11	Improvement of IT systems	Carrying out measures necessary for the transition of the main software modules of the tax administration information system to new	Transferring 30% of the main business processes to the new technology; Modernization of 5% of Customs Information Systems.	Transferring 60% of the main business processes to the new technology; Modernization of 10% of Customs Information Systems.	Transferring 100% of the main business processes to the new technology; Modernization of 15% of Customs Information Systems.	Strategic plan for the development of information technology center. Memorandum signed within the framework of the Export Control and Border Security (EXBS)	5% of the main business processes are transferred to the new technology; Customs Information Systems are not modernized.	100% of the main business processes are automated; 15% of Customs Information Systems are modernized.	Insufficient human and financial resources, high rate of outflow of qualified personnel; Delays from partner countries;	Revenue Service Action Plan Annual Report

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		technologies; Piloting of the new Customs Information System at several customs checkpoints.				program of the USA.				
4.1 2	Bringing information security system in line with modern standards	Gradual implementation of ISO 27001 standard, passing the certification audit and obtaining the compliance certificate; Compliance with local legislation.	ISO/IEC 27001:2013 Implementation of information security standard	ISO/IEC 27001:2022 Reflecting and implementing the requirements of the updated standard	Implementation of good international practices in information security (ISO 27001:2022) and compliance with the updated requirements of the Law of Georgia "On Information Security".	OECD/Global Forum /AEOI Project Team Assessment Report.	Absence of a system corresponding to information security management standards in the organization;	Implementation of good international practices in information security (ISO27001) and compliance with the updated requirements of the Law of Georgia "On Information Security".	Lack of human resources; Lack of financial resources critical for the implementation of the information security management system;	Information Security Council meetings; Evaluation of the OECD Global Forum within the framework of the data security and privacy project; Reporting to regulatory agencies.
4.1 3	Implementation of organizational risk management system	Development of operational risk registers and risk response action plans by	Development of operational risk registers and risk response action plans by structural units of the Service (60%);	Development of operational risk registers and risk response action plans by	Organizational risk management system is functioning properly in the Service.	TADAT assessment	There is no systematized process of organizational risk management in the Service TADAT assessment	An organizational risk management system is introduced in the Service TADAT assessment	Lack of expert support; In the case of a change in the TADAT assessment methodology, the	TADAT assessment/self-assessment report(s); Annual Report of the Revenue Service;

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		structural units of the Service (30%);	Development of business continuity plan;	structural units of the Service (100%); Verification of the effectiveness of the business continuity management program by internal audit.			P2-6 D Score	P2-6 B Score	discrepancy between the achieved progress and the target indicator.	
4.14	Support for the integration processes with the European Union	Start of negotiations on the mutual agreement of the program of authorized economic operators between Georgia and the European Union; Accession to UN Conventions on Common Transit and on Single Administrat	Further improvement of the program of authorized economic operators of Georgia; increasing the number of operators; Conducting consultations/negotiations with the European Commission. Implementation of the transit procedure with the member states of the Convention "On Common Transit Procedures"	Signing of an agreement between Georgia and the European Union on the mutual recognition of the program of authorized economic operators	An agreement on mutual recognition of the program was made between Georgia and the European Union. The procedure of accession to the Convention is completed.	1. Regulation of the Union Customs Code - (EU) No 952/2013; 2. Regulation of Union Customs Code Implementing Act - (EU) 2015/2447; 3. Union Customs Code Delegated Act (EU) 2015/2446; 4. EU Authorized	1. At this stage, there is no mechanism for mutual recognition of authorized economic operators between Georgia and the European Union 2. There is no common system (mechanism) of transit movement between member states of the conventions and Georgia.	An agreement was reached between Georgia and the European Union on the program mutual recognition agreement. The procedure of accession to the UN Conventions on Common Transit is completed.	Lack of readiness to start negotiations by the European Commission. Duration of the period required for accession to the Convention	Issuance of authorization to conduct negotiations on mutual recognition of the program of authorized economic operators with the European Union; Convention on Common Transit is in force, ratified and published at matsne.gov.ge

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		ive Document	in accordance with the Convention			Economic Operator Program Guide; 5. Association Agreement signed between Georgia and the European Union.				
5	Macroeconomic analysis and forecasting									
5.1	Macroeconomic analysis and forecasting	DSGE and medium-term fiscal framework planning based on macro-econometric models	DSGE and medium-term fiscal framework planning based on macro-econometric models	DSGE and medium-term fiscal framework planning based on macro-econometric models	DSGE and medium-term fiscal framework planning based on macro-econometric models	FTE - Fiscal Transparency Evaluation PEFA	2.1.2 meets FTE good practice criteria (Good) (2017 evaluation); PI-14.2 – A (PEFA, 2021 assessment); PI -3 – C+	2.1.2 – meets FTE advanced practice criteria (Advanced) PI-14.2 – maintaining A score PI -3 – Improvement by at least one point B Change in FTE evaluation methodology ;	Change in FTE evaluation methodology ; Change in PEFA assessment methodology (in case of a change in the methodology , the achieved progress may not be enough to get a better score)	PEFA assessment report - 2026 (www.pefa.org); FTE - Fiscal Transparency Evaluation report

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
5.2	Improvement of coverage of public finances	Reflecting the data of LEPLs and N(N)LEs in quarterly and monthly reports.	Reflecting the data of all state-owned enterprises belonging to the public sector in the statistics of public finances.	Reflecting the data of all state-owned enterprises belonging to the public sector in the statistics of public finances.	Reflecting the data of all state-owned enterprises belonging to the public sector in the statistics of public finances.	FTE - Fiscal Transparency Evaluation	1.1.1 – meets FTE basic criteria (Basic) (2017 evaluation);	1.1.1– meets FTE good practice criteria (Good)	Delay in the transfer of state-owned enterprises belonging to the public sector to the services of the treasury service.	Public finance statistics published on the web-site of the Ministry of Finance (www.mof.ge); FTE - Fiscal Transparency Evaluation report
5.3	Improvement of Quantitative Assessment of Lost Revenues caused by Tax Exemptions and Optimization of Tax Benefits	A tax expenditure assessment document is published regularly, at least once a year	A tax expenditure assessment document is published regularly, at least once a year	A tax expenditure assessment document is published regularly, at least once a year	A tax expenditure assessment document is published regularly, at least once a year	FTE - Fiscal Transparency Evaluation PEFA	PI-1.1.4 – does not meet FTE criteria (Not met), (2017 assessment); PEFA PI-5 - A - A	PI-1.1.4 – meets FTE good practice criteria (Good) PI-5 - A	Website of the Ministry of Finance of Georgia (www.mof.ge) PEFA assessment report - (www.pefa.org; FTE - Fiscal Transparency Evaluation report	
6 Fiscal Risk Management										
6.1	Development and approval of the legislative framework for SOEs	Development of the legislative framework on SOEs and submission to the Parliament of Georgia	Approval of legislation and by-laws and gradually extending them to SOEs.	Fully spreading the adopted legal framework to SOEs and monitoring the necessary	Management of state-owned enterprises in accordance with the legal framework developed in consideration of the best	"Organization for Economic Cooperation and Development" (OECD) guidelines, reports of the corresponding period of	As of the end of 2022, the corresponding regulatory framework has not been developed.	The legislative framework on state-owned enterprises has been developed and adopted, which	Low awareness of state-owned enterprises on the best practices of corporate governance and its importance.	Legislative Herald of Georgia. Fiscal risk analysis document attached to the draft state budget.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		by the end of the year.		changes in enterprises in accordance with the rules established by legislation.	standards and practices	partner international organizations		creates a clear legal basis for the main directions of the comprehensive reform of state enterprises (introduction of corporate management standards, ensuring commercial goals, determining the policy of ownership of enterprises, promoting competition, strategic management of enterprises) and defines the obligation of all public corporations to observe the norms defined by the mentioned legislation.		

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
6.2	<i>Financial supervision of SOEs</i>	Review and agreement of the application of corporate intent submitted by SOEs.	Review and agreement of the application of corporate intent submitted by SOEs.	Review and agreement of the application of corporate intent submitted by SOEs.	Function of the financial supervisor is performed effectively, in accordance with the established rule.	"Organization for Economic Co-operation and Development " (OECD) reviews SOEs ownership models	As of the end of 2022, six state-owned enterprises have submitted the statement of corporate intent in accordance with the requirements determined by the government's decree.	Performance of the functions of the financial supervisor of SOEs by the Ministry of Finance in the prescribed manner.	Delays in the implementation and introduction of financial supervision functions may hinder the accumulation of knowledge and experience in this direction in the Ministry.	
6.3	<i>Fiscal risk analysis</i>	Submitting the fiscal risk analysis document attached to the 2024 draft state budget and making it public on the website of the Ministry of Finance of Georgia	Submitting the fiscal risk analysis document attached to the 2025 draft state budget and making it public on the website of the Ministry of Finance of Georgia	Submitting the fiscal risk analysis document attached to the 2026 draft state budget and making it public on the website of the Ministry of Finance of Georgia	The scope of fiscal risk analysis is consistent with best standards and good practices and responds to current challenges.	Recommendations prepared by international partner organizations	As of the end of 2022, the Fiscal Risk Analysis document additionally includes an assessment of fiscal risks stemming from litigation, climate and demographic change.	Fiscal Risk Analysis document fully reflects the analysis of all possible sources of fiscal risks considering the recommendations of international partner organizations	Lack of information needed for the analysis of newly identified fiscal risks.	Fiscal Risk Analysis document attached to the draft state budget.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
6.4	<i>Maintaining an Adequate Level of Risks/Contingent Liabilities arising from PPP Projects</i>	Assessment of direct and contingent liabilities arising from PPP projects and keeping risks at an adequate level	Assessment of direct and contingent liabilities arising from PPP projects and keeping risks at an adequate level	Assessment of direct and contingent liabilities arising from PPP projects and keeping risks at an adequate level	An adequate level of risks/contingent liabilities arising from PPP projects is maintained in accordance with fiscal rules and risk levels.	Fiscal rule IMF TA; Recommendations prepared by international partner organizations	As of the end of 2022, the fiscal risks arising from Guaranteed Purchase Agreements (PPAs) are assessed in the framework of the fiscal risk analysis document, considering the new model and concept of the electricity market.	The analysis of fiscal risks arising from energy sector projects and the process of making decisions based on the analysis are qualitatively improved. On the other hand, it is encouraged to focus on ensuring the long-term economic efficiency of support schemes.	Postponing the implementation of the new electricity market model (regulation, market opening) and the introduction of alternative support mechanisms	Fiscal Risk Analysis document attached to the draft state budget.
7	Public Internal Financial Control									
7.1	Development of financial management and control system	Risk management is implemented in 50% of central ministries; in 10% of ministries of autonomous republics; Delegation is carried out in 20%	Risk management is carried out in all central ministries (100%), in 20% of ministries of autonomous republics; and in 10% of municipalities; Considering specific goals, indicators and responsibilities, delegation is carried out in 30%	Risk management is carried out in all central ministries (100%), in 20% of ministries of autonomous republics; and in 10% of municipalities	Establishing a system of risk management and managerial accountability, both at the central, autonomous and local government levels	The concept of Public Internal Financial Control (PIFC) is developed for candidate countries under the initiative of the European Commission; Internal Control –	Middle managers of 6 central ministries (Ministry of Finance; Ministry of Education and Science; Ministry of Environment Protection and Agriculture; Ministry of Internally	Risk management is carried out in all central ministries (100%), in 20% of ministries of autonomous republics; and in 20% of municipalities; Considering	Lack of donor support; Lack of human resources of the Harmonization Center; Lack of motivation of managers/public servants.	Registers; Regulations on delegation of authority.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		of central ministries, considering specific objectives, indicators and responsibilities.	of the central ministries and 10% of the ministries of the autonomous republics.	ies; Considering specific goals, indicators and responsibilities, delegation is carried out in 40% of the central ministries and 15% of the ministries of the autonomous republics.		Integrated Framework (COSO); The concept of Public Internal Financial Control (PIFC) is developed.	Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs; Ministry of Culture, Sport and Youth; Ministry of Internal Affairs) have undergone risk management training. Work is underway in the mentioned ministries in terms of developing/updating risk registers and establishing a system of delegation of powers.	specific goals, indicators and responsibilities, delegation is carried out in 50% of the central ministries and 20% of the ministries of the autonomous republics.		
7.2	Development of internal audit	Within the internal auditor certification program, at least 20 internal auditors have been trained by local trainers;	100% of the central Ministries, 50% of the Ministries of the autonomous republics, 50% of the legal entities under public law and 50% of the municipalities employ at least 1 certified internal auditor trained by	100% of the central Ministries, 50% of the Ministries of the autonomous republics, 50% of the legal entities under	Raising and certifying the qualifications of internal auditors through the introduction of the national certification program for internal	International Professional Practices Framework (IPPF) developed by the Institute of Internal Auditors (IIA)	The concept of the national program for the certification of public sector internal auditors has been developed, the "localization group" is	100% of the central Ministries, 50% of the Ministries of the autonomous republics, 50% of the legal entities under public law and 50%	Lack of donor support; Lack of human resources of the Harmonization Center;	Register of certified internal auditors; Annual reports of internal audits; Annual report of the Harmonization Center; Harmonization Center website.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		Internal auditors of 50% of central ministries, 30% of public law legal entities and 20% of municipalities carry out performance and system audits.	local trainers within the internal auditor certification program; Internal auditors of 60% of central ministries, 40% of public law legal entities and 30% of municipalities carry out performance and system audits; Information technology (IT) audit methodology has been developed.	public law and 50% of the municipalities employ at least 1 certified internal auditor trained by local trainers within the internal auditor certification program; Internal auditors of 80% of central ministries, 60% of public law legal entities and 40% of municipalities carry out performance and system audits; Information technology (IT) audit methodolog	auditors; Increasing the share of efficiency and systematic audits; Development of a methodological framework for information technology (IT) audit.		operating, 10 trainers have been instructed, the manuals for the certification modules is being developed; Most internal auditors only perform compliance and financial audits, and less performance and system audits are performed, and almost no IT audits are performed; Negotiations are underway with donors to develop an IT audit methodology.	of the municipalities employ at least 1 certified internal auditor certified by the internal auditor certification program; Internal auditors of all central ministries (100%), 70% of public law legal entities and 50% of municipalities carry out performance and system audits; Information technology (IT) audit methodology has been developed for internal auditors of the Ministry of Internal Affairs and three Autonomous Republics.	Lack of motivation of internal auditors	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
				y has been developed.						
8	Supervision of accounting, reporting and audit									
8.1	Effective functioning of reporting portal	Reporting and disclosure rates have maintained / improved. By 2023, for PIEs, I, II and III category enterprises - 94%, and for IV category enterprises - 80%.	Reporting and disclosure rates have maintained / improved. By 2024, for PIEs, I, II and III category enterprises - 94%, and for IV category enterprises - 82%.	Reporting and disclosure rates have maintained / improved. By 2025, for PIEs, I, II and III category enterprises - 95%, and for IV category enterprises - 84%.	Reporting and disclosure rates have maintained / improved. By 2026, for PIEs, I, II and III category enterprises - 95%, and for IV category enterprises - 85%.	Directives 2013/34/EU and Regulation N 1606/2002 provided for in the Association Agreement	About 77 000 enterprise reports are published on the reporting portal (www.reportal.ge) through the report submission system. As of the 2022, for PIEs, I, II and III category enterprises - 94%, and for IV category enterprises - 77%.	Maintaining and increasing the rate of report submission. As of the 2026, for PIEs, I, II and III category enterprises - 95%, and for IV category enterprises - 85%.	Software malfunction. There was no legislative change that would tighten the sanctions in case of non-submission of the report. A legislative change that will weaken the administrative capabilities of IV category enterprises.	Reporting portal (www.reportal.ge); Annual report of the Service for Accounting, Reporting and Auditing Supervision.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
8.1.2	Conducting awareness-raising activities regarding the introduction of the digital reporting standard XBRL/iXBRL.	-	In 2024, one awareness-raising activity was conducted regarding the implementation of the digital reporting standard XBRL/iXBRL.	In 2025, one awareness-raising activity was conducted regarding the submission of reports by PIEs in compliance with by XBRL/iXBRL standard;	In 2026, one awareness-raising activity was conducted regarding the submission of reports by category I and II enterprises in compliance with by XBRL/iXBRL standard;	Directives 2013/34/EU and Regulation N 1606/2002 provided for in the Association Agreement		Three awareness-raising activities were conducted for PIEs and category I and II enterprises regarding the digital reporting standard XBRL/iXBRL.	Unable to find appropriate funds/donor to hire experts familiar with XBRL standard;	Annual report of the Service for Accounting, Reporting and Auditing Supervision.
8.2	Promoting the growth of reporting quality	During 2023, examination of 50 reports submitted by PIEs, I and II category enterprises - which is about 4.5% of the total amount. Also, examination of 50 reports submitted by III	During 2024, examination of 70 reports submitted by PIEs, I and II category enterprises - which is about 6.5% of the total amount. Also, examination of 100 reports submitted by III category enterprises - which is about 2% of the total amount.	During 2025, examination of 90 reports submitted by PIEs, I and II category enterprises - which is about 8% of the total amount. Also, examination of 160 reports submitted by III	During 2026, examination of 110 reports submitted by PIEs, I and II category enterprises - which is about 10% of the total amount. Also, examination of 25 reports submitted by III category enterprises - which is about 5% of	Directives 2013/34/EU and Regulation N 1606/2002 provided for in the Association Agreement	The process of detailed review of the reports was launched in 2019 and, as of the end of 2022, overall 80 reports have been examined.	Examination of 10% of reports submitted by PIEs, I and II category enterprises, and 5% of III category enterprises.	Outflow/failure to find qualified personnel.	Reporting portal (www.reportal.ge); Annual report of the Service for Accounting, Reporting and Auditing Supervision.

