

MATRIX OF RECOMMENDATIONS OF THE STATE AUDIT OFFICE AND PARLIAMENT COMMITTEES ON DRAFT LAW OF GEORGIA “ON THE STATE BUDGET OF GEORGIA FOR 2017”

Opinions/recommendations presented by the State Audit Office not only deal with the draft law on the annual Budget and the attached review of the current year’s budget execution but also include the analysis of the results of the audit conducted in certain agencies given the specificity that is typical for respective institutions. Findings and recommendations presented in some instances reflect a broader picture of issues related to public service rather than only matters associated with public finances. With regard to such opinions and recommendations it is advisable that the respective line Ministries further continue close cooperation with the State Audit Office, and therefore, the examination of each of them in the draft Budget review context may be less efficient.

Recommendation	Possibility of Considering Recommendations
State Audit Office	
<p>It is noteworthy that compared to the economic growth forecast foreseen by Basic Data and Directions (BDD) document for 2017-2020 (revised version), a different scenario has been projected by international financial organizations. Specifically, according to the projections of the International Monetary Fund (IMF), the anticipated real GDP growth rate for 2016 is 3.4%¹, which is higher than the figure presented in BDD (revised version) by 0.4 percentage points. As for projection for 2017, it amounts to 5.2%, and, is higher than the figure presented in BDD for 2017-2020 (revised version) by 1.2 percentage points.</p> <p>Forecasts of the World Bank (WB) are also different, and amount to 4.5%, which is higher than the official forecast (BDD) by 0.5 percentage points. According to projections published by the Asian Development Bank (ADB)², the GDP growth is 3.0% for the current year, and 4.0% for the planning year, which coincides with the data set out in the revised version of BDD.</p> <p>At least 20% of the payables under draft State Budgets for 2016 and 2017 should be directed for funding investment/infrastructure projects. However, neither the Order nor other regulations define what can be deemed as an investment/infrastructure project, and, accordingly, as payables incurred in such area.</p>	<p>Georgia provides its own assessment of the economic growth rate, and, notwithstanding the fact that it takes into consideration recommendations given by international organisations, Georgia does not mechanically copy projections thereof, especially since these projections vary considerably. It should also be taken into consideration that the International Monetary Fund published the World Economic Outlook (WEO) (and therewith, Georgia’s revised economic growth forecast) once the Budget had been submitted to the Parliament of Georgia for review.</p> <p>IMF revised its forecast, and, set Georgia’s economic growth forecast for 2017 at the level of 4%.</p> <p>According to the revised version of the draft Budget, funds envisaged for infrastructure projects amount to a total of GEL 2 330,0 million, which comprise 20% of the overall payables plan.</p>

¹ Source IMF (2016), World Economic Outlook Database, October, p45

² Source: ADB (2016), Asian Development Outlook, Update, September, p22

Recommendation	Possibility of Considering Recommendations
<p>Therefore, it becomes difficult to ascertain whether the presented 2017 Draft Budget Law meets the aforementioned requirement especially considering the fact that the submitted draft law makes no reference to the compliance with such limit. According to the Ministry of Finance, in calculation of the aforesaid figure, account is taken of the payables allocated under Budget items <i>‘Financial’</i> and <i>‘Increase of Non-Financial Assets’</i> as well as under the Regional Project Implementation Fund, which, for 2017 Draft Budget Law, amounts to GEL 1,568 million. Given the fact that the projected amount of the State Budget payables has been defined at the level of GEL 10,555 million, approximately 14.9% is to be directed for funding investment/infrastructure projects, which considerably falls behind the limit prescribed by the Government Decree. In addition, it should be noted that in the Main Economic and Financial Indicators document enclosed to 2017 Draft Budget, GEL 1,680 million is specified as the projected figure of investments to be made by the Government, which comprises 15.9% of the Budget payables.</p> <p>Document - „Analysis of Macroeconomic Risks of Fiscal Sector” also provides optimistic and pessimistic scenarios for macro-economic development, and, adequate responses of fiscal policy in case of the occurrence of each of the scenarios. It is noteworthy that the document represents the budget deficit according to the Manual on Government Finance Statistics (GFSM) 1986 standard, whereas the Georgian legislation defines the budget deficit as the overall budget balance (in accordance with GFSM 2001), and, the maximum permissible limit of the budget deficit set at the legislative level³ (3.0% with respect to gross domestic product) is calculated in accordance with Government Finance Statistics Manual 2001. The aforesaid differs significantly from the deficit volume calculated according to GFSM 1986.</p> <p>Consequently, presentation of the deficit in the „Analysis of Macroeconomic Risks of Fiscal Sector” document through a different approach requires additional reasoning and explanations. In addition, information on positive and negative factors presented in the document requires additional substantiation and reasoning. For instance, acceleration of investment projects by the Government is referred to as one of the positive factors. Theoretically, the aforesaid factor would definitely have positive effect on the country's economy. However, given the fact that systemic shortcomings have been observed in the recent period in terms of implementation of investment projects, the probability of obtaining positive effects through the performance of the aforementioned factor requires additional reasoning.</p>	<p>In consolidated budget charts contained in macro-economic projections scenarios, budget deficit indicators are included in accordance with the applicable laws of Georgia. In addition, according to the Agreement with the IMF, the budget deficit is calculated based on GFSM 1986 classification under the Fund's program. By the classification, calculation and publication of the budget deficit provides additional information and possibility for a comprehensive analysis.</p> <p>The document does not include any calculation of the value of probability of positive and negative effects. It shows all the positive and negative factors, which may cause deviation of economic development indicators from the baseline scenario. Probabilities of occurrence of each of the factors are different from each other. So will be the effect of individual factors on the economic development.</p>

³ Organic Law of Georgia on Economic Freedom

Recommendation	Possibility of Considering Recommendations
<p>In addition, the document regards the increase in trade with the EU Member States as a positive factor, while suggesting that the Great Britain’s decision to leave the EU will have a negative impact on the economy of the EU Member States, and, reduce the aggregate demand of such States, which, in turn, will have a negative impact on Georgian economy. Taking into consideration the fact that the EU-Georgia Deep and Comprehensive Free-Trade Agreement (DCFTA) has not yet been materialized to the fullest extent, and, since the slowdown of the Euro zone economic growth is expected in the medium term⁴, the effect of the aforementioned macro-economic factor on Georgia’s fiscal sector becomes unclear and requires additional reasoning.</p> <p>In the light of the aforesaid, as assessed by the State Audit Office, it is important that neither positive nor negative factors have general theoretical impact, and, such factors be supported by appropriate quantitative characteristics, which would strengthen the feasibility of the reviewed scenarios and increase the reliability of the document.</p>	<p>If the macro-economic forecast was made individually for all the negative and positive factors, the number of scenarios would increase significantly, the document would be packed and difficult to understand, which is not recommended by the international practice. Good international practice envisages provision of three macroeconomic scenarios: baseline, optimistic and pessimistic scenarios. Good practice also implies the possible identification of all macroeconomic risk factors irrespective of the value of probability of occurrence thereof and their possible impact on the development of the country. It is further recommended that the risk factors be considered individually rather than grouped and aggregated according to their characteristics.</p>
<p>2017 Draft Budget Law is accompanied by the “Government Debt Sustainability Analysis” document prepared by the Ministry of Finance. The aforesaid document analyses the government debt status in the medium term (2016-2020) in relation to the baseline scenario as well as in consideration of various macroeconomic shocks. The framework applied in the analysis process is based on the Debt Sustainability Framework for Low-Income Countries developed by the IMF. The effect of permanent shocks of the primary deficit and real exchange rate (for the medium term) as well as that of one-off shocks of real GDP growth and nominal exchange rate on the government debt sustainability have been reviewed in the course of analysis. Given the fact that the probability of the exogenous change in macroeconomic variables reviewed in the analysis can be rather high for several variables jointly, it is recommended that, like the IMF framework, the sustainability analysis deal with the effect of both individual and combined shocks of all four macroeconomic variables on the debt sustainability.</p>	<p>Considered. Annex to the presented draft law - Debt Sustainability Analysis” document includes the impact of combined shocks on the debt sustainability.</p>

⁴ According to forecasts made by the International Monetary Fund in October, 2016, the projected Euro zone economic growth is 1.7% in 2016, and 1.5% in 2017.

