



ევროკავშირი  
საქართველოსთვის

Project funded by the European Union



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Norwegian Ministry  
of Foreign Affairs

# GEORGIA: 2022 National PEFA & GRPFM Dissemination Workshop



## Session Overview

- Central Government PEFA Overview
- Georgia's Progress on PFM Reform
- Highlights of PEFA Assessment
- PEFA Results compared to other countries
- Comparison of Georgia's 2018 to 2022 PEFA scores
- Review of the PEFA results by Pillar
- Highlights from GRPFM Assessment
- Proposed areas for PFM Strategy
- Annex: 2022 scores

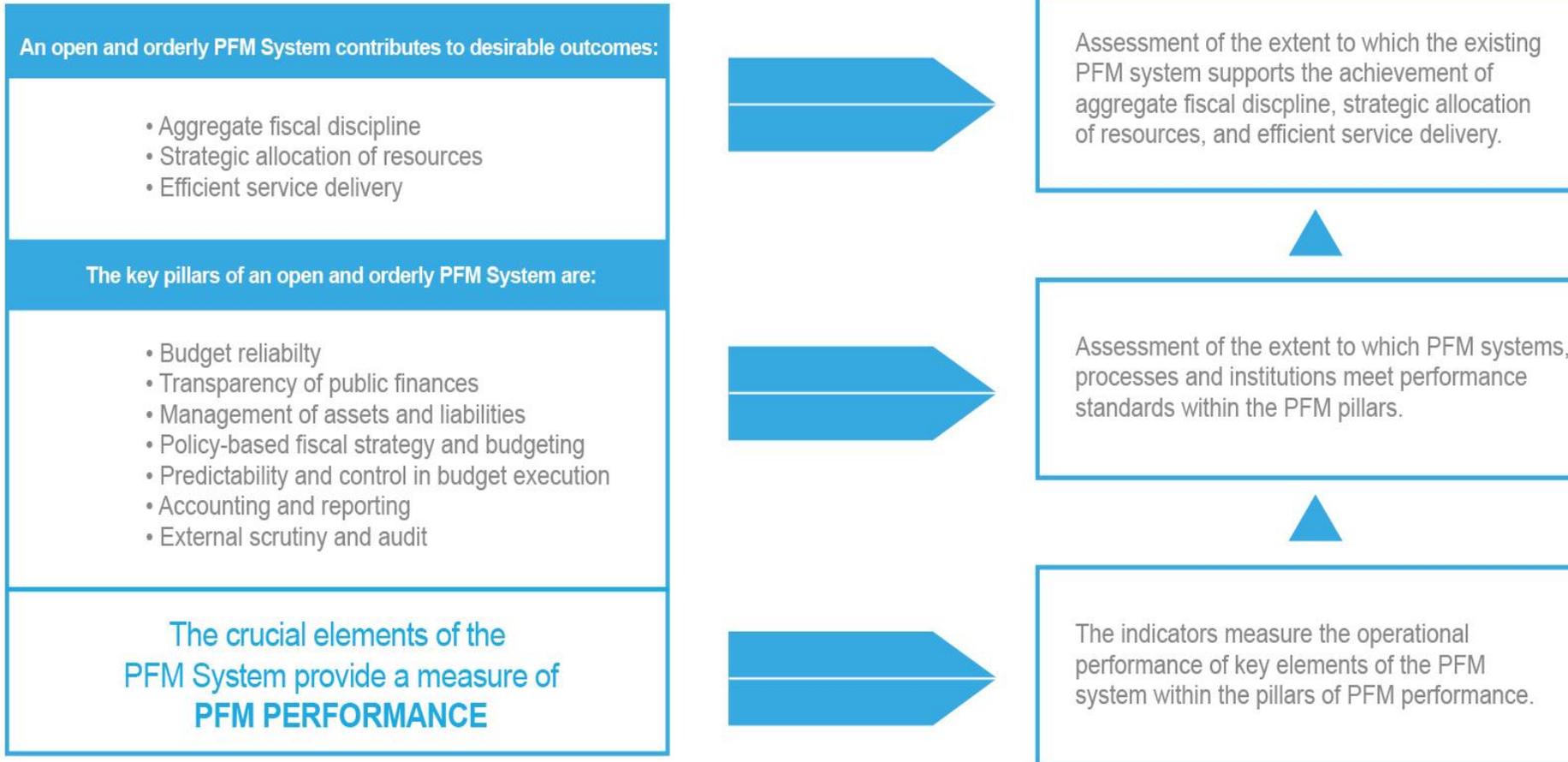
# **CENTRAL GOVERNMENT PEFA 2022**

# PEFA Performance Measurement Framework

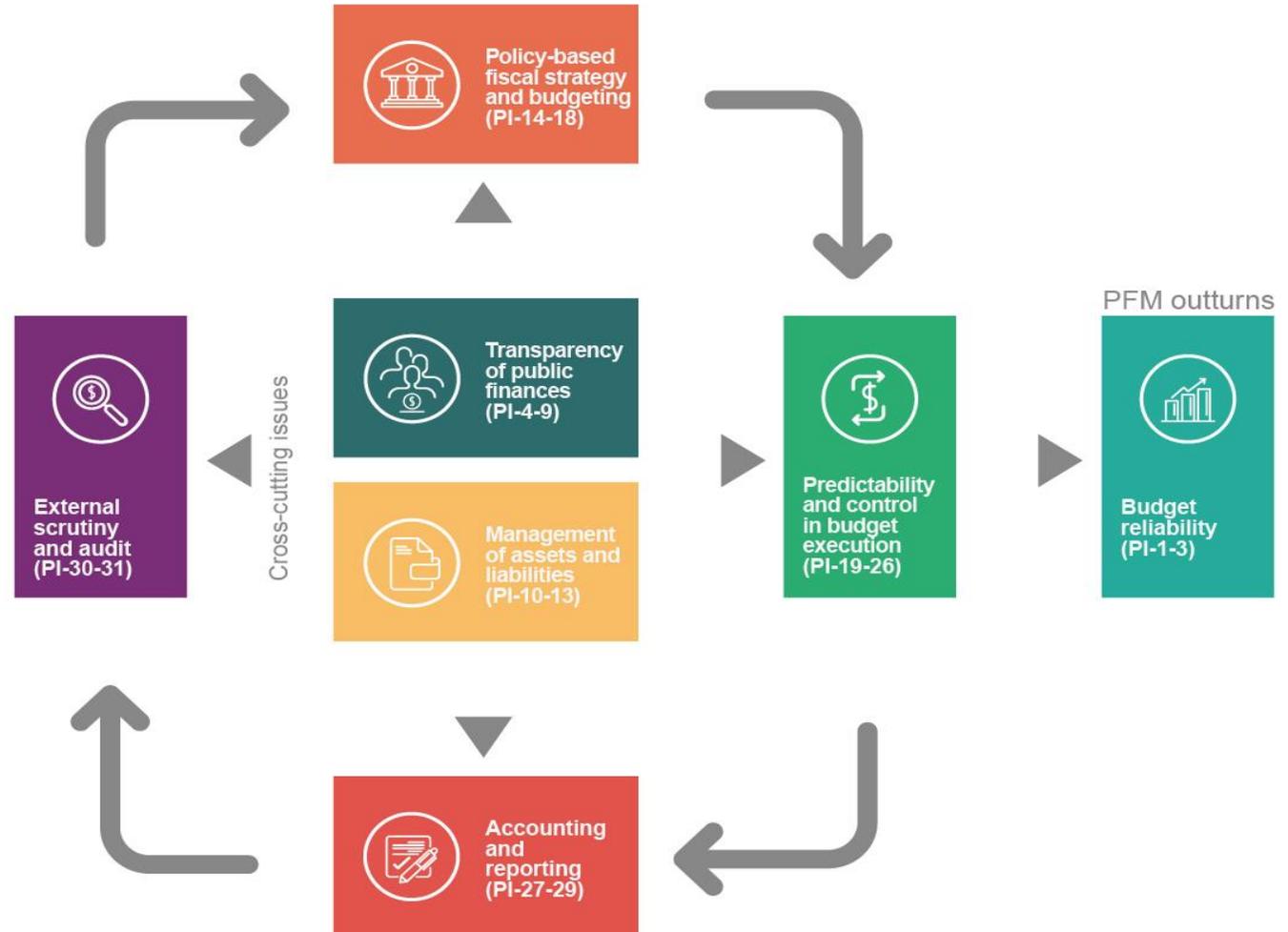
- PEFA was initiated in 2001 and has since become the acknowledged standard for PFM assessments.
- A tool for assessing the status of PFM systems, processes and institutions.
- Provides a thorough, objective analysis of PFM performance at a specific point in time.
- The methodology can be reapplied in successive assessments to track changes over time.
- PEFA program is a multi-donor partnership by seven international development partners:



# Analytical Framework for PEFA Assessment



# PEFA Pillars and Budget Cycle



# Georgia's progress on PFM Reform

- Despite the COVID-19 pandemic, a number of planned reforms continue to be done e.g. program based budgeting, public investment management, IPSAS, internal and external audit.
- The law on State Procurement recently was modified considerably and made compatible with EU legislation and international good practice
- Significant changes have been made with respect to procurement complaints management with the establishment of the Council of Dispute Resolution to efficiently and fairly resolve disputes.
- Increased finance management support for some municipalities to enhance service delivery

# Georgia's progress on PFM Reform - *continued*

- Cash management not only ensures there are adequate funds to deliver public services but also generates revenue through cash auctions by the Ministry of Finance.
- Fiscal Risk Management has been strengthened e.g. the SOE fiscal risk analysis and database has been enacted.
- Public Private Partnership contracts are well managed with the creation of their register to ensure adequate monitoring.
- The 2022 PEFA Global Report shows that Georgia continues to maintain its number position based on the country average PEFA scores.
- In the Open Budget Survey 2021 published by the International Budget Partnership, Georgia ranked first among 120 countries in the world on budget transparency (Open Budget Index).

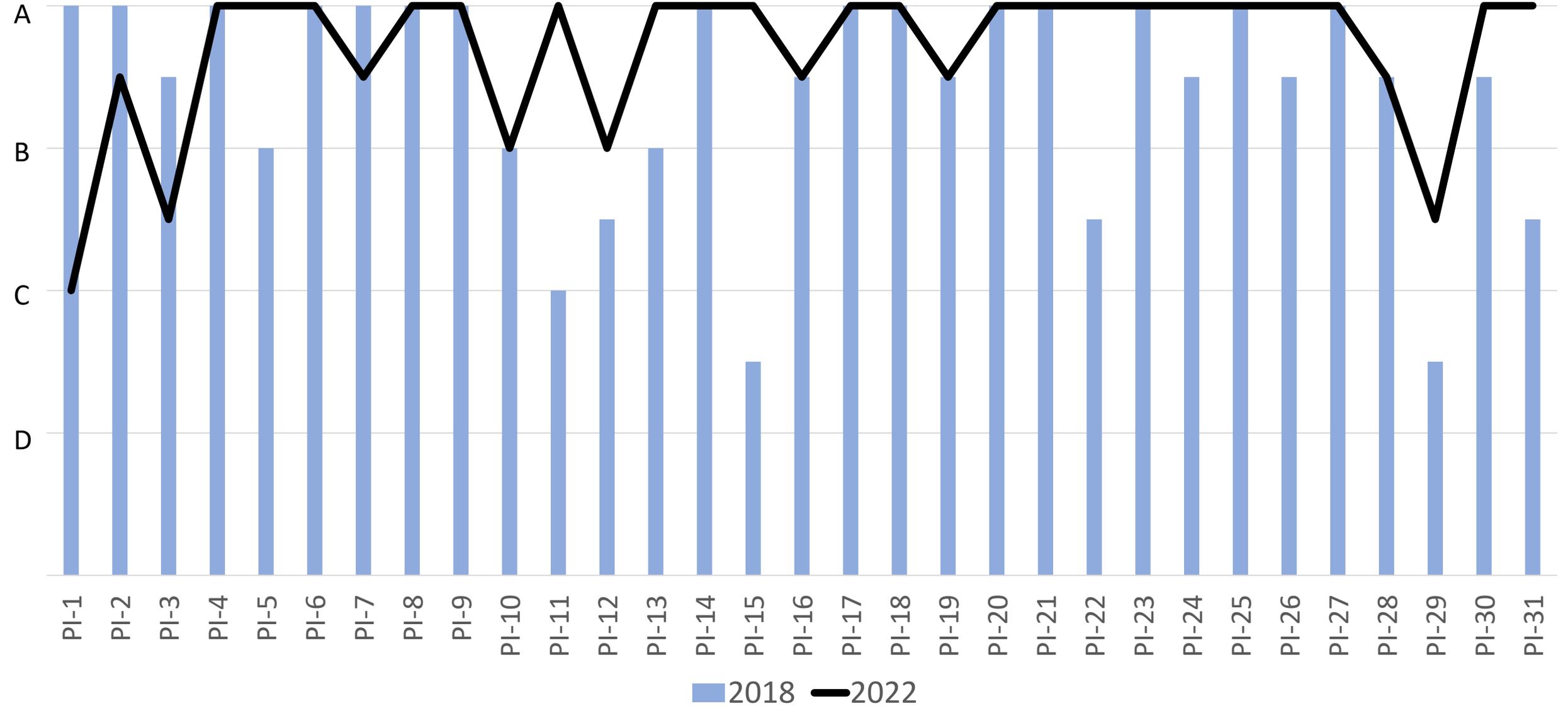
# Highlights of the PEFA assessment 2022

- Georgia has a **strong performance** on the 7 PEFA pillars compared to average results of 59 countries that have used the 2016 PEFA Framework.
- Georgia's average for **six out of seven pillars were higher** than the average score for the **ECA region**.
- Compared to the **eight other PEFA Assessments carried out during or after the COVID-19 Pandemic**, Georgia scored higher, on average, across all seven pillars.
- **27 out of 31 (87%) indicators improved or were maintained** in 2022 compared to 2018 PEFA scores.