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		category enterprises - which is about 1% of the total amount.		category enterprises - which is about 3.5% of the total amount.	the total amount.					

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
8.3	<i>Promoting the growth of audit service quality</i>	<p>During 2023, 115 scheduled / unscheduled monitoring and thematic inspections were carried out. 81% of the market is covered.</p> <p>PIEs. 14 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 31 scheduled / unscheduled monitoring were carried out. The number of auditors is 221 (according to the law, the scheduled audit cycle is 6 years). 75% of the market is covered.</p>	<p>During 2024, 36 scheduled / unscheduled monitoring and thematic inspections were carried out. 86% of the market is covered.</p> <p>PIEs. 5 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 31 scheduled / unscheduled monitoring were carried out. The number of auditors is 221 (according to the law, the scheduled audit cycle is 6 years). 75% of the market is covered.</p>	<p>During 2025, 36 scheduled / unscheduled monitoring and thematic inspections were carried out. 91% of the market is covered.</p> <p>PIEs. 4 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p>	<p>During 2026, 36 scheduled / unscheduled monitoring and thematic inspections were carried out. 93% of the market is covered.</p> <p>PIEs. 14 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 22 scheduled / unscheduled monitoring were carried out. The number of auditors is</p>	Regulation N 537/2014 and Directive 2006/43/EC provided for in the Association Agreement	<p>225 scheduled / unscheduled monitoring and thematic inspections were carried out. 56% of the market is covered.</p> <p>PIEs. 36 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 113 scheduled / unscheduled monitoring were carried out. The number of auditors is 195 (according to the law, the scheduled audit</p>	<p>448 scheduled / unscheduled monitoring and thematic inspections were carried out. 93% of the market is covered.</p> <p>PIEs. 73 scheduled / unscheduled monitoring and thematic inspections were carried out. The number of auditors is 14 (according to the law, the scheduled audit cycle is 3 years). 100% of the market is covered.</p> <p>Active non-PIEs. 220 scheduled / unscheduled monitoring were carried out. The number of</p>	Outflow/failure to find qualified personnel.	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		<p>Active non-PIEs. 22 scheduled / unscheduled monitoring were carried out. The number of auditors is 208 (according to the law, the scheduled audit cycle is 6 years). 60% of the market is covered.</p> <p>Non-active non-PIEs. 79 scheduled monitoring were carried out. The number of auditors is 150 (according to the law, the scheduled</p>		<p>Active non-PIEs. 32 scheduled / unscheduled monitoring were carried out. The number of auditors is 234 (according to the law, the scheduled audit cycle is 6 years). 85% of the market is covered.</p>	247 (according to the law, the scheduled audit cycle is 6 years). 89% of the market is covered.		<p>cycle is 6 years). 58% of the market is covered.</p> <p>Non-active non-PIEs. 76 scheduled monitoring were carried out. The number of auditors is 155 (according to the law, the scheduled cycle of the audit is 6 years). 49% of the market is covered.</p>	<p>auditors is 247 (according to the law, the scheduled audit cycle is 6 years). 89% of the market is covered.</p> <p>Non-active non-PIEs. 79 scheduled monitoring were carried out. The number of auditors is 150 (according to the law, the scheduled cycle of the audit is 6 years). 100% of the market is covered.</p>		

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		cycle of the audit is 6 years). 100% of the market is covered.								

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
8.4	Investigation of auditors/audit firms	3 auditors were investigated	3 auditors were investigated	3 auditors were investigated	3 auditors were investigated	Regulation No537/2014 and Directive 2006/43/EC provided for in the Association Agreement	-	12 auditors were investigated	Outflow/failure to find qualified personnel.	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge ; Annual report of the Service for Accounting, Reporting and Auditing Supervision.
8.5	Supervision of professional education	2 certification and 3 continuing education programs were recognized	3 continuing education programs were recognized	3 continuing education programs were recognized	2 certification and 3 continuing education programs were recognized	Regulation No537/2014 and Directive 2006/43/EC provided for in the Association Agreement	3 certification and 15 continuing education programs were recognized	7 certification and 27 continuing education programs were recognized	Outflow/failure to find qualified personnel.	State register of auditors and audit firms, which is available on the official website of the Service for Accounting, Reporting and Auditing Supervision: https://www.saras.gov.ge ; Annual report of the Service for Accounting, Reporting and Auditing Supervision.
8.6	Supervision of Money Laundering and Financing of Terrorism	Registers of accountants and accounting firms providing professional services have been created and are functioning 40% of accountable	Registers of accountants and accounting firms providing professional services are functioning. 50% of accountable persons are registered. Legal acts are adopted;	Improving the legal framework. Registers of accountants and accounting firms providing professional services are functioning	Registers of accountants and accounting firms providing professional services are functioning. 80% of accountable persons are registered.	Financial Action Task Force (FATF) recommendations and European directives 2015/849; 2018/843; 2018/1673	There is no comprehensive legal framework.	Registers of accountants and accounting firms providing professional services are created and administered. 80% of accountable persons are registered. A legal framework has been	Outflow/failure to find qualified personnel. Obstruction/delay in the implementation of legislative changes for objective reasons; Changes made in the legislation	Evaluation Report of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). Annual report of the Service for Accounting, Reporting and Auditing Supervision. Registers of accountants and accounting firms providing professional services are publicly

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
		persons are registered. Legal acts are adopted;		60% of accountable persons are registered.				created that complies with the recommendations of the Financial Action Task Force (FATF) and the requirements of European directives;	regarding sanctions relief.	available on the website of the Service.
8.7	Raising awareness on money laundering and financing of terrorism	Raising the qualifications of the employees of the Service. In 2023, 4 awareness-raising activities were conducted for accountable persons.	Providing employees of the Service with the latest news regarding prevention of money laundering and financing of terrorism; In 2024, 4 awareness-raising activities were conducted for accountable persons.	Providing employees of the Service with the latest news regarding prevention of money laundering and financing of terrorism; In 2025, 4 awareness-raising activities were conducted for accountable persons.	Providing employees of the Service with the latest news regarding prevention of money laundering and financing of terrorism; In 2026, 4 awareness-raising activities were conducted for accountable persons.	Financial Action Task Force (FATF) recommendations and European directives 2015/849; 2018/843; 2018/167	In 2022, 3 awareness-raising activities were conducted for accountable persons.	Qualification of employees is raised; By 2026, 16 awareness raising campaigns are held for accountable persons.	Outflow of qualified employees. Finding appropriate funds/donors to hire experts in facilitating the prevention of money laundering and financing of terrorism;	Annual report of the Service for Accounting, Reporting and Auditing Supervision. Website of the Service: https://saras.gov.ge/ .

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Ultimate goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification
8.8	Carrying out inspections of persons accountable for facilitating the prevention of money laundering and financing of terrorism;	Rule on the "Approval of the Rule of Inspection and Enforcement regarding Prevention of Money Laundering and Financing of Terrorism" is established and the state registers of accountants and accounting firms providing professional services are working properly.	40 accountable persons are inspected, which represents 2.5% of the total amount.	60 accountable persons are inspected, which represents 3.5% of the total amount.	70 accountable persons are inspected, which represents 4% of the total amount.	Financial Action Task Force (FATF) recommendations and European directives 2015/849; 2018/843; 2018/167	-	170 accountable persons are inspected, which represents 10% of the total amount.	Outflow/failure to find qualified personnel.	Annual report of the Service for Accounting, Reporting and Auditing Supervision.