⁵ Includes the Central Government and National Bank debt.

Recommendation	Possibility of Considering Recommendations
<p>It is noteworthy that by 2017 Draft Budget Law, the estimated income tax rate is increased by GEL 353 million (16.9%) and is projected at the level of GEL 2,439 million. It is noteworthy that the growth rate considerably exceeds the growth rates of revenues mobilized from income tax, which has been recorded in the recent years. In addition, as assessed by the State Audit Office, significantly increased volume of the income tax planned for 2017 requires additional reasoning and explanation given the forecast figure of the next year's nominal GDP growth rate and the fact that by amendments made to the Budgetary Code, from January 1, 2016, revenues received from certain types of income tax have been being fully directed to the budgets of the local self-governing units. It is also worth mentioning that the volume of the estimated import tax revenues will increase significantly. Specifically, with respect to the estimated figure for 2016, the growth rate of the import tax revenues comprises 14.7%, which is significantly higher than the growth rates recorded in recent years. It is also worth noting that according to the "Main Economic and Financial Indicators" document enclosed to 2017 Draft Budget Law, the import volume growth rate anticipated for 2017, is set at the level of 8.1%. Since based on the allowance under the forecast framework, the elasticity coefficient between the import tax revenues and import volume is defined at 1 unit, the projected volume of import tax presented in the Draft Budget Law requires additional reasoning and explanation.</p>	<p>The forecast figure of 2017 income tax is estimated based on the current year's actual and anticipated annual income tax indicator rather than the planned figure. Accordingly, the projected income tax indicator for 2017 is calculated given the current year's anticipated indicator, economic growth and inflation for 2017. As regards the high income tax growth rate in 2017 State Budget, be advised that from January 1, 2016, revenues received from certain types of income tax have been being fully directed to the budgets of the local self-governing units, which has resulted in the reduced income tax revenues in the State Budget and accordingly, increased local budget. However, this year, as a result of the unification of treasury codes, actual local budget revenues received from such types of taxes are less than the estimated amounts (property tax is higher than estimated), consequently, the income tax volume in the State Budget has increased, which has been included in the forecast for 2017. In addition, it is worth noting that due to the unification of treasury codes, taxes are being reflected in their respective types, following filing of tax returns, wherefore, the income tax volume was low in January 2016 (reflected in other taxes). And in January 2017, the income tax is to include the income tax paid in December 2016, which, compared to the current year's actual indicator, will considerably increase the volume of this particular type of tax.</p>

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	<p>In macro scenarios, import growth is shown in USD, whereas the customs tax is paid in GEL, wherefore, the import and budget revenues fail to increase by the same percentage. It should also be noted that the gross imports and taxable imports increase by various percentage, which also affects the revenues. Even in case of the import tax, it is calculated based on the anticipated indicator rather than the estimated amount. It should also be taken into account that budget revenues from the taxation of imports are low, which has an insignificant impact on the total amount of revenues.</p> <p>By the presented draft Budget, the projected import tax figure has been adjusted.</p>
<p>The mobilization of revenues to be received in the form of dividends is worth mentioning. In particular, under the aforesaid budget item, the volume of resources mobilized throughout 8 months this year amounted to GEL 217.3 thousand and comprised only 8.7% of the annual plan (GEL 2.5 million). A similar trend had been observed throughout 2014 and 2015 (the amounts of mobilized dividends accordingly comprised 0.4% and 8.3% of the annual plan). Given the difficulties related to the mobilization of revenues in the form of dividends over the past years as well as the fact that the projected figure of dividends is estimated without consulting the Commission⁶, as assessed by the State Audit Office, additional attention should be paid to the aspects of determination of the forecast figure of dividends and ensuring the mobilization thereof throughout the budget year.</p>	<p>The forecast figure of dividends is estimated based on the last years' practice as well as on the information provided by the Legal Entity of Public Law (LEPL) National Agency of State Property. Due to the fact that the date of holding of Commission is not predetermined, on many occasions, determination of the forecast figure precedes holding of Commission. Consequently, decisions taken by the Commission cannot be taken into account beforehand in the course of estimating the forecast figure.</p>
<p>Under the presented Draft Budget Law, the volume of funds allocated under the budget item "Salaries" amount to GEL 1,442.8 million, which is slightly lower (GEL 0.5 million) than the same figure for 2016, and, higher than the volume of budgetary resources spent in this area in 2015 by GEL 66.5 million.</p>	<p>Wages fund in the revised Draft is reduced to GEL 50,0 million. In addition, according to the Draft, the Ministries are additionally instructed to reduce administrative expenses throughout the year, whereunder the staff units (established posts) shall also be optimised.</p>

⁶ Decision-Making and Reviewing Commission on Distribution and Use of Net Profit from State-Owned Enterprises.

Recommendation	Possibility of Considering Recommendations
<p>In the course of estimating the next year’s staff number and wages fund by budgetary organisations, account is not taken of the previous and current years’ indicators of the number of actual staff employees; nor is the actual indicator of estimated staff number determined. As a consequence, the number of employees actually hired throughout a year in certain public institutions considerably falls behind the number determined at the budget planning stage, wherefore, allocations under the budget item “Salaries” either remain unused in certain cases or are distributed to employees in the form of various types of financial incentives, which, as assessed by the State Audit Office, may not be considered as an acceptable practice⁷.</p> <p>In the light of the aforesaid, as assessed by the State Audit Office, it is recommended that at the budget planning stage, such budgetary organisations take into account the previous and current years’ indicators as well as determine the estimated indicators of the staff number and respective wages fund in actual volume in order to avoid the existence of vacant staff units and considerable savings in the wages fund emerged throughout a year.</p>	
<p>In relation to estimating the expenses to be incurred in terms of salaries, it is also noteworthy that according to the existing practice, the budget requests submitted by the budgetary organisations and subsequently the State Budget Law set out the total volume of the budget item “Goods and Services“, which implies that neither the budget request nor the budget law include information on the volume of the estimated figure of remuneration of freelancers [contracted employees] as well as on budgetary resources to be directed in this area by an agency throughout a planning year. Accordingly, at the budget execution stage, it becomes impossible to verify the compliance of the amount of funds set out in the execution report that had been used in this regard with the estimated figure.</p>	<p>A number of issues contained in the recommendation will be settled in the course of introduction of a new remuneration system for public servants and freelancers under the public service reform.</p> <p>Limits relating to the number of freelancers are set in the Annual Budget Law and are in agreement with the Government of Georgia. Exceeding of statutory limits is impossible.</p> <p>In addition, the recommendation has already been partially taken into consideration, and, in 2017, all organisations will have an additional obligation to coordinate the number of freelancers with the Government and submit appropriate reasoning.</p>

⁷ The issue was emphasised in the Annual Report of the State Audit Office on the Execution of 2015 State Budget of Georgia.