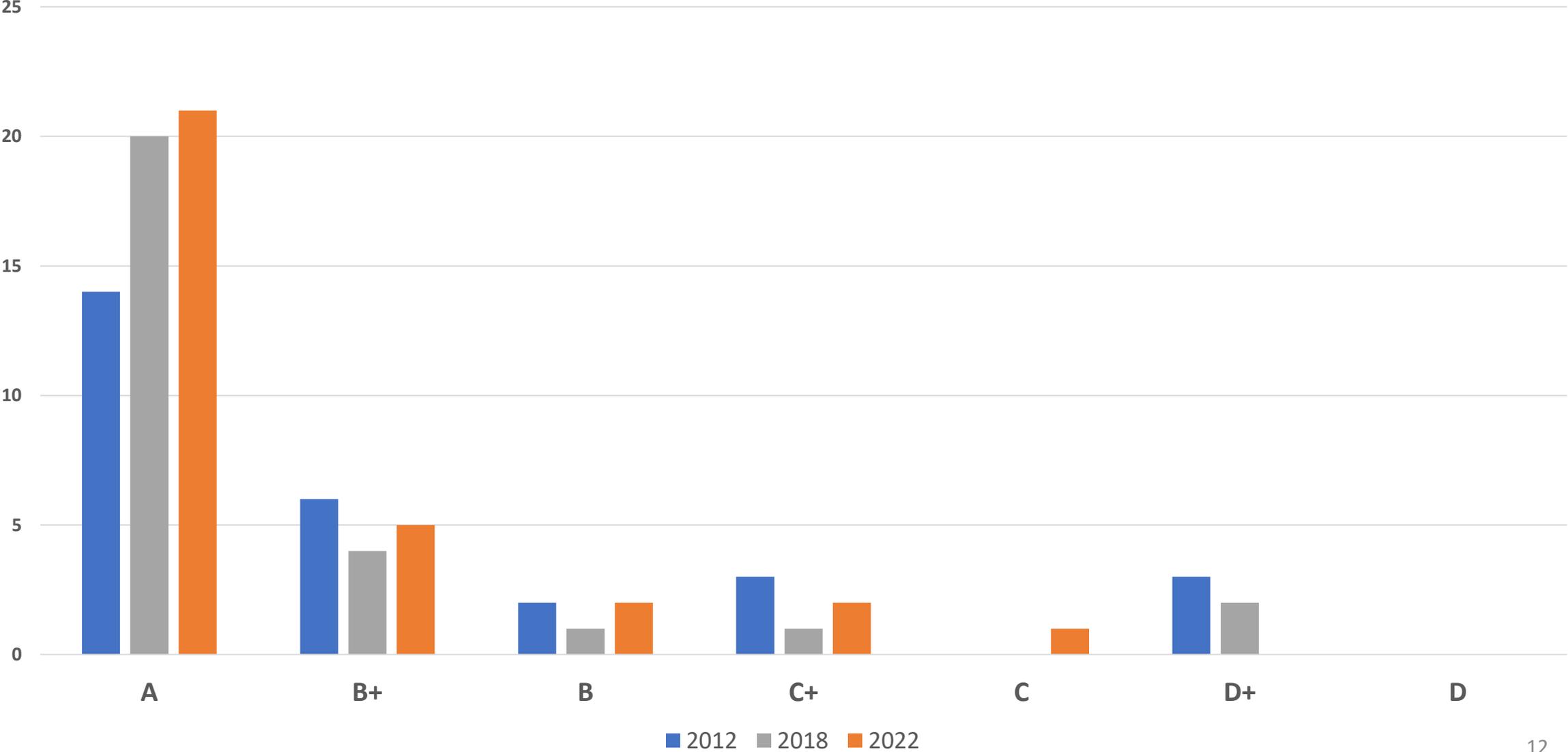
# Overview of the scores of the PEFA indicators

PFM Performance Indicator		Scoring Method	Dimension Ratings				
			1	2.	3.	4.	Overall Score
<b>Pillar I: Budget reliability</b>							
PI-1	Aggregate expenditure out-turn		C				C
PI-2	Expenditure composition out-turn	M1	B	B	A		B+
PI-3	Revenue out-turn	M2	C	B			C+
<b>Pillar II: Transparency of public finances</b>							
PI-4	Budget classification		A				A
PI-5	Budget documentation		A				A
PI-6	Central government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to sub-national governments	M2	B	A			B+
PI-8	Performance information for service delivery	M2	A	A	A	A	A
PI-9	Public access to fiscal information		A				A
<b>Pillar III: Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	C	C	A		B
PI-11	Public investment management	M2	A	A	A	A	A
PI-12	Public asset management	M2	B	C	A		B
PI-13	Debt management	M2	A	A	A		A
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	A	A	A		A
PI-15	Fiscal strategy	M2	D	A	A		B
PI-16	Medium term perspective in expenditure budgeting	M2	A	A	A	C	B+
PI-17	Budget preparation process	M2	A	A	A		A
PI-18	Legislative scrutiny of budgets	M1	A	A	A	A	A
<b>Pillar V: Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	A	A	D	B+
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	A	A	A	A
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	A	A	A	A	A
PI-24	Procurement management	M2	A	B	A	A	A
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
<b>Pillar VI: Accounting and reporting</b>							
PI-26	Internal audit	M1	A	A	A	A	A
PI-27	Financial data integrity	M2	A	NA	A	A	A
PI-28	In-year budget reports	M1	A	B	A		B+
PI-29	Annual financial reports	M1	A	C	B		C+
<b>Pillar VII: External scrutiny and audit</b>							
PI-30	External audit	M1	A	A	A	A	A
PI-31	Legislative scrutiny of audit reports	M2	A	A	A	A	A