Table №4

Ministry of Finance: Estimate of the 2023-2026 PFM Strategy Measures

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
	Total sum	186,780.0	40,733.0	44,450.5	48,547.8	53,048.7	
1.	Budgeting	25,763.0	5,583.0	6,080.0	6,700.0	7,400.0	23 01 - Public Finance Management; 23 04 - Electronic and analytical provision of public finance management; 23 05 - Raising qualifications of employees in the financial sector.
1.1	Increasing efficiency of medium-term planning	10,650.0	2,300.0	2,500.0	2,800.0	3,050.0	
1.2	Establishment of a Unified Cycle of Public Investment / Capital Projects Management	6,430.0	1,350.0	1,500.0	1,680.0	1,900.0	
1.3	Strengthening the effectiveness of result- oriented planning	2,000.0	500.0	500.0	500.0	500.0	
1.4	Introducing the high standard of accountability and transparency	2,750.0	550.0	680.0	670.0	850.0	
1.5	Enhancing municipal PFM	1,800.0	400.0	400.0	500.0	500.0	

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
1.6	Strengthening the link between strategic/sectoral policy documents and the budget	2,133.0	483.0	500.0	550.0	600.0	
2.	General Government Debt Management	24,795.7	5,346.0	5,875.0	6,466.5	7,108.2	23 01 - Public Finance Management
2.1	Updating the medium-term General Government Debt Management Strategy	8,983.3	1,900.0	2,130.0	2,373.0	2,580.3	
2.2	Update of the Law on Public Debt	5,230.8	1,050.0	1,225.0	1,407.5	1,548.3	
2.3	Developing the government securities market	10,581.6	2,396.0	2,520.0	2,686.0	2,979.6	
3.	Management, Accounting and Reporting of public funds	24,642.3	5,577.0	5,957.5	6,313.3	6,794.6	23 01 - Public Finance Management 23 04 - Electronic and analytical provision of public finance management; 23 05 - Raising qualifications of employees in the financial sector.
3.1	Accounting and reporting reform in the public sector	14,359.8	3,252.0	3,300.0	3,713.3	4,094.6	
3.2	Development of the electronic system of the treasury (e- Treasury)	10,282.5	2,325.0	2,657.5	2,600.0	2,700.0	
4.	Tax and Customs Issues	87,923.0	19,145.0	20,937.0	22,891.0	24,950.0	23 01 - Public Finance Management

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
4.1	Further improvement of tax legislation taking into account the best international practices	1,665.0	400.0	415.0	420.0	430.0	
4.2	Fulfillment of obligations undertaken within the framework of association agreement	1,665.0	400.0	415.0	420.0	430.0	
4.3	Issuance of public decisions based on the analysis of existing taxation practices	2,090.0	500.0	520.0	530.0	540.0	
4.4	Improvement of customs legislation	2,920.0	700.0	730.0	740.0	750.0	
4.5	Tax Base erosion and profit shifting (BEPS) project	860.0	200.0	210.0	220.0	230.0	
4.6	Global Forum on Transparency and Exchange of Information for Tax Purposes	1,260.0	300.0	310.0	320.0	330.0	
4.7	Strengthening the tax risk management process in the area of compliance with the law	42,181.5	9,081.5	10,000.0	11,000.0	12,100.0	
4.8	Development of customs risk management and preliminary information exchange system	1,894.0	404.0	450.0	500.0	540.0	
4.9	Improvement of the tax debt management system	16,704.0	3,584.0	3,950.0	4,400.0	4,770.0	

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
4.10	Development of services tailored to the needs of stakeholders	2,939.5	629.5	690.0	770.0	850.0	
4.11	Improvement of IT systems	2,476.0	536.0	590.0	650.0	700.0	
4.12	Bringing information security system in line with modern standards	332.0	70.0	77.0	85.0	100.0	
4.13	Implementation of organizational risk management system	8,994.0	1,938.0	2,130.0	2,346.0	2,580.0	
4.14	Support for the integration processes with the European Union	1,942.0	402.0	450.0	490.0	600.0	
5	Macroeconomic analysis and forecasting	8,850.0	1,900.0	2,100.0	2,300.0	2,550.0	23 01 - Public Finance Management
5.1	Macroeconomic analysis and forecasting	5,050.0	1,150.0	1,200.0	1,300.0	1,400.0	
5.2	Improvement of coverage of public finances	2,600.0	500.0	600.0	700.0	800.0	
5.3	Improvement of Quantitative Assessment of Lost Revenues caused by Tax Exemptions and Optimization of Tax Benefits	1,200.0	250.0	300.0	300.0	350.0	

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
6	Fiscal Risk Management	3,260.0	700.0	770.0	850.0	940.0	23 01 - Public Finance Management
6.1	Development and approval of the legislative framework for SOEs	968.0	208.0	230.0	250.0	280.0	
6.2	Financial supervision of SOEs	509.0	109.0	120.0	130.0	150.0	
6.3	Fiscal risk analysis	1,095.0	235.0	260.0	290.0	310.0	
6.4	Maintaining an Adequate Level of Risks / Contingent Liabilities arising from PPP Projects	688.0	148.0	160.0	180.0	200.0	
7	Public Internal Financial Control	2,810.0	600.0	660.0	750.0	800.0	23 01 - Public Finance Management
7.1	Development of financial management and control system	1,960.0	420.0	460.0	520.0	560.0	
7.2	Development of internal audit	850.0	180.0	200.0	230.0	240.0	
8	Supervision of accounting, reporting and audit	8,736.0	1,882.0	2,071.0	2,277.0	2,506.0	23 06 - Supervision of accounting, reporting and audit

N		Volume of Financing (one thousand GEL)					Program code and name
		Total sum	2023	2024	2025	2026	
8.1	Effective functioning of reporting portal	1,213.0	261.0	288.0	316.0	348.0	
8.2	Promoting the improvement of reporting quality	1,541.0	332.0	365.0	402.0	442.0	
8.3	Promoting the improvement of audit service quality	4,134.0	891.0	980.0	1,077.0	1,186.0	
8.4	Investigation of auditors/audit firms	273.0	59.0	65.0	71.0	78.0	
8.5	Supervision of professional education	136.0	29.0	32.0	36.0	39.0	
8.6	Supervision of Money Laundering and Financing of Terrorism	482.0	130.0	106.0	117.0	129.0	
8.7	Raising awareness on money laundering and financing of terrorism	322.0	87.0	71.0	78.0	86.0	
8.8	Carrying out inspections of persons accountable for facilitating the prevention of money laundering and financing of terrorism	635.0	93.0	164.0	180.0	198.0	

VI. INFORMATIVE ANNEX 2. INDIVIDUAL STRATEGIES

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1	Budget and Finance Committee and Budget Office of the Parliament										
1	Strengthening of supervisory function	<p>1.1 Budgetary process supervisory function is strengthened by the involvement of parliamentary entities, the State Audit Office, the National Bank and other interested parties:</p> <ul style="list-style-type: none"> - Draft Law on the State Budget - Government report on the execution of the state budget - Quarterly budget execution report - Annual budget execution report 	<p>1.1 Budgetary process supervisory function is strengthened by the involvement of parliamentary entities, the State Audit Office, the National Bank and other interested parties:</p> <ul style="list-style-type: none"> - Draft Law on the State Budget - Government report on the execution of the state budget - Quarterly budget execution report - Annual budget execution report 	<p>1.1 Budgetary process supervisory function is strengthened by the involvement of parliamentary entities, the State Audit Office, the National Bank and other interested parties:</p> <ul style="list-style-type: none"> - Draft Law on the State Budget - Government report on the execution of the state budget - Quarterly budget execution report - Annual budget execution report 	<p>1.1 Budgetary process supervisory function is strengthened by the involvement of interested parties, with the guidance of the Budget and Finance Committee:</p> <ul style="list-style-type: none"> - Draft Law on the State Budget - Government report on the execution of the state budget - Quarterly budget execution report - Annual budget execution report 	<p>SDG 16</p> <p>SDG 17</p>	<p>PEFA PI-18-A</p> <p>PEFA 31.1-A</p>	<p>PI-18-A</p> <p>PEFA 31.1-A</p>		<p>PEFA</p> <p>Conclusions of the Committee</p>	
		<p>1.2 The Budget and Finance Committee has adopted a recommendation in the program budget annex for the integration of the budgetary programs and sustainable development goals (indicators and targets) to be implemented by the Ministry identified by 2023.</p>	<p>1.2 The Budget and Finance Committee has adopted a recommendation in the program budget annex for the integration of the budgetary programs and sustainable development goals (indicators and targets) to be implemented by two Ministries identified by 2024.</p>	<p>1.2 The Budget and Finance Committee has adopted a recommendation in the program budget annex for the integration of the budgetary programs and sustainable development goals (indicators and targets) to be implemented by three Ministries identified by 2025.</p>	<p>1.2 For the achievement and monitoring of Sustainable Development Goals, the 2022-2024 action plan of the Parliament of Georgia considers the implementation of activities, in particular, strengthening the</p>	<p>SDG 16</p> <p>SDG 17</p>	<p>Sustainable development goals have been integrated into several programs by the identified Ministry in accordance with the annex to the program budget.</p>	<p>Sustainable development goals have been integrated into all programs by three identified Ministries in accordance with the annex to the program budget.</p>		<p>Conclusions of the Committee</p> <p>Budget of the relevant year</p> <p>Committee activity report</p> <p>OGP report</p>	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					supervision of the integration and compliance of the programs provided for in the program budget with the Sustainable Development Goals.						
		1.3 The meetings of the Standing Audit Group in charge of reviewing reports of the State Audit Office were held with the participation of the State Audit Office, audited entities and other stakeholders.	1.3 The meetings of the Standing Audit Group in charge of reviewing reports of the State Audit Office were held with the participation of the State Audit Office, audited entities and other stakeholders. The Budget and Finance Committee monitored the implementation of the recommendations approved by the Budget and Finance Committee through the Audit Recommendations Implementation Monitoring System (ARIS) of the State Audit Office.	1.3 The meetings of the Standing Audit Group in charge of reviewing reports of the State Audit Office were held with the participation of the State Audit Office, audited entities and other stakeholders. The Budget and Finance Committee monitors the implementation of recommendations of the State Audit Office in accordance with the amendments made to the relevant articles of the statute of the Standing Audit Group in charge of reviewing reports of the State Audit Office.	1.3 The process of reviewing audit reports of the State Audit Office by the Standing Audit Group and of monitoring the recommendations issued by the Budget and Finance Committee has been improved: - During the review of audit reports, the cooperation of the Audit Group with other stakeholders is strengthened - The monitoring of the implementation of recommendations approved by the Budget and Finance Committee is strengthened	SDG 16 SDG 17	PEFA 31.2-A PEFA 31.3-A PEFA 31.4-A	PEFA 31.2-A PEFA 31.3-A PEFA 31.4-A	The problem of access to the monitoring system of the State Audit Service and functional deficiency of the system	PEFA Documents developed by the Committee and Audit Group Annual Report of the Committee Reports of the Standing Audit Group in charge of reviewing audit reports of the State Audit Office are prepared during the Spring and Fall Sessions of the Budget and Finance Committee	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					through the Audit Recommendations Implementation Monitoring System (ARIS) of the State Audit Office and based on the appropriate amendments made to the statute of the Standing Audit Group.						
		1.4 In order to increase the effectiveness and accountability of parliamentary supervision, the reports of independent institutions, in particular: The State Audit Office, the National Bank and the Pension Agency, are studied, analyzed and reviewed.	1.4 In order to increase the effectiveness and accountability of parliamentary supervision, the reports of independent institutions, in particular: The State Audit Office, the National Bank and the Pension Agency, are studied, analyzed and reviewed.	1.4 In order to increase the effectiveness and accountability of supervision, the reports of independent institutions, in particular: The State Audit Office, the National Bank and the Pension Agency, are studied, analyzed and reviewed.	1.4 In order to increase the effectiveness and accountability of supervision, the reports of independent institutions, in particular: The State Audit Office, the National Bank and the Pension Agency, are studied, analyzed and reviewed.	SDG 16 SDG17	Reports are analyzed and reviewed.	Reports are studied, analyzed and reviewed.		Conclusions of the Committee	
2	Institutional strengthening of the Budget and Finance Committee	Qualification of committee members and office staff is improved in fiscal policy.	Qualification of committee members and office staff is improved in analysis and review of audit reports of the State Audit Office.	Qualification of committee members and office staff is improved in gender aspects and green budgeting, public relations.	Improving the qualification of committee members and office staff in the following areas: fiscal policy, analysis and review of audit reports, gender aspects and green	SDG 16	PEFA PI-18-A	PEFA PI-18-A		PEFA Annual Report of the Committee	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					budgeting, public relations.						
3	Improving communication with civil society representatives	3.1 The state budget is made public in an abbreviated and simplified form	3.2 Publicity of the state budget review process is improved	3.3. The structure and content of the committee's annual report and public awareness of the committee's activities is improved	3.1 Disclosure of the state budget in abbreviated and simplified form	SDG 16 SDG 17		Published on the website of the Parliament	Reduction or suspension of financial support from donors.	The website of the Parliament	
					3.2 Publicity of the state budget review process is improved	SDG 16			Reduction or suspension of financial support from donors.	The OG report The website of the Parliament	
					3.3. Improving the structure and content of the committee's annual report and improving public awareness of the committee's activities	SD G16				Annual Report of the Committee Minutes of the committee	
2	Parliamentary Budget Office										