Recommendation	Possibility of Considering Recommendations
<p>Furthermore, it should be noted that under the presented Draft Budget Law, exceeding the limit⁸ prescribed by the applicable laws in relation to the number of freelancers does not require coordination thereof with the Government unless it exceeds the number of exceptions coordinated during the past fiscal year. In the light of the aforesaid, budgetary organisations are annually guided by the number of freelancers, which had been approved as an exception during previous years, regardless of whether the institution is facing such need in the current year. Consequently, in many cases, the number of actually hired freelancers considerably falls behind compared with the figure approved by the plan. As a result, proceeding from the fact that exceeding the statutory limits of freelancers allowed as an exception on the basis of the agreement with the Government is inertial in nature, wherefore, the actual number of freelancers hired in budgetary institutions throughout a year significantly falls behind the number allowed under the exception; and in addition, on the basis of information contained in the Budget Law, it is impossible to identify the volume of budgetary funds to be spent on remuneration of freelancers throughout a year, which, in turn, increases the risk of generation of excess resources in the budget item “Goods and Services”; as assessed by the State Audit Office, it is recommended that exceptions from statutory limits should be allowed/reviewed on an annual basis, proceeding from the needs of budgetary organisations and on the basis of the appropriate reasoned substantiation on the one hand, and, on the other hand, the State Budget Law should include information on the estimated figure of remuneration of freelancers, which will ensure the comparability of budgetary resources used in this respect with the estimated figure, and therefore, contribute to the improvement of the transparency of public finance management and reporting process⁹.</p>	
<p>In relation to certain programs and sub-programs, which are characterized by the low use rate during 8 months of the current budget year, 2017 Draft Budget Law envisages the increase of the volume of allocations or preservation thereof at the same level.</p>	<p>Implementation of various programs is characterized by a variety of specificities, and, implementation trends thereof are also related to various reasons.</p>

⁸ Pursuant to State Budget Law, the number of freelancers hired in budgetary organisations shall not exceed 2.0% of the staff number, and, in organisations, where 2.0% of the staff number is less than 5 units, the number of contracted employees shall not exceed 5 units.

⁹ The matter was emphasised in the Report of the State Audit Office on the Execution of 2015 State Budget of Georgia.

Recommendation

Possibility of Considering Recommendations

In certain cases, the difference between the current year’s use trends and next year’s plan may be associated with the Government’s priorities or structural changes and discretionary decisions. However, in the course of planning State Budget payables for 2017, along with other reasons, it is recommended that the previous and current years’ execution trends be also taken into account in order to avoid frequent plan adjustments throughout the year and ensure the compliance of the budget use with a determined plan.

As assessed by the State Audit Office, it is recommended that additional attention be paid to planning and implementation stages of the programs/sub-programs, which, throughout the previous and/or current year, have been characterized with the low use rate, so that to ensure the compliance of the use of allocations with the statutory plan for current and planning budget years.

The revised draft foresees the program implementation trends in the current year, analyses reasons for the failure to implement programs as well as the planned changes, and, accordingly estimates the program allocations.

For legal entities of public law (LEPL)/non-entrepreneurial (non-commercial) legal entities, the projected volume of funds to be transferred from the State Budget amounts to GEL 946 million, and, is 37% higher than the same figure for 2016. As for the estimated figure of receivables from sources permitted under the applicable laws, it is lower than the same figure for 2016 by GEL 19 million (2.3%). The projected figure of expenses to be incurred under the budget item “Salaries“ equals to GEL 716 million, and is higher than the same figure for 2016 by GEL 30 million (4%). **It is noteworthy that the presented Draft Law includes no information on the estimated number of staff employees and freelancers envisaged for legal entities of public law (LEPL)/non-entrepreneurial (non-commercial) legal entities.**

Furthermore, the analysis of the information on legal entities of public law (LEPL)/non-entrepreneurial (non-commercial) legal entities set out in the Draft State Budget Law reveals shortcomings relating to the completeness and accuracy of the information included in the aforesaid document in this regard. Specifically, the document includes no information on all of the legal entities of public law (LEPL)/non-entrepreneurial (non-commercial) legal entities, which operate as of 2016 and operation whereof is also planned throughout 2017.

- Non-Entrepreneurial (Non-commercial) Legal Entity „Sports Club „MIA FORCE“;
- Non-Entrepreneurial (Non-commercial) Legal Entity “MIA Judo Sports Club“;
- Non-Entrepreneurial (Non-commercial) Legal Entity „LEPL Ivane Javakhishvili Tbilisi State University Basketball Club - BC TSU“;
- LEPL “National Intellectual Property Centre “Sakpatenti“;
- LEPL “Community College Tbilisi Arts College“;
- LEPL “State Procurement Agency“;

Legal entities of public law and non-entrepreneurial (non-commercial) legal entities receive funding from the State Budget not only for the purpose of financing the expenses required for the operation of such institutions, but they also implement a number of programs, including large-scale ones. The Annex has been being prepared over the last 3 years, gradually improved, and, the information contained therein is expended on an annual basis. Therefore, the growth shown in the Report is conditioned by the expansion of the coverage area rather than by the increase in funding such institutions.

2017 Draft combines information in relation to 302 legal entities of public law/ non-entrepreneurial (non-commercial) legal entities. In 2016 Annex, the presented information concerned 294 legal entities of public law/non-entrepreneurial (non-commercial) legal entities, and, failed to foresee data on some big/large budget programs, which had been implemented by the legal entities of public law/ non-entrepreneurial (non-commercial) legal entities throughout 2016. Whereas in 2017 Annex, the coverage area is expended and the Annex also includes programs implemented by LEPLs.

Given the aforesaid, funds, which have been envisaged under the State Budget for legal entities of public law/ non-entrepreneurial (non-commercial) legal entities and programs implemented thereby,