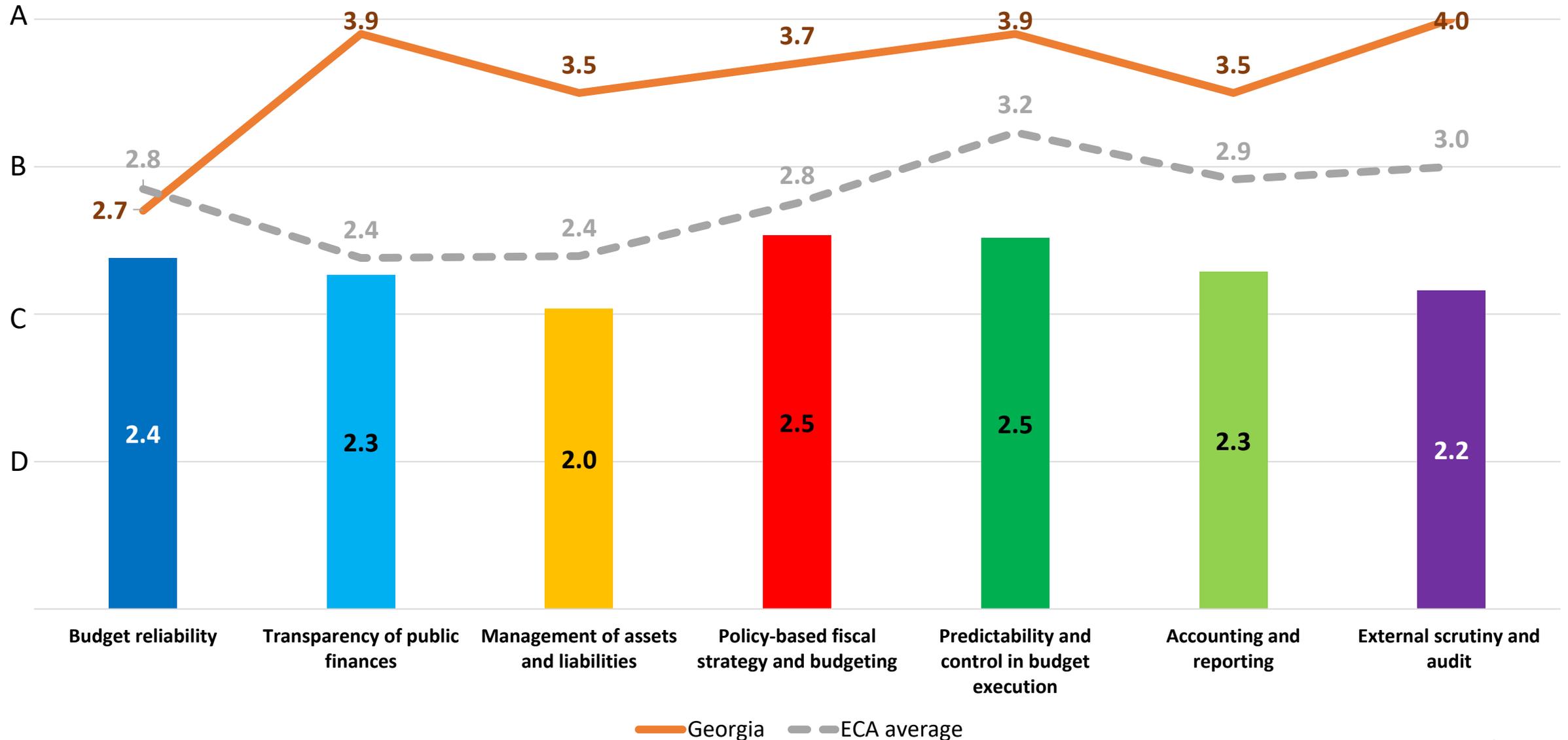
# PEFA Comparison Scores 2018 to 2022