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1	Facilitation of the effective implementation of the budget authority of the Parliament through macroeconomic / fiscal policy analysis	The Parliamentary Budget Office has prepared the Monitoring Report of the Fiscal Rules established by the Organic Law of Georgia on Economic Freedom based on the draft state budget for 2024.	The Parliamentary Budget Office has prepared the Monitoring Report of the Fiscal Rules established by the Organic Law of Georgia on Economic Freedom based on the draft state budget for 2025.	The Parliamentary Budget Office has prepared the Monitoring Report of the Fiscal Rules established by the Organic Law of Georgia on Economic Freedom based on the draft state budget for 2026.	Monitoring Compliance with Fiscal Restraints		The Parliamentary Budget Office has prepared the Monitoring Report of the Fiscal Rules established by the Organic Law of Georgia on Economic Freedom based on the draft state budget for 2024.	The Parliamentary Budget Office has prepared the Monitoring Report of the Fiscal Rules established by the Organic Law of Georgia on Economic Freedom based on the draft state budget for 2024-2027.	Assigning the function of monitoring fiscal rules in the PFM system to another agency	Website of the Budget Office: http://pbo.parliament.ge/	It is important for the Budget Office to legally define the mandate of monitoring the fiscal rules

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		The Parliamentary Budget Office has evaluated the Government's macro and fiscal forecasts and prepared alternative, baseline, optimistic and pessimistic forecasts for the years 2024-2027 based on the draft state budget for 2024.	The Parliamentary Budget Office has evaluated the Government's macro and fiscal forecasts and prepared alternative, baseline, optimistic and pessimistic forecasts for the years 2025-2028 based on the draft state budget for 2025.	The Parliamentary Budget Office has evaluated the Government's macro and fiscal forecasts and prepared alternative, baseline, optimistic and pessimistic forecasts for the years 2026-2029 based on the draft state budget for 2026.	Strengthening the alternative macro-fiscal forecasting capacities of the Parliamentary Budget Office		The Parliamentary Budget Office has evaluated the Government's macro and fiscal forecasts and prepared alternative, baseline, optimistic and pessimistic forecasts for the years 2023-2026 based on the draft state budget for 2023.	The Parliamentary Budget Office has evaluated the Government's macro and fiscal forecasts and prepared alternative, baseline, optimistic and pessimistic forecasts for the years 2024-2027 based on the draft state budget.	Lack of human resources.	Website of the Parliamentary Budget Office: www.pbo.parliament.ge	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
2	Facilitation of the effective implementation of the activities of the Parliament in the legislative process	The Parliamentary Budget Office reviewed the financial impact assessments of the draft laws initiated in 2023 and prepared relevant reports; Preliminary consultations with stakeholders in the process of preparing the financial impact assessment report in order to facilitate the implementation of the recommendations developed by the Budget Office;	The Parliamentary Budget Office reviewed the financial impact assessments of the draft laws initiated in 2024 and prepared relevant reports; Preliminary consultations with stakeholders in the process of preparing the financial impact assessment report in order to facilitate the implementation of the recommendations developed by the Budget Office;	The Parliamentary Budget Office reviewed the financial impact assessments of the draft laws initiated in 2025 and prepared relevant reports; Preliminary consultations with stakeholders in the process of preparing the financial impact assessment report in order to facilitate the implementation of the recommendations developed by the Budget Office;	Improvement and strengthening of the mechanism for assessing the financial impact of draft laws, including the impact on budgetary parameters.		Parliamentary Budget Office has developed the methodological guidelines for the financial impact assessment of the explanatory note to the draft law	Facilitating the implementation of the recommendation document developed by the Budget Office	lack of practical experience of initiators necessary for implementing the recommendation in practice; lack of statistical data; Low interest of the initiators to implement the recommendation in practice	Website of the Parliamentary Budget Office: www.pbo.parliament.ge	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
3	Facilitating Maximum Awareness of the Public and All Relevant Stakeholders on Budget Transparency and PFM Issues	At least one research paper on a current topic is prepared by the Budget Office	At least one research paper on a current topic is prepared by the Budget Office	At least one research paper on a current topic is prepared by the Budget Office	Strengthening of the research activities of the Budget Office		The Budget Office prepares and publishes research papers	The number and scope of the research papers prepared by the Budget Office have increased	Lack of human resource, difficulties related to obtaining necessary information.	Website of the Parliamentary Budget Office: www.pbo.parliament.ge	
4	Ensuring Greater Convergence with the Principles defined by OECD for Independent Financial Institutions:	Implementation of activities planned in 2023 within the EU-funded Twinning Project “Strengthening Parliamentary Oversight in Public Finances”	Implementation of activities planned in 2024 within the EU-funded Twinning Project “Strengthening Parliamentary Oversight in Public Finances”	A self-assessment report has been prepared by the Budget Office, highlighting the progress already made and identifying the challenges to maximize convergence with the principles defined by the OECD for independent financial institutions.	Capacity building of the Budget Office as an independent financial institution		A self-assessment report has been prepared by the Budget Office, identifying the challenges to maximize convergence with the principles defined by the OECD for independent financial institutions; The Budget Office, with the support of the Netherlands, implements the so-called EU Twinning Project “Strengthening Parliamentary	Activities of the Budget Office, based on the results of the self-assessment/external expert assessment report, are as much as possible consistent with the principles defined by the OECD for independent financial institutions.	Lack of human resources; Delay in implementation of EU-funded Twinning Project “Strengthening Parliamentary Oversight in Public Finances”; Change of action plan; Insufficient involvement		

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
							Oversight in Public Finances”, among the main objectives of which is to strengthen the analytical capacities of the Budget Office and raise awareness of the Budget Office.		nt of experts.		
3	State Audit Office Increasing Impact Through High Quality Audit										
1	Strengthening recommendation monitoring and follow-up system;	Up to 500 audit recommendations are included in the ARIS system	Up to 750 audit recommendations are included in the ARIS system	Up to 1000 audit recommendations are included in the ARIS system	The electronic system for monitoring performance of recommendations issued within the audits of SAO - ARIS (www.aris.sao.ge) is fully implemented in practice.	PEFA (PI-30)	As of 2022, up to 250 audit recommendations are included in the ARIS system	All recommendations issued by SAO are included in the ARIS system	Lack of use of the system by audit entities	Annual report of SAO www.sao.ge	
2	Audit of the country's Consolidated Financial Statements	Financial auditors of SAO are trained in IPSAS standards	Consolidated financial statements of the country is being audited	Consolidated financial statements of the country has been audited	SAO audits the country's consolidated financial statements	PEFA (PI-30)	As of 2022, SAO does not audit the country's consolidated financial statements	Consolidated financial statements of the country has been audited	Delay in the implementation of the relevant legislative changes; Delayed communication from the audited entities	Report published on the website of the SAO www.sao.ge	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
3	Improvement of audit coverage of municipalities	Some municipalities are covered by audit	Some municipalities are covered by audit	Some municipalities are covered by audit	SAO carries out audits of all municipalities	PEFA local (PI-30)	All municipalities were covered by the audits conducted by SAO in 2019-2022	All municipalities are audited at least once every three years	Lack of human resources of SAO; Delayed communication from the audited entities	Report published on the website of SAO www.sao.ge Audit reports submitted to the relevant municipality council	
4	Strengthening performance audit	The share of performance audits in the total audit activity is not less than 20%	The share of performance audits in the total audit activity is not less than 20%	The share of performance audits in the total audit activity is not less than 25%	Increasing the share of performance audits in the total audit activity		In 2022, the share of performance audits in the total audit activity was 20%	The share of performance audits in the total audit activity is 25%	Lack of human resources of the State Audit Office	Reports published on the website of the State Audit Office www.sao.ge	
4 State Procurement Agency											
1	Implementation of legislative changes in public procurement in accordance with the European Union Association Agreement	The new Law on Public Procurement and the accompanying legislative package (in addition to 34 draft laws) have been adopted by the Parliament	Parliament made amendments to the Law on Public Procurement regarding the new regulations in the implementation of procurement by the so-called "Utility Sector"	All the main norms and regulations of the new law on Public Procurement have entered into force and have been put into effect	A completely new legal framework for public procurement has been launched, new institutional reforms are underway		35 new draft laws have been adopted	35 new draft laws have been adopted	Delay in adoption of the new legislative package in the Parliament	matsne.gov.ge; procurement.gov.ge; spa.ge	
2	Development and adoption of "secondary legislation" on public procurement	Based on the new Law on Public Procurement, a part of the "Secondary Legislation" has been developed.	Based on the new Law on Public Procurement, a part of the "Secondary Legislation" has been developed.	Based on the new Law on Public Procurement, a part of the "Secondary Legislation" has been developed.	Based on the new Law on Public Procurement, secondary legislation has been developed,	Draft Bylaws prepared by: GIZ, EU Twinning, USAID EGP, UNEP, NATO	9 draft government resolutions; 15 draft orders of the Chairman of the State	24 new by-laws have been adopted	Delay in adoption of the new Law on Public Procurement;	matsne.gov.ge; procurement.gov.ge; spa.ge	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
					adopted and fully implemented		Procurement Agency		Delay in the preparation of new draft by-laws; Delay in adoption of relevant resolutions by the government		
3	Development of handbooks, methodological guidelines and instructions and their publication on the website	Determining a tentative list of handbooks, methodological guidelines and instructions and initiating negotiations with donor organizations	Handbooks, methodological guidelines and instructions are developed and published on the website	Handbooks, methodological guidelines and instructions are developed and published on the website	Published handbooks, methodological guidelines and instructions	Similar / supporting publications - OECD-SIGMA; OECD-MAPS; GIZ; UNEP; UNOPS; WB; EBRD; USAID; And other - http://procurement.gov.ge/ka/page/mdg-sajshes ; https://read.oecd-ilibrary.org/governance/public-procurement-for-innovation_9789264265820-en#page1	Draft package of handbooks, methodological guidelines and instructions	Work on the package of handbooks, methodological guidelines and instructions has been completed and final versions have been printed/published/distributed	Impairment of public procurement system reform in terms of introduction of new procurement procedures, tools, methods and means, as well as human resources development	Annual Report of the State Procurement Agency; e-Newsletter of the State Procurement Agency; procurement.gov.ge; spa.ge	
4	Development / implementation of new e-services, procedures and tools of a unified electronic system of public	New architecture, business processes, business analytics documentation, new electronic services of the web portal necessary for the modernization of a single electronic system	Modernized version of a single electronic system of state procurement (e-Procurement) and new electronic services of the web portal are developed and launched in test mode	Modernized version of a single electronic system of state procurement (e-Procurement) and new electronic services of the web portal are established	Services and capacities introduced in addition to a single electronic system of public procurement	Publications - http://procurement.gov.ge/ka/page/e-procurement ; https://ec.europa.eu/archives/dgs/internal_market/studies/docs/e-procurement-golden-	The 2022 version of a single electronic system of state procurement (e-Procurement) and web portal	The modernized version of a single electronic system of state procurement (e-Procurement)	Impairment of public procurement system reform in terms of introduction	Modernized e-Procurement System; Annual Report of the State	

	Strategy directions and objectives	Medium-term goal for 2023	Medium-term goal for 2024	Medium-term goal for 2025	Final goal for 2026	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
	procurement (e-Procurement);	of state procurement (e-Procurement) have been identified.				book-of-good-practice_en.pdf ; https://www.mapsinitiative.org/methodology/		and updated web portal	on of new procurement procedure s, tools, methods and means, as well as human resources development	Procurement Agency; e-Newsletter of the State Procurement Agency; procurement.gov.ge; spa.ge	
5	Implementation of trainings for relevant employees of the State Procurement Agency, purchasing organizations, economic operators and other stakeholders	25 employees of the State Procurement Agency; For purchasing organizations, economic operators and other stakeholders – 14 training groups, up to 200 trainees.	35 employees of the State Procurement Agency; For purchasing organizations, economic operators and other stakeholders – 14 training groups, up to 200 trainees.	15 employees of the State Procurement Agency; For purchasing organizations, economic operators and other stakeholders – 14 training groups, up to 200 trainees.	75 trained employees of the State Procurement Agency; Number of trained employees of purchasing organizations, economic operators and stakeholders: during the 2023-2025 academic years, 56 training groups, approximately 630 trainees.	EU edition on a technical specification/competence matrix for professionalization of procurement staff; OECD-SIGMA; OECD-MAPS; GIZ; UNEP; UNOPS; WB; EBRD; USAID EGP; USAID HICD relevant editions		In total, about 700 retrained / trained employees, representatives of the public and business sectors, civil society organizations	Risks related to epidemics /pandemics; Limited resources of the training center of the State Procurement Agency; Passivity of donor organizations.	Annual Report of the State Procurement Agency; e-Newsletter of the State Procurement Agency; procurement.gov.ge; spa.ge	

1 Parliament

1.1 Budget and Finance Committee

The Budget and Finance Committee leads the process of adopting the state budget and making amendments to it within the competence of the Parliament; The Parliament of Georgia, through the Budget and Finance Committee, carries out overall, consistent control of the execution of the state budget; The Committee controls the activities of the Government of Georgia and other bodies accountable to the Parliament within its competence.