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<ul style="list-style-type: none"> LEPL “Extracurricular Arts Education Institution Sukhum Alexander Shervashidze-Chachba Art School”. <p>As assessed by the State Audit Office, for the purpose of improvement of transparency and accountability, it is recommended that the Draft Budget Law include complete information on the estimated number of those employed in legal entities of public law/non-entrepreneurial (non-commercial) legal entities. In addition, it is important to ensure submission of information concerning all operating legal entities of public law /non-entrepreneurial (non-commercial) legal entities by budgetary institutions on the one hand and the Ministry of Finance on the other hand, and, to include the same in the Draft Budget Law.</p>	<p>are preserved for the most part, administrative costs are reduced compared to 2016, which makes it possible to direct GEL 40,0 million from revenues thereof to the State Budget. The difference presented in the Audit Report (GEL 258 million) is conditioned by the fact that Annexes for 2016 and 2017 have been developed based on different principles.</p> <p>As regards the legal entities of public law/ non-entrepreneurial (non-commercial) legal entities not included in the respective Annex to 2017 Draft Budget (<i>Non-Entrepreneurial (Non-commercial) Legal Entity „Sports Club „MIA FORCE“ ;Non-Entrepreneurial (Non-commercial) Legal Entity “MIA Judo Sports Club“; Non-Entrepreneurial (Non-commercial) Legal Entity „LEPL Ivane Javakhishvili Tbilisi State University Basketball Club - BC TSU“; LEPL “Community College Tbilisi Arts College“</i>), the listed legal entities of public law/ non-entrepreneurial (non-commercial) legal entities are being funded, if necessary, by the appropriate supervising agency throughout a year under respective allocations, their plan for 2017 equals to zero, wherefore, they could not have been included in the presented Annex. No funding had been envisaged for <i>LEPL “Extracurricular Arts Education Institution Sukhum Alexander Shervashidze-Chachba Art School“</i>, therefore, it had not been included in the Annex, however, it has already been included in the presented Draft.</p> <p>As for LEPL “National Intellectual Property Centre “Sakpatenti” and LEPL “State Procurement Agency”, revenues, payables and balance change of the LEPLs have been reflected in the presented Annex to the Draft.</p>
<p>Pursuant to 2017 Draft State Budget Law of Georgia, the maximum projected volume of the public debt has been defined in the amount of GEL 15,403.1 million, which is higher than the estimated figure for 2016 by GEL 827.6 million (6.0%).</p> <p>The aforementioned projected volume of the public debt constitutes the historical maximum. By data presented in 2016 Draft Budget, at the end of the year, the public debt is to be 42.6% of</p>	<p>It is noteworthy that “Georgia 2020” Strategy was developed at the end of 2013. From the second half of 2014, against the background of the U.S. dollar appreciation, all regional currencies as well as Euro and other currencies throughout the world have considerably depreciated against the U.S. dollar.</p> <p>The public debt increase with respect to GDP has been conditioned by the change in the exchange rate.</p>

Recommendation	Possibility of Considering Recommendations
<p>the GDP, and, according to 2017 Draft Budget Law, the same figure comprises 42.1%. Consequently, by the end of 2017, the debt burden ratio (debt/GDP) is expected to reduce by 0.5 percentage points, however, it is noteworthy that based on the presented Draft Budget Law, the public debt-to -GDP ratio is to again exceed the 40% benchmark set by the Social-economic Development Strategy “Georgia 2020”.</p>	<p>Notwithstanding the aforesaid, the public debt is still considerably lower than the maximum limit established by law, and, according to the Debt Sustainability Analysis submitted along with the Draft, neither of the existing shocks goes beyond the statutory limit.</p>
<p>By amendments made to the Law, it has become possible to use government securities for any of the purposes foreseen by the Annual Budget Law. The aforesaid, for instance, makes it possible to determine the effectiveness of the use of funds received from the securities issued for the purpose of market development – i.e. to determine whether the securities issued for such purpose had a positive impact on the market development, while the mobilized resources can be used for any purpose determined under the Budget. In the light of the aforementioned, it is hard to determine the indicator, according whereto the impact of such measure on the securities market could be assessed.</p> <p>As of August 2016, the volume of securities with respect to anticipated GDP comprises 6.8%, and, at this stage, falls behind the target value set by the Strategy (10%). In addition, the aforementioned indicator falls behind the target value given the data contained in 2016 Budget Law and 2017 Draft Budget Law. Consequently, it is recommended that the Action Plan set out in the Strategy document be taken into account at the stage of 2017 budget planning, and/or, otherwise, the Action Plan be revised in order to ensure compliance of the above-mentioned documents.</p>	<p>Securities market is affected by the volume of the securities in circulation rather than by the amount of funds received from sale or purposes of the use thereof. For instance, for the purpose of further market development and causing more interest among investors, it is being planned to diversify the government securities’ <i>maturity</i> - to issue maturities in addition to previously existing maturities, and, funds received from the sale thereof are to be directed in accordance with the Annual Budget Law.</p> <p>Annex N1 to the Capital Market Development Strategy sets forth the system of indicators for the market development. These indicators constitute an indicative plan of the short-and-medium-term development of the capital market.</p> <p>Pursuant to the above plan, the “Government securities ratio to GDP“ is defined as follows: 2016 – 5.1% , 2018 – 8.0% , 2025 – 10 %. Accordingly, there is no “fall behind”.</p> <p>Generally, indicators set out in the Capital Market Development Strategy are not directive in nature but rather constitute the indicative plan.</p>
<p>Under the Action Plan, the first quarter of the current year has been defined as the target date for the performance of the third measure, however, as of today, the Public Debt Management Strategy document has not been published. The State Audit Office has paid special attention to the importance of the Public Debt Management Strategy document in the Public Debt Management Performance Audit Report, and, respective recommendation has been given. The need for the public debt management strategy has also been emphasized in Capital Market Development Strategy document, which states that the existence of the debt management strategy is important</p>	<p>The Public Debt Management Strategy document is to be published by the end of the year.</p>

Recommendation	Possibility of Considering Recommendations
<p>for the purpose of ensuring forecasting and improvement of communication with participants in the securities market¹⁰. Proceeding from the aforesaid, as assessed by the State Audit Office, it is recommended to develop and publish the Public Debt Management Strategy Document, which should be in compliance with other concurrently applicable strategic documents¹¹.</p> <p>It is also noteworthy that in the submitted version of 2017 Draft State Budget Law, there is no mention of consideration of the operational measures set out in the Capital Market Development Strategy in 2017 Budget Law.</p>	
<p>The Draft Law envisages launching of 5 new investment projects. The priority still remains unchanged in terms of funded fields, and, the largest part of the allocated credit resources (69%) is to be again directed to allocations to the Ministry of Regional Development and Infrastructure.</p> <p>Proceeding from the fact that the greater part of the foreign credit resources to be received in 2017 is investment-targeted and since there still are systemic problems in terms of implementation of investment projects¹², it is important that the appropriate institutions ensure timely and effective use of provided credits, in order to avoid increase in additional costs incurred by the payment of credit liabilities as well as in the number of protracted and/or unfinished projects.</p>	<p>Implementation of infrastructure projects is one of the main priorities of the medium-term action plan and the Budget, and, accordingly, expenses of the Ministry of Regional Development and Infrastructure will significantly increase in coming years.</p>
<p>Despite the fact that it has been 5 years since the State Budget is being prepared in a programmatic format, information on programs is attached to the Budget Law only in the form of an annex, and, still remains not supported by the law. In addition, significant shortcomings are still observed in the submitted information concerning the process of budget preparation in a programmatic format as well as programs, which makes it difficult, and in some cases – impossible, to assess the program performance.</p>	<p>Introduction of program budgeting still remains a challenge for many developed countries since the full implementation of the reform is a complex and labour-consuming process.</p> <p>Work is ongoing to improve the program budgeting. Programmatic annex to 2016 Budget has been greatly improved.</p>

¹⁰ Capital Market Working Group (2016): Georgian Capital Market Development Strategy, p 36.

¹¹ For instance: Georgian Capital Market Development Strategy; the Social-economic Development Strategy “Georgia 2020”.

¹² For additional information see Report of the State Audit Office on the Progress of Execution of 2016 State Budget, p 87.

Work is ongoing with the Ministries as well as donors for the purpose of improvement of program budgeting, in particular, the work under EU technical mission is ongoing with the Ministries for improvement thereof.

In addition, in the framework of Public Finance Reform, importance is attached to further refinement and improvement of results-oriented program budgeting, which is clearly not dependent on the approval of the program budget annex under the law.

As already mentioned above, significant shortcomings are still observed in the information contained in middle-term action plans and programmatic annex at the budget planning stage, which makes it difficult, and in some cases – impossible, to assess the program performance.