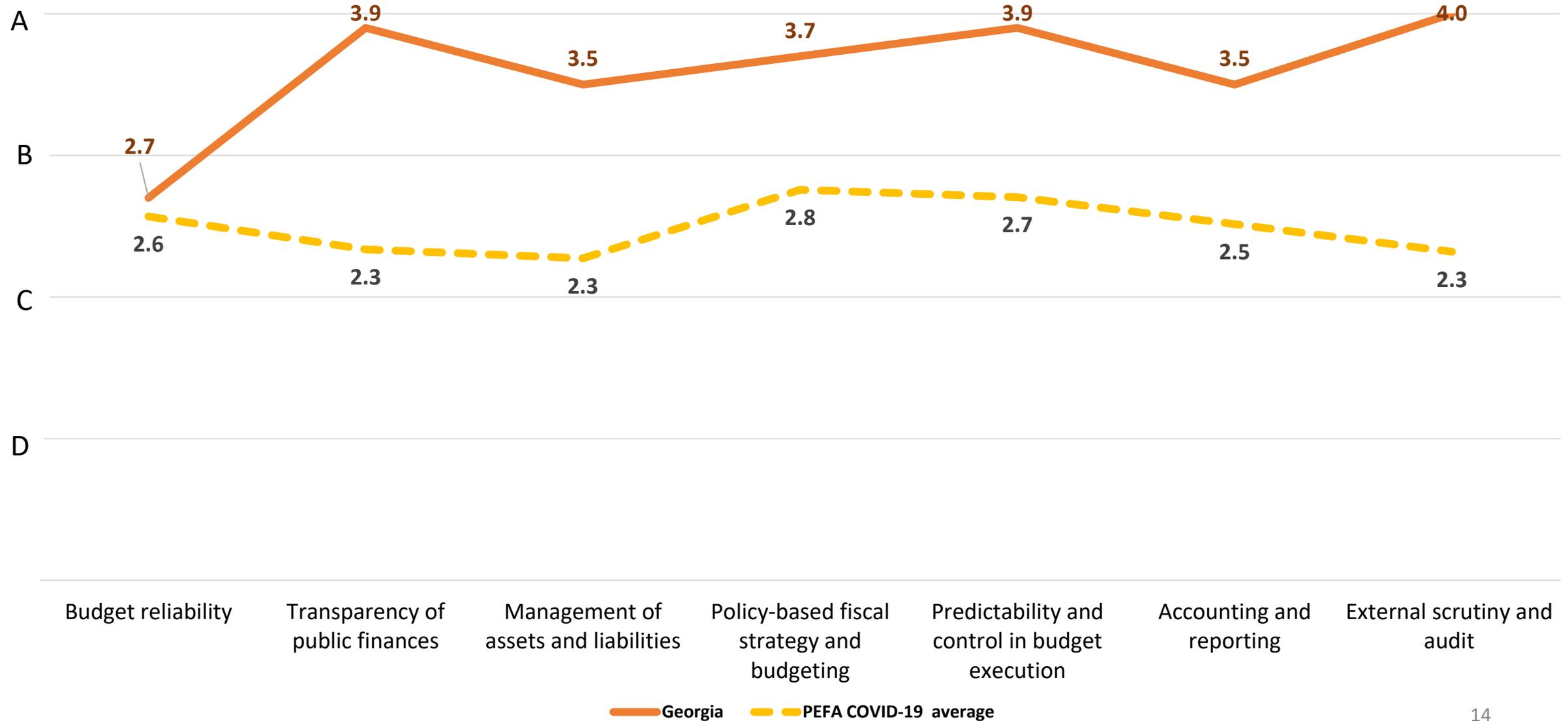
# Comparison of Georgia PEFA scores for 2012, 2018, and 2022