In recent years, the Parliament of Georgia has implemented important reforms and legislative changes in terms of financial supervision. Georgia moved to parliamentary system of governance as a result of constitutional amendments and its supervisory functions were strengthened. Appropriate changes were made in the regulations of the Parliament of Georgia and other legislative acts; The parliamentary budget process and institutional cooperation with the bodies accountable to the parliament were improved. In particular:

- The Budget and Finance Committee ensures drawing up the schedule for reviewing the Draft Law on State Budget, the Government report and the BBD document of the Country. The Budget and Finance Committee reviews and assesses reports of other committees, Parliamentary factions, MPs not united in any faction, the Legal Department of the Parliamentary Office and the Parliamentary Budget Office, as well as the National Bank of Georgia and the State Audit Service. The Budget and Finance Committee, on the basis of these reports, its own comments and suggestions, prepares the final report and submits it to the Chairman of the Parliament.
- The Parliament, through the Budget and Finance Committee, carries out overall, consistent control of the execution of the state budget. The Budget and Finance Committee of the Parliament organizes quarterly committee reviews of the execution of the state budget. Results of the committee reviews may be submitted to the Parliament upon the decision of the Budget and Finance Committee.
- The Parliament provides control over the management of public funds through the State Audit Office. For this purpose, the Budget and Finance Committee of the Parliament established the Standing Audit Group (hereinafter the Audit Group) composed of the members of the Committee, which will be in charge of reviewing audit reports of the State Audit Office. In addition, the Budget and Finance Committee of the Parliament coordinates the process of reviewing audit reports of the State Audit Office in the Parliament. The State Audit Office shall submit the audit reports to the Parliament immediately. Twice a year - until September 10 of the current year and until February 10 of the following year - the State Audit Office also provides written information on particularly important reports. The Audit Group is accountable to the Budget and Finance Committee of the Parliament. The Audit Group must submit report on its activities to the Budget and Finance Committee of the Parliament at least once during the next session of the Parliament. The report of the Audit Group is approved by the decision of the Budget and Finance Committee. The Audit Group must convene at least one meeting per month during the next session of the Parliament. Audit Group meetings are public. The meetings of the Audit Group are usually attended by: members of the Standing Audit Group in charge of reviewing the audit reports, Auditor General or his/her deputy and other responsible officials of the State Audit Office, deputies of the curator of audited entities, high-ranking and other responsible persons, members of the parliamentary committee of the relevant field and other responsible persons. The audit group develops a draft decision of the Budget and Finance Committee of the Parliament with relevant recommendations and submits it to the said committee. The Budget and Finance Committee reviews the draft decision and approves it. The decision of the Committee is submitted to the relevant audited entities, with reference to the terms for the fulfillment of the approved recommendations.
- After reviewing the annual report of the State Audit Office, the Parliament adopts the relevant resolution. The resolution of the Parliament may reflect the recommendations developed by the Audit Group of the Budget and Finance Committee and adopted by the decision of the Committee, with reference to the terms of their fulfillment. The Budget and Finance Committee of the parliament is the speaker on this issue at the plenary session.
- As a result of amendments made to the Constitution and other legislative acts, the independence of the State Audit Office was enhanced, in particular: 1. As a result of constitutional amendments, the Law on

the State Audit Office gained the status of an organic law. In addition, the Constitutional Court, based on the Auditor General's lawsuit, considers the dispute about the authority of the relevant body. 2. As a result of the amendments made to the Law of Georgia "On Conflict of Interest and Corruption in Public Institutions" in 2022, the State Audit Office is not carrying out financial monitoring of political parties since September 1, 2023, which significantly contributed to the independence of the State Audit Service, its political neutrality and the impartial implementation of the audit mandate. The financial audit of the State Audit Office is carried out according to international standards by one of the 4 largest audit firms in the world selected by the Parliament through competition and tender.

Evaluation of the Activity of the Budget and Finance Committee

The Budget and Finance Committee has successfully fulfilled all the obligations and indicators of the Committee defined by the EU4 Economic Governance and Fiscal Accountability program for 2019-2021.

According to the **2022 PEFA**, Control over the Budget by the Budget and Finance Committee (PI-18) and Supervision of Government Activities based on Audit Reports (PI-31) were assessed with the **highest score (A)**.

According to the Open Budget Index 2021, Georgia **ranks first** among 120 countries in the world in terms of **citizens' involvement in the parliamentary budget process**. According to the Open Budget Index of 2021, the parliamentary budget control and the involvement of citizens in the parliamentary budget process were assessed with a high score.

Objectives and Goals

The Budget and Finance Committee will make a significant contribution to the **implementation of the 2023-2026 Public Finance Management Reform Strategy** and to the improvement of the PFM accountability and transparency. The Parliament of Georgia and the Budget and Finance Committee will continue improvement of the reform in terms of parliamentary financial supervision, in particular: Over the next 4 years, the Budget and Finance Committee will improve and strengthen: 1. Supervisory function of the state budget; 2. Institutional development; and 3. Communication with civil society representatives. The aforementioned strategic directions are also reflected in the 2022-2024 strategy and development plan of the Budget and Finance Committee developed in cooperation with USAID, and in the 2023 Action Plan¹⁹ of the Budget and Finance Committee.

1.2 Independent Fiscal Institution - Parliamentary Budget Office

The Parliamentary Budget Office of Georgia was established in 1997 as an independent fiscal institution with the purpose of facilitating the effective implementation of both budgetary and legislative powers of the Parliament through independent and impartial analysis, research and evaluation of macroeconomic/fiscal policy and informing the society and all stakeholders to the maximum extent on PFM issues.

The Budget Office's scope of activities includes: analysis of the draft state budget and the budget performance reports, analysis of a macro environment and development of alternative macro-forecasts, analysis of compliance with fiscal rules, assessment of the financial results of legislative initiatives, etc.

The activity of the Budget Office has been positively evaluated repeatedly in the publications of individual international organizations. In particular: In particular: EU publication "Public Finance Management Reform in Georgia"; PEFA Performance Assessment report; Gender Responsive Public Financial Management (GRPFM) assessment for 2022; Fiscal Transparency Evaluation Report of IMF; IMF's Fiscal Transparency Handbook; OBS reports for 2017, 2019 and 2021.

Objectives and Goals

¹⁹<https://parliament.ge/parliament/committees/50932/documents>

For the next 4 years, the following activities are planned to be implemented by the Parliamentary Budget Office, as an independent fiscal institution, to facilitate the effective implementation of the budget authorities of the Parliament and its activities in the legislative process through macroeconomic/fiscal policy analysis, to promote maximum awareness of the public and all relevant stakeholders on the issues of budget transparency and public finance management and ensure greater convergence with the principles defined by OECD for independent financial institutions:

Monitoring Compliance with Fiscal Restraints

The first Monitoring Report of the Fiscal Rules was prepared by the Parliamentary Budget Office in 2020 within the framework of obligation under the Agreement on the Implementation of Sector Reform signed between the European Commission and the Government of Georgia (EU4 EGFA, 2018). Since then, the Budget Office has regularly monitored and published reports on Fiscal Rule, although this function has not been defined by an official mandate. It should be noted that IMF's 2017 Fiscal Transparency Evaluation Report recommends expanding the mandate of the Budget Office to monitor government compliance with Fiscal Rule (Recommendation 2.2: (c)). According to international practice, this function is included in the official mandate of Budget Offices.

For the purpose of maintaining the existing format and continuity of the monitoring process, the Parliamentary Budget Office will continue to prepare the monitoring documents in the future, however, it is important that the monitoring function is defined directly for the Budget Office in the relevant acts regulating the PFM system.

Strengthening of Alternative Macro-Fiscal Forecasting Capacities

As part of its mandate, the Parliamentary Budget Office has been evaluating the government's macro and fiscal forecasts since 2014 and preparing alternative, baseline, optimistic and pessimistic forecasts that are available to the public. To strengthen forecasting capacities, it is important to prepare a forecast evaluation document that will assess the accuracy of forecasts, facilitate improvement of existing approaches and raise public confidence in existing forecasts.

Facilitating Effective Implementation of the Parliament's Activities in the Legislative Process

For sustainable medium-term planning, it is important to assess the financial impacts of individual legislative initiatives on the medium-term period. This will contribute to the improvement and strengthening of the mechanism for assessing the financial impact of legislative initiatives, including the impact on budgetary parameters. The Parliamentary Budget Office has developed the methodological guidelines for the financial impact assessment of the explanatory note to the draft law, implementation of which will significantly improve the medium-term planning process.

Facilitating Maximum Awareness of the Public and All Relevant Stakeholders on Budget Transparency and PFM Issues

The Budget Office periodically prepares research papers on PFM issues. It is important for the Budget Office to maintain the mentioned practice and to extend the number and scope of the research papers.

Ensuring Greater Convergence with the Principles defined by OECD for Independent Financial Institutions:

In 2022, within the framework of the commitment with the European Union, the Budget Office prepared a self-assessment report and identified the relevant requirements for ensuring greater convergence with the principles defined by OECD for Independent Financial Institutions. Activities planned within the EU-funded Twinning Project "Strengthening Parliamentary Oversight in Public Finances" will significantly contribute to the institutional strengthening of the Parliamentary Budget Office of Georgia, which is important in the PFM process of the country.

2. State Audit Office

Objectives and Goals

Qualitative improvement of PFM as a result of high-quality auditing activities. It is planned to achieve the set goals and objectives through capacity building of the State Audit Office in various directions.

1. Strengthening recommendation monitoring and follow-up system;
2. Implementing the Consolidated Financial Statements audit
3. Improvement of audit coverage of municipalities
4. Strengthening performance audit

3. State Procurement Agency

Expected outcomes:

The legislation on public procurement has been improved; Increased efficiency of public procurement practices, degree of transparency, degree of fairness and trust. Human capital will be developed.

Objectives and Goals

1. Implementation of legislative changes in the field of public procurement in accordance with the European Union Association Agreement
2. Development and adoption of "Secondary Legislation" on public procurement;
3. Development of handbooks, methodological guidelines and instructions and their publication on the website;
4. Development / implementation of new e-services, procedures and tools of a single electronic system of public procurement (e-Procurement);
5. Implementation of trainings for relevant employees of the State Procurement Agency, purchasing organizations, economic operators and other stakeholders.

VII. INFORMATIVE ANNEX 3. ANALYSIS OF THE 2022 PEFA ASSESSMENT

Results of the PEFA assessment reports are presented for all 7 PEFA Pillars, Indicators and their Dimensions. Under each Pillar there is a table that presents the scores from the Central Government PEFA and the 3 PEFA's that were undertaken for the municipality of Martvili and the cities of Tbilisi and Batumi. It is noteworthy that the PEFA 2022 assessment for the central government is already a public document, while the repeated assessments of Tbilisi, Batumi and Martvili Municipality are in the process of validation and the data are not yet public or final. All of these PEFA's were conducted under the PEFA Check procedures and the final scores are presented in this report. Each of the reports is published and available²⁰. The inclusion of Martvili in the subnational sample was important as it is a small rural municipality with a population of some 4,000 and is more representative of many of Georgian municipalities than Tbilisi or Batumi.²¹ As the Pillar tables indicate, Martvili scores lower in many dimensions than Tbilisi and Batumi. Each of the Pillars is discussed below.

Pillar I: Budget Reliability

Pillar I measures whether the government and municipality budgets are realistic and are implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Scores in Pillar I, are the result of the performance of indicators in other Pillars. For Central Government, scores in PI-1 to PI-3 are good as usual. However, the 2022 assessment covers the years 2020 and 2021, which are significantly off-trend years due to the unprecedented crisis caused by the COVID-19 pandemic. For municipalities, the indicator HLG-1 (Transfers from a Higher-Level Government) is an important determinant of budget reliability.²² Impact of the pandemic on fiscal policy has affected this indicator as well, and scores have worsened compared to the 2018 assessment. There is an asymmetrical scoring methodology in comparison to other revenue (PI-3 Aggregate revenue outturn) and indicators PI-1 and PI-2 relating to expenditure. The performance of transfers from a higher level of government may well influence the scoring in PI-1 Aggregate expenditure outturn and PI-2 Expenditure composition outturn and certainly can impact on PI-21.4 Significance of in-year budget adjustments. HLG-1.2 Timeliness of transfers from higher-level government scores D for all three municipalities reflecting that these are earmarked grants (including capital grants) as the information on them is not timely with respect to the budget preparation timetable.