In particular, shortcomings are observed in the following areas:

- preparation of middle-term action plans;
- formation of anticipated results in the framework of programs/sub-programs;
- development of results assessment indicators under programs and sub-programs;
- methodological shortcomings.

The program budgeting is being gradually introduced. On the basis of 2015 framework for the updated program budget, detailed action plans were prepared in pilot Ministries (a total of 5 Ministries) in 2015 and in all Ministries (16 Ministries) in 2016.

Since April of this year, meetings have been intensively held with the Ministries, whereat 2017-2020 middle-term action plans prepared by them as well as complexities and challenges related to program budget preparation have been reviewed.

According to the updated framework of program budgeting, information to be included in middle-term action plans (such as measure description, baseline indicator, target indicator to be obtained as a result of carrying out the measure, estimate, etc.) has been determined in details, which should be assessed positively, since such plans determine main areas of operation of public institutions, and, constitute the basis for the successful operation thereof in terms of the improvement of accountability and performance. However, **it should be noted that the process of development of plans by the Ministries and information contained in middle-term action plans are characterized by several shortcomings, which require further refinement and qualitative improvements.**

According to the framework of drafting programmatic budget, the preparation process of a middle-term action plan should necessarily involve the Ministry's top management as well as executors/persons in charge, who have detailed knowledge of the institution's ongoing processes.

Furthermore, the program budget and action plans are being constantly processed for the purpose of improvement thereof. Given the fact that it was in 2016 when, for the first time, all the Ministries prepared action plans, and, the document includes detailed information on measures carried out in the framework of programs of all Ministries, the process is associated with various difficulties, and, proceeding from the specificity of such programs (including determination of real measurable indicators and reflection thereof in programs in consideration of the existence of possibilities, processing statistical data, identification of real risks, etc.), it is natural that there should be some shortcomings in this regard.

Recommendation	Possibility of Considering Recommendations
<p>A middle-term action plan should be drawn up by a working group composed of representatives of various structural units. Respective executing structural unit should be responsible for the planning of any measures envisaged by such middle-term action plan as well as of preparation of related estimates, and, a Finance/Budget/Economic Service/Office should ensure the coordination of the group's activities. Some of the Ministries have failed to take the account of the principles stipulated by the framework in the drafting process of such action plans.</p> <p>As regards the Ministry of Defence, efforts of the Financial Management Department to draw up the middle-term action plan and related estimates in accordance with actions planned within the Departments and LEPLs under the Ministry, yielded no results. The aforesaid Department requested other structural units to submit relevant information (such as information on expenses for official entertainment, training, insurance, advertisement/promotion and other actions), however, for the reason of less awareness in terms of distribution of competencies between such units, the Department has not received the information from any of the units, and, as a result thereof, the actions/events estimate could not be determined. Consequently, the Financial Management Department has planned the budget of such actions/events in accordance with cash expenses incurred in previous years.</p> <p>As for the Ministry of Justice, it failed to approve 2017-2020 middle-term action plan, which is contrary to the requirement of Article 34 para 4 of the Budgetary Code of Georgia on the approval of middle-term action plans before June 30.</p>	<p>Full introduction of the reform is a complex and labour-consuming process, and, the work will be continued in the future.</p> <p>In addition, given the existing time and human resources, program budget and action plans have been revised to the extent possible in relation to certain Ministries, and, the work on such matters will further be continued.</p>
<p>Despite the fact that the Framework for Drawing up Middle-Term Plans and State Budget in a Programmatic Format emphasizes the importance of the reference by the Ministries to the source of data required for measurement of indicators, none of the middle-term action plans submitted by the Ministries include information on the availability of data required for the evaluation of baseline and target indicators.</p> <p>According to the program budgeting framework, except for the case of specific funding, it is also desirable to review the event of full implementation of a measure by attraction of additional resources, specifically, the total volume of required funding, related estimate and target figures.</p>	<p>Introduction of program budgeting still remains a challenge for many developed countries since the full implementation of the reform is a complex and labour-consuming process.</p> <p>Work is ongoing to improve the program budgeting. Programmatic annex to 2016 Budget has been greatly improved. Work is ongoing with the Ministries as well as donors for the purpose of improvement of program budgeting, in particular, the work under EU technical mission is ongoing with the Ministries for improvement thereof.</p>

However, despite the fact that the Ministries, in most cases, specify the need for funding above threshold in budget requests, the middle-term plans submitted thereby fail to deal with alternative scenarios in case of the receipt of such funding. Only in case of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees, the estimate section includes the amount of required additional funds, however, the middle-term plan includes no information on alternative target figures in the event of increased funding.

The aforementioned flaws identified in the Ministries' middle-term plans show that such plans require refinement and qualitative improvement. To ensure the aforesaid, it is recommended that in the course of developing middle-term plans, the Ministries take into account the main principles stipulated by the framework, and, pay additional attention to the complete presentation of specific information.

Qualitative improvement of information is observed in the programmatic annex prepared in accordance with the updated framework, however, the analyses of the information contained in the programmatic annex to the Draft Law has revealed that the process of determination of anticipated results under specific program at the budget planning stage is still characterized by certain shortcomings.

In particular, a portion of anticipated final/interim results of programs/sub-programs set out in the program budget annex to 2017 Draft State Budget Law still include no target indicators. Notwithstanding the fact that according to the updated Framework for Drawing up Program Budget, baseline and target indicators shall be specified separately, in some cases, the particular objective to be achieved under specific program/sub-program remains undetermined, which will make it difficult to evaluate the program/sub-program performance at the reporting stage.

For instance:

Notwithstanding the changes made for the improvement of the programmatic framework¹³, it still requires gradual improvement concurrently to the development of program budgeting. Given the fact that at this stage, significant shortcomings are observed in the preparation of the budget in a programmatic format, and, on many occasions, the output indicators achieved by spending institutions as a result of the use of budgetary funds cannot be estimated.

In the framework of Public Finance Reform, further refinement and improvement of the results-oriented program budgeting is important, work whereon is to be continued in the future.

At this stage, active work is ongoing for the full implementation of the updated framework. Several years of work is required for the achievement of the aforesaid, since it involves great time and human resources. At the next stage, given the challenges and findings identified in the course of introduction thereof, the work will be

¹³ Order №265 of the Minister of Finance of Georgia on the Amendment of №385 Order dated July 8,2011 of the Minister of Finance of Georgia on Approval of Program Budget Drafting Framework.

Recommendation	Possibility of Considering Recommendations
<p>It is recommended that more detailed planning and reporting instructions be prepared for middle-term plans as well as for the outcome expected and achieved under the program and output evaluation indicators.</p> <p>In addition, it is desirable to provide clear examples in relation to programs of various specificities.</p>	<p>again continued on the revision of the framework and adjustment thereof to the country's reality.</p>
Trust Group	
<p>Given the specificities and powers of the Intelligence Service of Georgia, proceeding from the Service's needs, it is recommended to increase the budget envisaged by 2017 Draft State Budget of Georgia for the Service by GEL 1 million.</p> <p>In the light of the challenges faced by the State Security Service of Georgia, the Trust Group considers it appropriate to increase the budget envisaged by 2017 Draft State Budget of Georgia for the Service by GEL 5 million.</p> <p>The Trust Group has reviewed thee allocations and program areas envisaged by 2017 Draft State Budget of Georgia in relation to the Ministry of Defence of Georgia. The Trust Group considers it desirable to seek funds for the increase of the budget of the Ministry of Defence of Georgia in the future.</p>	<p>Budgets have been revised in consideration of the existing macro-fiscal parameters, whereunder:</p> <ul style="list-style-type: none"> • GEL 13,5 million is envisaged for the Intelligence Service; • GEL 118,0 million is envisaged for the State Security Service; • GEL 748,0 million for the Ministry of Defence, which is higher than 2% of GDP.
Regional Policy and Self-Government Committee, Parliament of Georgia	
<p>The Committee accepts and supports the concept of formation of 2017 Draft Budget and supporting documents submitted by the Government of Georgia, including the country's main forecast data and trends in 2017-2020, which are in accordance with the gradual and consistent implementation of the Government Programme "For Strong, Democratic, United Georgia", and, ensure effective social protection of the population, education reform, economic development, support to strengthening the agriculture, and in addition, requires that the financial parameters and mechanisms of the four-point Governmental reform plan (governance reform, reform of the infrastructure and regional development, reform of the educational system, reform of the tax administration) be fully included in the revised version of the Draft Budget;</p>	<p>Considered.</p>
<p>The Committee expects that the revised version of 2017 Draft Budget of Georgia take into account the financial requirements of the Ministry of Regional Development and Infrastructure of Georgia to the maximum extent possible in important areas of the country's rapid economic development and that of ensuring the welfare of the population, such as:</p>	<p>Considered.</p>

Recommendation

Possibility of Considering Recommendations

Country's spatial planning, international-national express highways, construction, rehabilitation, maintenance and preservation of the public roads and internal road system, uninterrupted water supply to settlements and population, construction and rehabilitation of water supply infrastructure and sewerage systems, construction and rehabilitation of new facilities of regional and municipal infrastructure, solid waste management, environment protection, etc.

Given the previous years' experience and self-governing units' existing practice, selection procedures and criteria for local self-governments' and regional projects to be funded from the funds of those projects, which are subject to implementation in regions of Georgia under the State Budget of Georgia, require development and improvement (Resolution of the Government of Georgia №23, 07.02.2013) - in order to eliminate shortcomings and defects in the course of project selection, drafting, announcement of tenders, completion of construction of facilities and putting them into operation as well as to comply with the certain project's preferential financing (including co-financing as an exception) necessity principle based on self-government units.

The selection procedures and criteria for local self-governments' and regional projects to be funded from the funds of those projects, which are subject to implementation in regions of Georgia under the State Budget of Georgia, have been approved under Resolution N23 dated February 7, 2013 of the Government of Georgia. The aforesaid envisages active involvement of local self-governments in the project selection process.

In addition, this year, with the support of the World Bank, the Investment Projects Management Guide (Resolution N191 of April 22, 2016 of the Government of Georgia) and Detailed Methodology (Decree N165 of July 22, 2016 of the Minister of Finance) were developed with respect to investment projects. The aforesaid documents are aimed at the development of a unified investment projects management cycle, stipulate the development rules and procedures for investment projects, roles and responsibilities of participating institutions at all stages of state investment management process till the commencement of implementation of investment projects. Introduction of the aforementioned methodology [framework] is being gradually planned with respect to all infrastructure projects.

The Ministry of Regional Development and Infrastructure of Georgia is working with the self-governing units [municipalities] in terms of further improvement of regulations stipulated by Resolution N23 of February 7, 2013 of the Government of Georgia.

Recommendation	Possibility of Considering Recommendations
<p>In order to ensure rapid development of the country, the implementation of the four-point reform plan of the Government of Georgia requires that 2017 Budget fund of projects to be implemented in the regions of Georgia be increased at least up to GEL 300.000.0 rather than GEL 280.000.0 as included in the Draft, and, the fund be disposed throughout the country including the high-mountainous and depressed regions (self-governing units);</p> <p>The Rural Support Program popular among self-governing units and people should remain in 2017 Budget (at least at 2016 level) until the new community development strategy is prepared by the country.</p>	<p>The presented draft includes appropriate measures and funding for the implementation of the four-point reform plan of the Government of Georgia. In 2017-2020, more than GEL 14,0 billion is to be directed to funding of infrastructure projects, inter alia, more than GEL 8,0 billion is to be directed to the road infrastructure construction and development. Implementation of the above-mentioned projects will allow maximum use of regions' tourism potential.</p> <p>As for the funds of projects to be implemented in Georgia's regions, they have been determined in the amount of GEL 260.0 million, however, it should be noted that compared to the primary data of 2016, they have been greatly increased in 2017, furthermore, certain types of expenses will be funded from the State budget rather than that of self-governing units (e.g.: football, state theatres, etc.), which also creates additional resources for self-governing units. In addition, self-governing units should reduce their administrative expenses and this also will create additional resources to them. Ultimately, all such amounts should be directed to relevant self-governing units for the purpose of implementation of required infrastructure projects.</p>
<p>High mountainous settlements fund should be set in the amount of at least GEL 20.000.0, and in addition, the fund should be disposed of only according to the essential needs of high-mountainous regions, in compliance with the new regulations specified by the applicable laws;</p> <p>In connection with launching of the compensation of monthly charges for the electricity consumed by subscribers (residential customers) in high mountainous settlements under Article 4 paragraph 2 subparagraph (d) of the Law of Georgia on the Development of High Mountainous Regions,</p>	<p>Considered.</p>

Recommendation	Possibility of Considering Recommendations
<p>required financial resources as well as the institution responsible for the fulfilment of the obligation should be specified;</p>	
<p>The following is also required to be specified: relevant measures to be taken, expenses to be incurred from the Budget and institutions responsible for the facilitation of provision of heating for permanent residents of high mountainous settlements during the winter period (from 15 October of the relevant year through to 15 April of the following year) under Article 4 paragraph 2 subparagraph (c) of the Law of Georgia on the Development of High Mountainous Regions (effective from September 1, 2016);</p>	
<p>Sufficiency and completeness of financial resources to be issued for the provision of increased number of vouchers to pupils of public schools, multi-sectoral public schools, and to students of institutions of vocational education located in high mountainous settlements under Article 4 paragraph 2 subparagraph (g) of the Law of Georgia on the Development of High Mountainous Regions (effective from September 1, 2016) also require to be specified;</p>	
<p>It is recommended that the text portion of 2017 Draft State Budget Law (explanatory memorandum, etc.) reflect the financing status of undertakings stipulated by the Law of Georgia on the Development of High Mountainous Regions, with reference to relevant spending (disposing) Ministries and institutions;</p>	
Agrarian Issues Committee	
<p>As for financing the agricultural sector, pursuant to 2017 Draft State Budget, agriculture is one of the priority sectors, however, it fails to fully reflect the sector priority, whereon the country's social and economic development is greatly dependant. According to 2017 Draft State Budget, funding of agriculture is reduced by GEL 83 million 210 thousand (25% less compared to the previous year). Accordingly, funding of programs is also reduced, specifically: agricultural development program is reduced by GEL 75 million 430 thousand, food safety, plant protection and epizootic welfare – by GEL 3 million 930 thousand, viticulture - winemaking development- by GEL 450 thousand, implementation of scientific-research activities in agricultural sector – by GEL 3 million 400 thousand. Compared to 2016, almost all sub-programs have tendency to be reduced: (agricultural policy development and management - is reduced by GEL 2 million 735 thousand, accordingly, agricultural development program management and administration in regions - by GEL 385</p>	<p>Compared to the first Budget submission, a sum in the amount of up to GEL 20 million has been additionally directed for actions to be carried out by the Ministry of Agriculture, and, the Ministry's funding has been determined in the amount of GEL 258 million.</p> <p>In addition, given the current macro-fiscal framework and for the purpose of mobilization of resources required for the implementation of infrastructure projects, the Government of Georgia is reducing administrative expenses (by 10% of this year's forecast figure). Greater part of programs is preserved at this year's parameters, wherefore, additional resources cannot be allocated</p>

thousand, irrigation systems modernization – by GEL 14 million, actions to promote agricultural cooperatives – by GEL 1 million 240 thousand, settlement of agricultural equipment loans and leasing liabilities - by GEL 7 million, agricultural insurance security measures- by GEL 4 million, Georgian tea – by GEL 2 million 500 thousand, animal health protection, identification and registration – by GEL 3 million, plant protection and phytosanitary reliability – by GEL 550 thousand.