Table: Pillar I - Budget Reliability
Georgia 2022 PEFA scores

Indicator/Dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²³
Transfers from a higher-level government					
HLG-1. Transfers from a higher-level government	NA	C+	C	C	C+
HLG-1.1. Outturn of transfers from higher-level government	NA	C	D	D	D
HLG-1.2. Earmarked grants outturn	NA	D	D	D	C
HLG-1.3. Timeliness of transfers from higher-level government	NA	A	A	A	A
HLG-1.4. Predictability of transfers	NA	C	C	C	C
Budget Reliability					

²⁰ The Central Government PEFA Reports and the PEFA Reports for Tbilisi, Martvili and Batumi are available at: <https://pefa.org/>. There is also a Subnational Synthesis PEFA Report which also presents the mean, mode and median scores for the municipalities.

²¹ The Subnational Synthesis Report also presents scores from 12 municipality PEFA's. These are independent of the PEFA Check and many of the scores are not comparable with those in the Pillar Tables. Of the 15 municipalities 8 has a population fewer than 9,000, 2 fewer than 26,000, 1 fewer than 50,000, 3 between 125,000 and 163,000 (Batumi) and Tbilisi with 1.15 million.

²² In a CG PEFA these are assessed in PI-7 Transfers to subnational governments.

²³ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

Indicator/Dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²³
PI-1 Aggregate Expenditure OutTurn	C	B	C	D	D
1.1 Aggregate expenditure outturn	C	B	C	D	D
PI-2 Expenditure Composition OutTurn	B+	D+	D+	D+	D+
2.1 Expenditure composition outturn by function	B	D	C	D	D
2.2 Expenditure composition outturn by economic type	B	D	D	D	D
2.3 Expenditure from contingency reserves	A	A	A	A	A
PI-3 Revenue OutTurn	C+	D	D	D	D
3.1 Aggregate revenue outturn	C	D	D	D	D
3.2 Revenue composition outturn	B	D	D	D	D

This analysis, as well as the evidence of 17.1 Budget calendar and PI-21.2 Cash forecasting and monitoring, suggests that some action is needed to improve the scoring in Pillar I at the municipality level. There are two possible actions which will impact on PI-7.1 System for allocating transfers (to subnational governments) and PI-21.4 Significance of in-year budget adjustments which in turn will be reflected in better scores in PI-1 Aggregate expenditure outcome and PI-2 Expenditure composition outcome. These are:

- The Central Government advances the time table for information on grants (conditional and capital) to municipalities so that ceilings are included earlier in the budget preparation calendar.
- The Central Government provides a greater degree of certainty as to their size so that the need for supplementary budgets to accommodate additional grants is reduced.
- Municipalities become more proactive and prepare forecasts of revenue including grants as part of the budget circular that allows at least 4 weeks for the budget to be prepared based on ceilings (Score B)^{24,25}.

Pillar II: Transparency of Public Finances

Pillar II assesses whether information on PFM is comprehensive, consistent and accessible to users. This is achieved through budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Table: Pillar II - Transparency of Public Finances
Georgia 2022 PEFA scores

Indicator/Dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²⁶
PI-4 Budget classification	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A
PI-5 Budget documentation	A	A	A	B	C
5.1 Budget documentation	A	A	A	B	C
PI-6 Subnational government operations outside financial reports	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	B+	NA	NA	NA	NA

²⁴ "A" score would require 6 weeks which is unlikely to be necessary for most municipalities.

²⁵ Batumi does this and a budget circular is issued with ceilings that provide 5 weeks for the budget process to be completed.

²⁶ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

Indicator/Dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²⁶
7.1 Systems for allocating transfers	B	NA	NA	NA	NA
7.2 Timeliness of information on transfers	A	NA	NA	NA	NA
PI-8 Performance information for service delivery	A	B+	B	B	C
8.1 Performance plans for service delivery	A	B	B	B	C
8.2 Performance achieved for service delivery	A	B	B	B	C
8.3 Resources received by service delivery units	A	A	A	A	A
8.4 Performance evaluation for service delivery	A	B	D	D	D
PI-9 Public access to fiscal information	A	B	B	B	C
9.1 Public access to fiscal information	A	B	B	B	C
PI-9B Public Consultations	N/A	D+	D+	D+	
9B.1 Public consultation in budget preparation	N/A	C	B	C	
9B.2 Public consultation in the design of service delivery programs	N/A	D	D	D	
9B.3 Public consultation in planning	N/A	D	D	D	

For the municipalities, not all the categories included in budget documentation is relevant²⁷. Each municipality needs to ascertain what is missing and action is certainly linked to weaknesses in another indicator as demonstrated in the example of Central Government above

A main area of Pillar II weakness in municipalities is related to PI-8 Performance information for service delivery. To a certain extent this may be related to the size of the municipality and the budget preparation process and its coverage in the municipality's Basic Data and Direction document (PI-16 Medium term perspective in expenditure budgeting). The smaller municipality's budget focus is on the budget year only and does not have service delivery indicators (outputs and measurable outcomes). This latter element is a weakness in the larger municipalities as the norm is to provide targets for either outputs or measurable outcomes but not both for the service delivery programs. Independent monitoring of service delivery targets is an area that should be addressed. This could be done by expanding the work of municipality Internal Audit Units beyond the current financial compliance focus (PI-26.1 Coverage of internal audit) and the State Audit Office (PI-30.1 Audit coverage and standards). Notably, the work of the Tbilisi Sakrebulo Audit Commission which conducts efficiency audits that could be adopted by the equivalent commission in other municipalities.

With respect to public access to fiscal information, one element is not applicable (macro-economic forecasts). The main area of weakness is centered on the timeliness of publishing audited financial statements and other external audit reports (PI-30 External Audit).

Pillar III: Management of Assets and Liabilities

Pillar III assesses whether effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved and monitored.

With respect to fiscal risk management both Central Government and some municipalities have public corporations under their responsibility. With respect to the municipalities the largest ones (Tbilisi, Batumi, Poti, Kutaisi and Rustavi) own public corporations, but it is likely that the smaller ones (such as Martvili) do not. Improvements for both Central Government and municipalities in the scores for the dimension PI-10.1 Monitoring of public corporations can be achieved by ensuring that all public corporations are audited within 6 months of the end of the financial year and a consolidated report is published. This is done partially for the Central Government and Tbilisi but not at all for Batumi.

²⁷ Such as macroeconomic assumptions and tax expenditures

With respect to PI-10.2 Monitoring of subnational governments by the Central Government, improvement in this dimension is closely linked to PI-30.1 Audit coverage and standards. At present, there is no requirement for the SAO to audit each municipality on an annual basis nor does it have the capacity to do so. The SAO certifies private audit companies to carry out public audits and encouraging the largest municipalities to be audited (and published) within nine months annually by a mixture of the SAO and private companies would improve the score so long as there was a consolidated overview report also published annually.

Table: Pillar III - Management of Assets and Liabilities
Georgia 2022 PEFA scores

Indicator/Dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²⁸
PI-10 Fiscal risk reporting	B	C	C	NA	C
10.1 Monitoring of public corporations	C	C	C	NA	C
10.2 Monitoring of sub-national government	C	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	A	NA	NA	NA	NA
PI-11 Public investment management	A	C+	B	C+	C+
11.1 Economic analysis of investment proposals	A	C	C	C	C
11.2 Investment project selection	A	C	C	C	C
11.3 Investment project costing	A	B	B	C	B
11.4 Investment project monitoring	A	B	A	B	B
PI-12 Public asset management	B	B	B	B	B
12.1 Financial asset monitoring	B	B	B	B	B
12.2 Non-financial asset monitoring	C	C	C	C	C
12.3 Transparency of asset disposal	A	A	A	A	A
PI-13 Debt management	A	D+	C	C	D+
13.1 Recording and reporting of debt and guarantees	A	C	B	C	C
13.2 Approval of debt and guarantees	A	NA	NA	NA	NA
13.3 Debt management strategy	A	D	D	NA	D

An investment projects management guide was developed in 2016 and was approved by the Decree №191 of April 22, 2016 of the Government of Georgia for the purpose of establishment of mechanisms for developing and implementing Single Cycle Management of capital / investment projects. Detailed methodology for Investment Projects Management (Decree №.165 of July 22, 2016 of the Minister of Finance of Georgia) was approved on the basis of this guide.

As well as the PEFA Assessments in 2018, an IMF team carried out a Public Investment Management Assessment (PIMA) at the request of the Government. Although indicator PI-11 Public investment management has four dimensions that covers all broad aspects of investment management, PIMA is a much more detailed drill-down assessment. More detailed recommendations and actions are likely to be generated by the PIMA report.

With respect to PI-12 Public asset management, the solution to financial assets monitoring is linked to improvements in PI-29.1 Completeness of financial reports and then PI-28 In-year budget reports. Weakness in PI-12.2 Nonfinancial assets monitoring can be addressed by improving the existing registers by updating them and including age profiles as well as the value of the assets. These recommendations apply to both the Central Government and municipalities.

²⁸ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

The system of disposal of assets in both the municipalities and Central Government uses the internet for information on what is for sales, price and method of sale and the final transactions. Given the scale of Central Government, some assets disposed by spending agencies (other than the National Agency of State Property) are not carried out centrally and results reported in a consolidated report. To improve the score this needs to be done.

Recording and reporting of debt (PI-13.1) at the municipality level reflects the requirements relating to the repayment of interest and principle and current status information.

Pillar IV: Policy-Based Fiscal Strategy and Budgeting

Pillar IV is centered on how the fiscal strategy and the budget are prepared with due regard to government fiscal policies, and adequate macroeconomic and fiscal projection. Both at the Central Government and municipality levels, the Basic Data and Direction Document underpins Georgia’s approach to medium-term budgeting. However, as the PEFA’s have demonstrated there are improvements that can be incorporated to strengthen what is a good system.

Based on the data of Martvili municipality (for smaller municipalities) by from an annual budget to a multi-year approach, capital investment and associated current costs would provide an indication of what revenue will be required (mainly from Central Government grants). Extending the BDD at all levels to incorporate the fiscal impact of policy proposals (PI-15.1) and examination of the consistency of budgets with previous years’ estimates (PI-16.4) would ensure the consistency of the multi-year budget methodology. Once these steps have been taken, extending the ceiling structure to the budget and outer years could be contemplated.

As mentioned in Pillar I, the improvements in the municipality budget calendar (PI-17.1) requires either municipalities become proactive in forecasting likely grants or Central Government advances the time table. Such a move would also provide more time for Sakrebulo to debate and approve the proposed budget. However, the gold standard may well be less than an A score. Indeed, a B score for budget calendar (PI-17.1) and a C score for budget submission (PI-17.4) may well represent good practice in the municipality context.

Table: Pillar IV - Policy-Based Fiscal Strategy and Budgeting
Georgia 2022 PEFA scores

Indicator / dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²⁹
PI-14 Macroeconomic and fiscal forecasting	A	N/A	N/A	N/A	N/A
14.1 Macroeconomic forecasts	A	N/A	N/A	N/A	N/A
14.2 Fiscal forecasts	A	N/A	N/A	N/A	N/A
14.3 Macro-fiscal sensitivity analysis	A	N/A	N/A	N/A	N/A
PI-14 (NEW) Medium-term budgeting strategy	N/A	C+	C+	D+	C+
14.1 Underlying forecasts for Medium-term budget	N/A	B	B	C	B
14.2 Fiscal Impact of Policy Proposals	N/A	N/A	N/A	N/A	N/A
14.3 Medium-Term expenditure and revenue estimates	N/A	B	B	C	B
14.4 Consistency of budgets with previous year’s estimates	N/A	D	D	D	D
PI-15 Fiscal strategy	B	N/A	N/A	N/A	N/A
15.1 Fiscal impact of policy proposals	D	N/A	N/A	N/A	N/A
15.2 Fiscal strategy adoption	A	N/A	N/A	N/A	N/A
15.3. Reporting on fiscal outcomes	A	N/A	N/A	N/A	N/A

²⁹ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

Indicator / dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ²⁹
PI-16 Medium term perspective in expenditure budgeting	B+	N/A	N/A	N/A	N/A
16.1 Medium-term expenditure estimates	A	N/A	N/A	N/A	N/A
16.2 Medium-term expenditure ceilings	A	N/A	N/A	N/A	N/A
16.3 Alignment of strategic plans and medium-term budgets	A	N/A	N/A	N/A	N/A
16.4 Consistency of budgets with previous year estimates	C	N/A	N/A	N/A	N/A
PI-17 Budget preparation process	A	B+	B+	C+	B+
17.1 Budget calendar	A	A	A	A	A
17.2 Guidance on budget preparation	A	A	A	D	B
17.3 Budget submission to the legislature	A	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	A	B+	A
18.1 Scope of budget scrutiny	A	A	A	B	A
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A

Pillar V: Predictability and Control in Budget Execution

Pillar V is concerned with how the budget is implemented within a system of effective standards, processes and internal controls, ensuring that resources are obtained and used as intended.

Revenue Administration (PI-19) in Georgia is carried out by Georgia Revenue Services and covers both the Central Government and municipality. All dimensions, save PI-19.4 Revenue arrears monitoring, have A scores under PEFA. In 2016 there was a drill down revenue Tax Administration Diagnostic Assessment Tool (TADAT),³⁰ which provides its own recommendations that can improve the quality of the PEFA A scores.