Rural reform implementation greatly depends on the development of farmer-peasant farms, cooperation of their financial, technical and intellectual resources; agricultural cooperative represents such form of business, and, it is given priority importance in terms of facilitation of financial support by the state. **In the light of the aforesaid, we believe that funding of the sub-program “Actions to Promote Agricultural Cooperatives” should be increased from GEL 5 million 350 thousand to GEL 15 million.**

Sub-program “Agricultural Insurance Security Measures“ is very important project. It is worth mentioning that the sector has not developed in any country without the state’s involvement. Acts of god are one of the biggest risks. Full destruction of crops due to certain act of god is a frequent occurrence in agrarian sector, whereupon farmers are left without any income. Agricultural insurance is the only mechanism to ensure that farmers receive compensation if their crops are destroyed, and, to enable them to grow crops in the next year. Great importance is attached to the fact that as many farmers get involved in the process as possible. The farmers show growing interest, which should be encouraged by the State. **We believe that the presented funding is insufficient and should be increased from GEL 5 million to GEL 10 million.**

According to the data of L. Sakvarelidze National Centre for Disease Control and Public Health and Virsaladze Scientific-Research Institute of Medical Parasitology and Tropical Medicine, there is a growth dynamics with respect to zoonotic diseases (diseases that is transmitted from animals to humans) - anthrax, rabies, brucellosis, tuberculosis, leishmaniasis - in the country. Increasing number of cases of such diseases may become a serious problem for the Staet. **Sub-program “Animal Health Protection”** aims to avoid the high risk of the spread of epizootic diseases in the country and reduce the existing centres.

Recommendation	Possibility of Considering Recommendations
<p>One of the main areas of creation of epizootic security and development of livestock breeding in the country is identification of animals. Significant financial resources are required for the proper conduct of animal identification process. It is noteworthy that animal identification has been conducted in full in EU Member States. In the light of the aforesaid, it is required that funding of the above-mentioned sub-program be increased from GEL 8. million 600 thousand to GEL 11 million.</p>	
<p>Sub-program “Scientific Research of Agricultural Products Storage and Processing Methods“ is aimed at the production of high quality eco-friendly food products, raising the export potential of Georgian products and competitiveness of those employed in the private business. The essence of the problem lies in the following: we produce products but cannot store them. This refers to the plant-growing sector initial processing in relation to both annual and perennial crops, which are kept under artisanal conditions. The project foresees modern infrastructure arrangement for the storage and processing of agricultural products - experimental building-complex with an analytical laboratory. In the light of the relevance of the matter, it is required that the financial resources in the amount of GEL 175 thousand allocated for the sub-program be increased up to GEL 2 million.</p>	
Education, Science and Culture Committee, Parliament of Georgia	
<p>On July 22, 2015, the Parliament of Georgia adopted the Law of Georgia on Official Language; according to Articles 36 and 40 thereof, the Government of Georgia was to establish the Department of Official Language in 2016. Under Article 40 para 3 of the aforementioned Law, the Ministry of Finance of Georgia was instructed to include the funds required for the operation of the Department of Official Language in the process of drafting the Law of Georgia on the State Budget for 2016. GEL 300 thousand was allocated for this purpose in the last year, however, the Department has not been established yet.</p> <p>The Draft Law of Georgia on 2017 State Budget no longer includes funds required for the operation of the Department of Official Language. The Committee believes that the matter shall be included in the presentation of the adjusted version of the Draft Law.</p>	<p>In accordance with Article 40 para 3 of the Law of Georgia on Official Language, the Ministry of Finance of Georgia had included the funds required for the operation of the Department of Official Language in the draft Law of Georgia on the State Budget for 2016. Given the fact that the Department of Official Language had not been created throughout 2016, 2017 Draft State Budget Law does not include funds for this purpose.</p> <p>In the event of establishment of the Department of Official Language, the Ministry of Finance of Georgia will include appropriate funds in the State Budget for respective year in a manner prescribed by law.</p>
Environmental Protection and Natural Resources Committee	

Recommendation	Possibility of Considering Recommendations
<p>Environmental protection and rational use of natural resources are one of the priority areas of the Government's activities. For the purpose of execution of Government's objective – introduction of Green Economy principles and promotion of Green Business development, as well as for the improvement of the quality of the environment in the country, in accordance with EU-Georgia Association Agreement requirements, for implementation of Georgia's commitments under bilateral and multilateral environmental agreements, for the update of environmental legal and regulatory framework, we believe that under such funding (GEL 33 400,0 thousand– without donors funding and co-funding) the Ministry of Environment and Natural Resources Protection will not be able to effectively and comprehensively perform its roles.</p>	<p>Given the existing macro-fiscal framework and for the purpose of mobilization of resources required for the implementation of infrastructure projects, the Government of Georgia is reducing administrative expenses (by 10% of this year's forecast figure). Greater part of programs is preserved at this year's parameters, wherefore, additional resources cannot be allocated for financing all existing requirements.</p>
<p>Under the presented document, allocations for the Ministry of Environment and Natural Resources Protection for 2017 amount to GEL 37 950,0 thousand, including budgetary funds (without donors funding and co-funding) in the amount of GEL 33 400,0 thousand, which, compared to allocations set out in 2017-2020 Basic Data and Directions document (GEL 35 000 thousand) is reduced by GEL 1 600,0 thousand. By such funding, performance of the significant part of measures to be carried out by the Ministry is called into question. Specifically:</p> <ul style="list-style-type: none"> Initial allocations under the program - "Policy Development, Regulation and Management in the Field of Environmental Protection" (38 01) are reduced by GEL 540,0 thousand (including sub-programs, which are reduced by GEL 130,0 thousand). It is noteworthy that the funding envisaged by the Draft is less than this year's approved Budget. Thereby, first of all, performance of various obligations deriving from the Environmental Assessment Code is called into question, since funding thereof requires a total of GEL 1,3 million, including the increase of staff number by 16 units, annual wages fund - up to GEL 660,0 thousand, GEL 380,0 thousand for various expenses required for operation (business trips, fuel, office furniture, computers, utility and other costs). In addition, GEL 300,0 thousand is required for the creation of the Geographic Information System (GIS) and GIS portal. The aforesaid is aimed at creating an integrated environmental management system, which is designed to promote the exchange of information between central and regional management structures and their related agencies as well as to improve public access to such data. It includes integration of existing databases, compatibility with the new system. Part of the amounts (up to GEL 200,0 thousand) has been foreseen in the Draft submitted by the Ministry, and, the remaining part has been included in the additional request. 	