**Table: Pillar V - Predictability and Control in Budget Execution
Georgia 2022 PEFA scores**

Indicator / dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ³¹
PI-19 Revenue administration	B+	NA	NA	NA	NA
19.1 Rights and obligations for revenue measures	A	NA	NA	NA	NA
19.2 Revenue risk management	A	NA	NA	NA	NA
19.3 Revenue audit and investigation	A	NA	NA	NA	NA
19.4 Revenue arrears monitoring	D	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A
20.2 Transfer of revenue collections	A	NA	NA	NA	NA
20.3 Revenue accounts reconciliation	A	NA	NA	NA	NA
PI-21 Predictability of in-year resource allocation	A	B+	B+	B+	B
21.1 Consolidation of cash balances	A	A	A	A	A

³⁰ Georgia: Tax Administration Diagnostic Assessment tool (TADAT) Performance Assessment Report. TADAT Georgia

³¹ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

Indicator / dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ³¹
21.2 Cash forecasting and monitoring	A	B	B	B	B
21.3 Information on commitment ceilings	A	A	A	A	B
21.4 Significance of in-year budget adjustments	A	C	C	C	C
PI-22: Expenditure arrears	A	A	A	A	A
22.1 Stock of expenditure arrears	A	A	A	A	A
22.2 Expenditure arrears monitoring	A	A	A	A	A
PI-23: Payroll controls	A	D+	B+	B+	D+
23.1 Integration of payroll and personnel records	A	A	A	A	A
23.2 Management of payroll changes	A	A	A	A	A
23.3 Internal control of payroll	A	A	A	A	A
23.4 Payroll audit	A	D	B	B	D
PI-24. Procurement management	A	A	A	B+	A
24.1 Procurement monitoring	A	NA	NA	NA	NA
24.2 Procurement methods	B	A	A	C	A
24.3 Public access to procurement information	A	A	A	A	A
24.4 Procurement complaints management	A	A	A	A	A
PI-25: Internal controls on non-salary expenditure	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A
PI-26: Internal audit	A	A	B+	B+	C+
26.1 Coverage of internal audit	A	A	A	A	A
26.2 Nature of audits and standards applied	A	A	B	B	C
26.3 Implementation of internal audits and reporting	A	A	A	A	C
26.4 Response to internal audits	A	A	A	A	B

Pillar V scores are, in general, a reflection of the observation in the PEFA assessment reports that, “an overriding feature of PFM in the Republic of Georgia has been the development and good use of Information Technology in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. The application of IT has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit software. This adoption of IT solutions combined with the internet as a tool for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM.”

Some scores may well be appropriate at the municipality level even though there are not at an A such as PI-23.4 Payroll audit.

Nevertheless, there are areas where some dimension scores could be improved over time: for example, Significance of in-year budget adjustments (PI-21.4 (municipality level)). As mentioned in Pillar I HLG-1 Outturn of transfers from higher-level government reducing the number of in-year budget adjustments will be a result of improving the forecasts of transfers and the timing of their release. Improving the coverage of internal audit (P-26.1) to include value for money and efficiency audits would have an impact of the scores in PI-8.4 Performance

evaluation for service delivery. The main divergence from PEFA methodology lies in PI-24.1 Procurement complaints management.

Pillar VI - Accounting and Reporting

Pillar VI assesses whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate time to meet decision-making, management, and reporting needs.

**Table: Pillar VI - Accounting and Reporting
Georgia 2022 PEFA scores**

Indicator / dimension	Central government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ³²
PI-27 Financial data integrity	A	A	A	A	A
27.1 Bank account reconciliation	A	A	A	A	A
27.2 Suspense accounts	NA	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A
PI-28: In-year budget reports	B+	B+	B+	B+	C+
28.1 Coverage and comparability of reports	A	A	A	A	C
28.2 Timing of in-year budget reports	B	A	A	A	B
28.3 Accuracy of in-year budget reports	A	B	B	B	A
PI-29: Annual financial reports	C+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	A	A	A	A	C
29.2 Submission of reports for external audit	C	D	D	D	D
29.3 Accounting standards	B	B	B	B	B

The main consideration relating to Pillar VI is PI-29 Annual financial reports. The weaknesses that have been identified in the PEFA assessment have been recognized and a plan of action is already in place with respect to PI-29.1 Completeness of annual financial reports and PI-29.3 Accounting standards. These actions will impact on both the Central Government and municipalities. PI-29.2 Submission of reports for external audit will also improve for Central Government as there will be a consolidated financial statement. With respect to municipalities, currently there is no requirement for annual audit of financial statements.

Scores in other indicators and dimensions appear appropriate to need. One municipality reported that in the past it included commitments in its in-year reports, but discontinued the process as the recipients of the reports found their inclusion confusing and unnecessary.

Pillar VII - External Scrutiny and Audit

Pillar VII assesses whether public finances are independently reviewed and there is external follow up on the implementation of recommendations for improvement by the executive.

The main weakness identified in the case of the PI-30 external audit indicator at the local level is related to the PI-30.1 indicator. As already mentioned, increasing the number of municipal audits is the only way to improve estimates. This will also improve the evaluation of the PI-30.3 indicator.

Under the present procedures, all audit reports are to be submitted to Parliament. In the municipality context, this should be to the Sakrebulo to comply with good practice and such a change will improve low scores in PI-31 Legislative scrutiny of audit reports.

³² Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

**Table: Pillar VII - External Scrutiny and Audit
Georgia 2022 PEFA scores**

Indicator / dimension	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean ³³
PI-30 External audit	A	B+	D+	D+	
30.1 Audit coverage and standards	A	A	D	D	
30.2 Submission of audit reports to the legislature	A	B	NA	NA	
30.3 External audit follow-up	A	A	NA	NA	
30.4 Supreme Audit Institution (SAI) independence	A	A	A	A	A
PI-31: Legislative scrutiny of audit reports	A	C	D	NA	D
31.1 Timing of audit report scrutiny	A	A	D	NA	D
31.2 Hearings on audit findings	A	D	NA	NA	D
31.3 Recommendations on audit by the legislature	A	NA	NA	NA	D
31.4 Transparency of legislative scrutiny of audit reports	A	D	NA	NA	D

VIII. INFORMATIVE ANNEX 4. PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT (PEFA) IN MUNICIPALITIES

Public Expenditure and Financial Accountability (PEFA) assessment in municipalities have been carried out since 2017 with the support of the European Union and the World Bank, as well as USAID and GIZ. Since 2017, 51 municipalities have been assessed. The assessment of the City of Tbilisi, City of Batumi and Martvili municipality was carried out by the PEFA Secretariat.

The 2017-2018 assessment revealed that the PFM reforms and high scores received at central Government level, there were some deficiencies in the PFM at subnational level. A significant part of the indicators was assessed with low scores and needed improvement.

Therefore, the 2018-2022 PFMR strategy considers measures to be taken for improving the management of public finances of municipalities. In accordance with the Strategy and Action Plans, the 3-year memorandums were signed with 39 municipalities, on the basis of which the municipalities shall fulfill the specific tasks and target indicators provided for in the memorandum and, depending on the fulfillment, they will receive an additional capital grant.

The target indicators to be implemented by the municipality under the memorandum are defined in the following areas:

- ✓ Medium-term planning and budgeting;
- ✓ Reporting and controlling;
- ✓ Accountability and transparency;
- ✓ Management of investment projects.

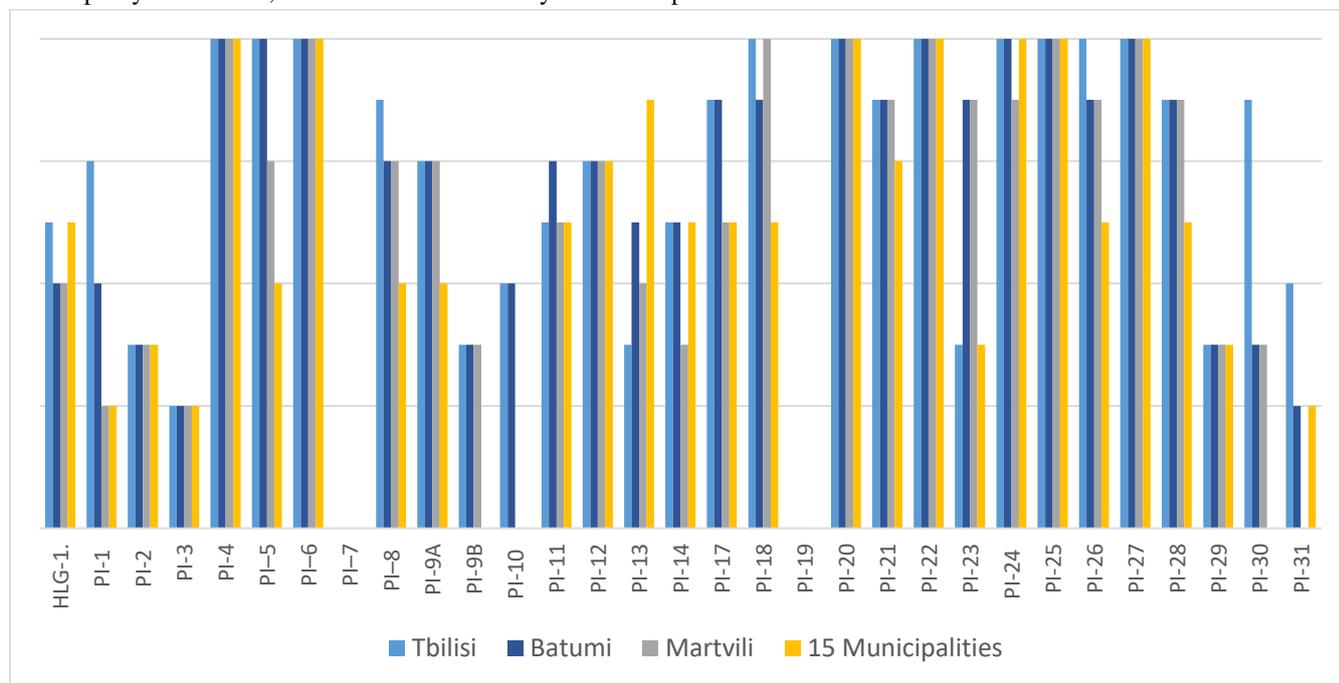
Despite the pandemic, which, to some extent, hindered the full implementation of the planned reforms, in 2020-2022, based on the fulfillment of the target indicators stipulated in the memorandum, the municipalities received a capital grant in the amount of 30.3 million GEL.

In 2022, with the support of the European Union and the World Bank, the PEFA assessment of the City of Tbilisi, City of Batumi and Martvili Municipality was carried out again using the updated methodology. The World Bank also analyzed the PEFA assessments of 18 municipalities, focusing on the strengths and weaknesses of their PFM systems.

³³ Average rating of 15 selected municipalities assessed by GIZ and USAID in 2021-2022.

At the subnational level, the PFM systems reflect progress made at the national level. The 2022 assessment of the city of Tbilisi, the city of Batumi and the municipality of Martvili revealed a significant improvement compared to the 2018 assessment.

The diagram below shows the results of the assessment of the city of Tbilisi, the city of Batumi and the municipality of Martvili, as well as of the 15 analyzed municipalities:



As a result of the reforms implemented within the framework of the 2018-2022 strategy, it should be noted that:

- ✓ Since 2019, the equalization transfer has been replaced by the VAT distribution system, according to which 19% of the VAT is distributed among municipalities in accordance with the law. As a result, revenue forecasting by the municipalities has increased and they receive more revenue that they use to exercise their powers;
- ✓ The program budgeting methodology was updated, which regulates the preparation, execution and reporting of the program budget at both national and subnational levels;
- ✓ At both national and subnational levels, accounting of revenues (including own revenues) and expenditures of the LEPLs and N(N)LEs is carried out through e-budget and e-treasury.

Improvements are observed in the following areas:

- ✓ The budget classification is comprehensive and complies with the GFS/COFOG standard;
- ✓ Budget documentation includes most of the information, which ensures a transparent budget process;
- ✓ There are no transactions beyond the financial statements;
- ✓ Basic budget documentation is available;
- ✓ The debt management and procurement system are enhanced;
- ✓ There is a sound system of controlling payroll and non-payroll expenses;
- ✓ Effective internal audit coordinated by the Harmonization Center of the Ministry of Finance of Georgia;
- ✓ Quarterly and annual reports allow comparative analysis;
- ✓ Annual financial statements are comprehensive, prepared on time and are in the process of transition to international accounting standards, and other.

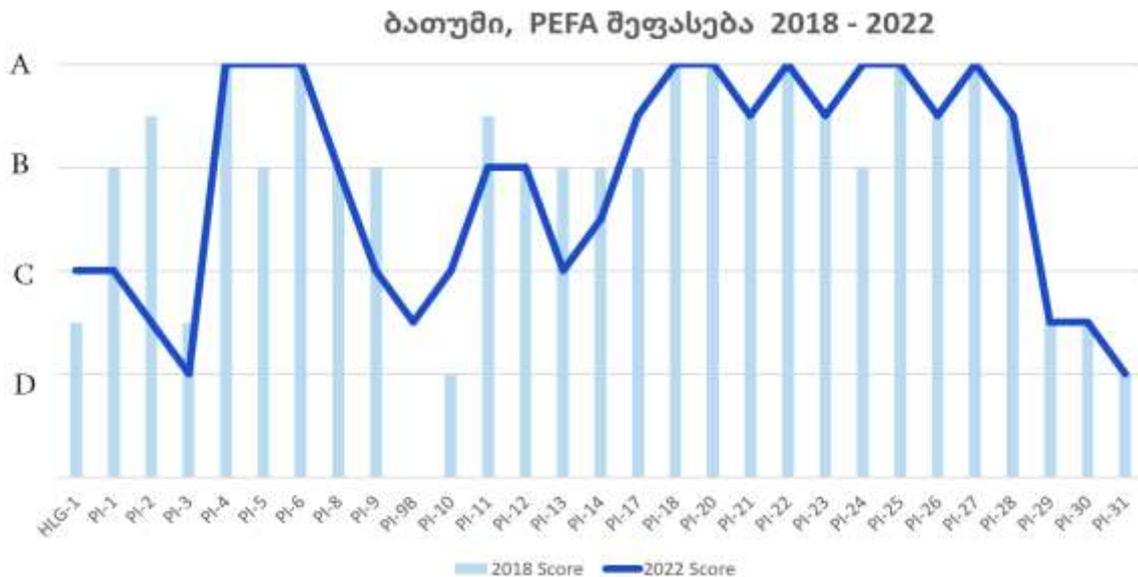
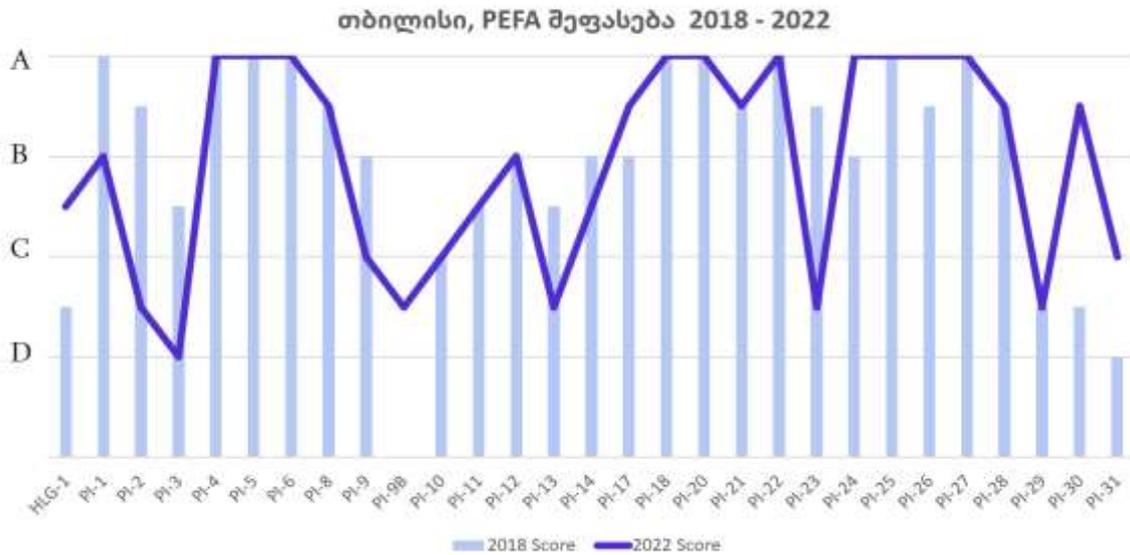
The following areas need improvement:

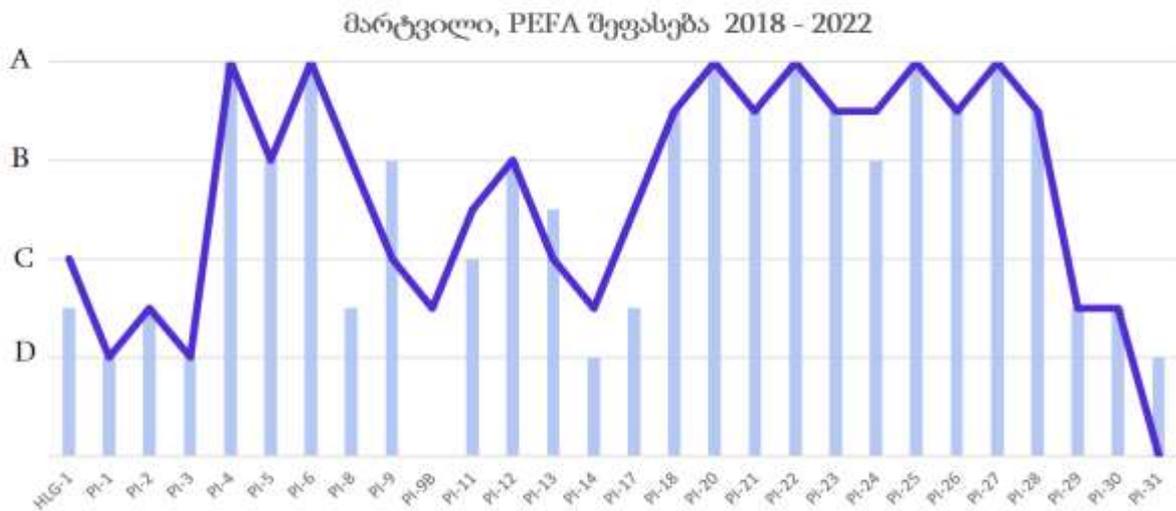
- ✓ Medium-term planning and budgeting, which involves determining the expenditure ceilings with consideration of revenues of the previous year;

- ✓ Public consultations regarding the services envisaged by the budget;
- ✓ Compliance of transfers received from the state budget with medium-term planning;
- ✓ Enhancement of internal audit and other.

As a result of the 2018-2022 assessments of the City of Tbilisi, the City of Batumi and Martvili Municipality, all directions have improved, except for a few indicators, which have worsened due to the spread of the COVID-19 pandemic in the country. It became necessary to implement significant changes in the budgets, both in terms of revenues and expenditures.

The comparison of the 2018-2022 assessments of the City of Tbilisi, the City of Batumi and Martvili Municipality is shown in the diagrams below:





This Strategy considers improvement of PFM at subnational level, within the framework of which the following measures will be implemented in the medium term:

- ✓ The municipalities will still be supported by international partners in order to fulfill the target indicators stipulated by the memorandums signed between the Ministry of Finance of Georgia and the municipalities;
- ✓ Already assessed municipalities will still be assessed using the PEFA indicators;
- ✓ In order to improve medium-term planning, the program budgeting methodology will be updated, reflecting the updated format of both the program budget and medium-term documents, as well as the detailed methodology of their development and preparation in accordance with international good practices that respond to modern challenges;
- ✓ When planning the program budget of municipalities, attention will be focused on the issue of linking their programs/sub-programs with policy classifiers, especially gender equality and climate change;
- ✓ Municipalities will still be supported in the process of implementing the investment project management reform. Attention will be focused on the consideration of gender aspects and issues related to climate change in the documents prepared for new investment/capital projects, and trainings in this direction will be conducted with the support of international partners.

IX. INFORMATIVE ANNEX 5. PFM ASSESSMENT IN THE CONTEXT OF GENDER EQUALITY

With the support of the UN WOMEN, for the first time, the PFM assessment was carried out in the context of a gender equality according to additional indicators developed by the PEFA Secretariat.

According to the methodology, the PFM assessment was carried out based on 9 indicators. The PFM assessment of Georgia carried out in the context of a gender equality is given in Table below:

Indicator N	Name	Score
GRPFM-1	Gender impact analysis on Budget Policy Proposals	D
GRPFM-2	Gender responsive Public Investment Management	D
GRPFM-3	Gender responsive Budget Circular	D
GRPFM-4	Gender responsive Budget Proposal Documentation	C
GRPFM-5	Sex-Dissagregated Performance Information for Service Delivery	C
GRPFM-6	Tracking Budget Expenditure for Gender Equality	D

Indicator N	Name	Score
GRPFM-7	Gender responsive reporting	C
GRPFM-8	Evaluation of gender impacts of Service Delivery	D
GRPFM-9	Legislative Scrutiny of Gender Impacts of the Budget	D

According to this assessment, 6 indicators out of 9 provided by the methodology were assessed by D score, and 3 indicators – by C score. Despite this assessment, some progress is observed in the following areas:

- The existing program budgeting system is a good opportunity to consider gender aspects;
- The program budget methodology recommends that budget institutions shall develop at least one gender-sensitive indicator to measure the expected intermediate/final results of gender-sensitive programs/subprograms. Gender-sensitive indicators are considered in the program budget of some ministries;
- Assessments of some major donor-funded investment projects include gender impact assessments, although the methodology at the national level does not include relevant requirements;
- Significant progress has been made in terms of strengthening the capacities of civil servants, in relation to the reflection of gender aspects in the budget, with the support of the Academy of the Ministry of Finance of Georgia and donor organizations, etc.

The PFM reforms implemented over the past years, such as the reforms on fiscal transparency, medium-term planning, management of investment projects, can create a solid basis for taking gender aspects into account.

Accordingly, Consideration of gender aspects is an important part of the PFM reform strategy in the medium-term period:

- Analysis of gender impact on changes in revenues and expenditures;
- The assessment of investment/capital projects will be carried out according to the methodology of management of investment/capital projects, which considers the analysis of the gender impact of the projects;
- The program budget methodology will be improved. The program budget will reflect gender-sensitive data, both at the planning and implementation stages;
- Through the policy classifier, the budget documents will reflect information on the amount of funding needed to implement the measures planned to ensure gender equality, as well as the links of programs/sub-programs with the sectoral strategies, climate change, UN Sustainable Development Goals (SDG) approved by the Government of Georgia.

The target indicators in the gender budgeting section for 2026 are given in Table below:

N	Strategy directions and objectives	Goal for 2022	Performance baseline	Target indicator	Possible risks	Source of verification
1	Budgeting					
1.1	Increasing efficiency and coverage of medium-term planning	The medium-term framework is an effective planning tool	GRPFM-1 – D GRPFM-4 - C	GRPFM-1 – B GRPFM-4 - B	In the case of a change in assessment methodology, maintaining or improving existing practices may not be sufficient to improve the scores.	GRPFM assessment report - 2026
1.2	Establishment of Unified Cycle of Public Investment / Capital Projects Management	At all stages of investment/capital project management, decisions on project implementation are made with a systematic approach based on appropriate analysis.	GRPFM -2 - D (Economic analysis documents for large investment projects do not include gender impact analysis).	GRPFM -2 - Improving assessment to at least the C score	In the case of a change in assessment methodology, maintaining or improving existing practices may not be sufficient to improve the scores.	GRPFM assessment report - 2026

N	Strategy directions and objectives	Goal for 2022	Performance baseline	Target indicator	Possible risks	Source of verification
1.3	Strengthening the effectiveness of result-oriented planning	The expenditure planning is carried out based on the expected outcomes	GRPFM-5 - C (For some service delivery programs, the program budget reflects gender-sensitive data).	GRPFM-5 - A (Within all major service delivery programs, the program budget reflects gender-sensitive data).	In the case of a change in assessment methodology, maintaining or improving existing practices may not be sufficient to improve the scores. Inadequate qualification of personnel in ministries and agencies	GRPFM assessment report - 2026
1.5	Enhancing municipal PFM	At the subnational level, planning of finances in the medium term is improved	GRPFM-6 -D	GRPFM-6 Improvement by at least 1 point in the case of 50% of municipalities	Inadequate qualification of personnel in municipalities In the case of a change in assessment methodology, maintaining or improving existing practices may not be sufficient to improve the scores.	GRPFM assessment report - 2026

N	Strategy directions and objectives	Goal for 2022	Performance baseline	Target indicator	Possible risks	Source of verification
1.6	Strengthening the link between strategic/sectoral policy documents and the budget	Information in terms of policy classifiers is included in the budget; The documentation attached to the budget includes information on linkages with policy classifiers, including gender aspects, and their fiscal impacts.	GRPFM-3 - D GRPFM-6 – D In the e-budget system, there is a mechanism for linking the programs provided for in the budget with gender equality aspects	Improvement of GRPFM-3 and GRPFM-6 indicators In the 2027-2030 program budget, programs/sub-programs are linked to the gender equality classifier and accordingly reflect the gender-related expenditures in the medium term.	In the 2027-2030 program budget, programs/sub-programs are linked to the gender equality classifier and accordingly reflect the gender-related expenditures in the medium term.	GRPFM assessment report - 2026