Recommendation

Possibility of Considering Recommendations

- "Environmental Supervision" (38 02) – reduced by GEL 300,0 thousand, wherefore, conduct of various types of laboratory researches (fuel quality determination, determination of manganese ore concentrate, identification of mineral species, determination of reservoir volume, etc.) may be under threat.
- “Protected Areas System Development and Management” (38 03) – reduced by GEL 100,0 thousand (inter alia, the Salaries Fund, which was comprised of only annual base salaries, has been reduced by GEL 50,0 thousand). Minimum expenses required for operation had been included in the Agency’s allocations.
- “Forest System Development and Management” – (38 04) reduced by GEL 500,0 thousand (inter alia, the Salaries Fund, which was comprised of only annual base salaries, has been reduced by GEL 100,0 thousand).
- “Environmental Information Availability and Environmental Education Promotion Program“ (38 06) – reduced by GEL 50,0 thousand, The LEPLs budget included minimum costs required for operation, including the office rent, a portion whereof had been being financed from own revenues, which annually amount to GEL 60.0-90.0 thousand only.
- “Nuclear and Radiation Safety” (38 07) – reduced by GEL 110,0 thousand. Consequently, the issue of ensuring the Agency’s smooth operation and country’s nuclear and radiation safety as well as that of performance of considerable part of measures to be carried out by the Agency the budget item “Goods and Services” (GEL 378.0 thousand) has been reduced by GEL 60.0 thousand; a part whereof includes funds required for the payment of costs of the centralized repository of radioactive waste and physical protection of radioactive waste disposal site near Saakadze village throughout a year (GEL 193.0 thousand), In addition, allocations required for the remuneration of freelancers (GEL 64.0 thousand) are also included. During a year, the Agency responds to radiological emergency situations, conducts inspection of nuclear and radiation activities as well as regular environmental radiation monitoring at various locations throughout Georgia. In addition, the Agency is currently located in the administrative building of the Ministry and therefore, it does not have to pay various utility bills. However, from the beginning of 2017, it is planned to move the Agency to a new area, which will result in the increase in such expenses.

Recommendation	Possibility of Considering Recommendations
<p>The budget item “Compensation” (GEL 510.0 thousand) has been reduced by GEL 50.0 thousand. Allocations required under the aforesaid budget item include funds required for financial incentives for Agency’s employees. The Agency’s work specifics concern certain threats such as intensive work with nuclear and radioactive sources and waste. It is also worth mentioning that for the purpose of performance of obligations prescribed by applicable laws, the Agency’s employees have to work overtime in relation to responding to nuclear and radiological incidents and accidents within the territory of Georgia as well as at the country's state border (proceeding from professional commitments of Agency’s employees, the permissible annual dose limit is 20 times higher than the limit permissible for people).</p> <p>Given other state priority areas, we consider it necessary that the Ministry of Finance take into account the request of the Ministry of Environment and Natural Resources Protection, and, allocate appropriations at least in the amount of <i>GEL 1 600,0 thousand</i>, so that the Ministry is able to efficiently perform its responsibilities:</p>	
Legal Affairs Committee	
<p>The Government has assumed obligation to take important steps for the improvement of penitentiary system infrastructure and living conditions for defendants/convicts, however, 2017 Budget foresees no increase of costs in this regard; on the contrary, it is planned to reduce such costs. The draftsman stated that appropriate draft law is being prepared for the purpose of implementation of reforms in the correctional system, which will be submitted to the Parliament. According to the Committee, it is not recommended to reduce the budgetary funding for Ministry of Corrections and Probation until the aforesaid draft law is reviewed and adopted.</p>	<p>2017 Budget for the Ministry of Corrections and Probation is determined in the amount of GEL 139.1 million.</p>
<p>The Committee also expressed its opinion that 2017 Budget should include adequate funds for the purpose of improvement of common courts’ infrastructure and provision of appropriate staff support. Furthermore, it should be noted that according to the rapporteur, funding will be provided in case the number of judges increases, and, construction of a new building of Tbilisi City Court will also be funded.</p>	<p>Considered – budget has been increased by GEL 17 million, <i>inter alia</i>, GEL 15 million is provided in non-financial assets.</p>

Recommendation	Possibility of Considering Recommendations
<p>Due to the fact that the number of complaints submitted to the Constitutional Court increased three times, the Constitutional Court had sought the addition of 10 established posts of advisors, which has been supported by the Committee.</p>	<p>Considered, the number has increased by 10 units and GEL 700 thousand;</p>
<p>The Committee has deemed unacceptable the reduction of budgetary funding in 2017 for the Legal Aid Service, given significant increases in roles thereof, by GEL 900 thousand compared to the current year. Moreover, such reduction, without the consent of the Legal Aid Board, is contrary to Article 44 of the Budgetary Code and Article 22¹ of the Law on Legal Aid as well as Agreement on Budget Support Programme signed between the Government of Georgia and European Commission in 2015.</p>	<p>Considered - budget of LEPL Legal Aid Service has been determined in the amount of GEL 5.8 million.</p>
<p>Ministry of Regional Development and Infrastructure</p>	
<p>25 02 02 10 – reconstruction and construction of km1 -km6 section of Stepantsminda-Sameba Church highway – budget approved in 2016 amounted to GEL 4 000.0 thousand, GEL 8 000.0 thousand requested for 2017, included GEL 0.</p>	<p>Considered.</p>
<p>Sports and Youth Affairs Committee</p>	
<p>A number of important international events are to be held in Georgia in 2017 (World Rugby Under 20 Championship, Men`s Youth World Championship in Handball, UEFA European Under-19 Championship, etc.), budget whereof should be increased at least by GEL 6 million.</p>	<p>Given the existing fiscal resources, additional amount of GEL 38,5 million has been mobilized for the Ministry`s budget.</p>
<p>According to commitments made under Sports Infrastructure Development Program, expenses to be incurred in 2017 amount up to GEL 31 million, whereas the Draft Budget foresees GEL 23.6 million; at least GEL 10 million should be added thereto given the change in the exchange rate and under the Inventory Renewal Program.</p> <p>Olympic Committee funding has been reduced (halved), which, by 2017 Budget should amount to GEL 4.5 million.</p>	<p>In addition, given the existing macro-fiscal framework and for the purpose of mobilization of resources required for the implementation of infrastructure projects, the Government of Georgia is reducing administrative expenses (by 10% of this year`s forecast figure). Greater part of programs is preserved at this year`s parameters, wherefore, additional resources cannot be allocated for financing all existing requirements.</p>
<p>Sports Types Development Program has been reduced by GEL 3.2 million; it should remain at least at the same parameters as in 2016.</p>	
<p>The Ministry of Sports and Youth Affairs is recommended to include in 2017 Budget the issue of the increase in funding for LEPL Georgian State Teaching University of Physical Education and Sport and LEPL State Community College of Physical Education and Sport of Georgia.</p>	

Recommendation

Possibility of Considering Recommendations

In the framework of programs and measures set forth in 2017 Draft State Budget of Georgia, allocations of the Ministry of Sports and Youth Affairs are determined in the amount of GEL 98,275.0 million. The Committee welcomes the increase in the budget but believes that in the light of the above-listed as well as other factors, the Budget should be additionally increased by GEL 35 million, so that the full implementation of measures planned for 2017 becomes possible.