# Comparison of PEFA Pillars for Georgia to the Pillar average of 59 Countries, and the ECA region (that have used the 2016 methodology)



# Comparison of PEFA Pillars for Georgia to the Pillar average of the 8 PEFA Assessments carried out during or after the COVID-19 Pandemic



# Budget Reliability

- A significant decline in the actual expenditure compared to the budget in 2020 and 2021 was caused by the outbreak of COVID-19 worldwide in late 2019, which significantly changed the global and national economies.
- The significant deterioration in the revenue estimates for 2020-2021 was caused by the outbreak of COVID-19

# Transparency of Public Finances

- A separate chapter for **state institutions and sectors** was added to the **budget classification**, covering all state institutions and all non-market non-profit institutions controlled by state entities.
- The Basic Data and Directions Document (BDD) reflects the **fiscal impact of the new policy directions** in the medium term.

# Transparency of Public Finances

- A new rules-based transfer system based on a share of VAT based on population characteristics has been introduced
- However, as a result of COVID-19 outbreak, a reduced distribution of value added tax to municipalities necessitated allocations to municipalities in order to supplement their own revenues.
- The coverage of other fiscal risks is now comprehensive

# Management of Assets and Liabilities

- A report on all **central government contingent liabilities**, including their quantification, and other fiscal risks is **submitted to Parliament annually** and published
- New projects require **economic analysis** and this analysis to be independently reviewed. The new projects in the 2021 budget followed this process. These are published by the Ministry of Finance
- The **budget reflects the timetable for completing projects and the annual allocation of costs** as well as the provision for recurrent cost of implementation if the project is completed during the MTEF period.

# Management of Assets and Liabilities

- An approved **Debt Management Strategy** is operational and updated annually.
- The Government **maintains a record of its holdings in all categories of financial assets**, which are recognized at their acquisition cost and in rare cases at real (market) value.
- **Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly.**
- **Procedures for disposal / management / transfer of assets are established** and the relevant information is registered

# Fiscal Strategy and Budgeting

- Estimates of the **fiscal impact** of policy changes **are prepared**
- A report on **fiscal outcomes** is **submitted** to Parliament.
- The **fiscal strategy** (country's Basic Data and Directions Document) is **adopted by the government**.
- The deviation analysis **of medium-term forecasts** is prepared at the aggregate level, attached to the draft state **budget** and submitted to the Parliament

# Budget Execution

- There has been a reduction in the total stock of revenue arrears relative to the revenue collected in 2021 but the age profile of revenue arrears remains the same.
- GRS has an audit plan for both domestic taxes and import taxes which are determined by a comprehensive audit plan based on risk assessment.
- A new fully independent complaints review system has been put in place that meets the PEFA criteria.

# Budget Execution

- Expenditure arrears monitoring is undertaken through e-Treasury
- Non-competitive purchases increased over the COVID-19 pandemic. This was the case worldwide.
- Internal auditors have added more system and performance audits, unlike the previous period, when mainly financial and compliance audits were conducted in government institutions.

# Accounting & Reporting

- Additional IPSAS standards have been incorporated since the previous PEFA.
- Access and changes to records is restricted and recorded, and results in an audit trail.
- Consolidated financial statements for state and local budgets mainly include information on revenues, expenditures, non-financial assets, financial assets and liabilities (including guarantees and long-term liabilities), equity, as well as reconciled cash flows and balances.

# External Scrutiny & Audit

- The SAO has implemented an electronic monitoring system that provides more timely information.
- The scrutiny of the annual budget and reporting to Parliament is done within three months of receipt.
- The number of hearings has increased and is focused on reports that have a qualified opinion

# Internal Control Issues

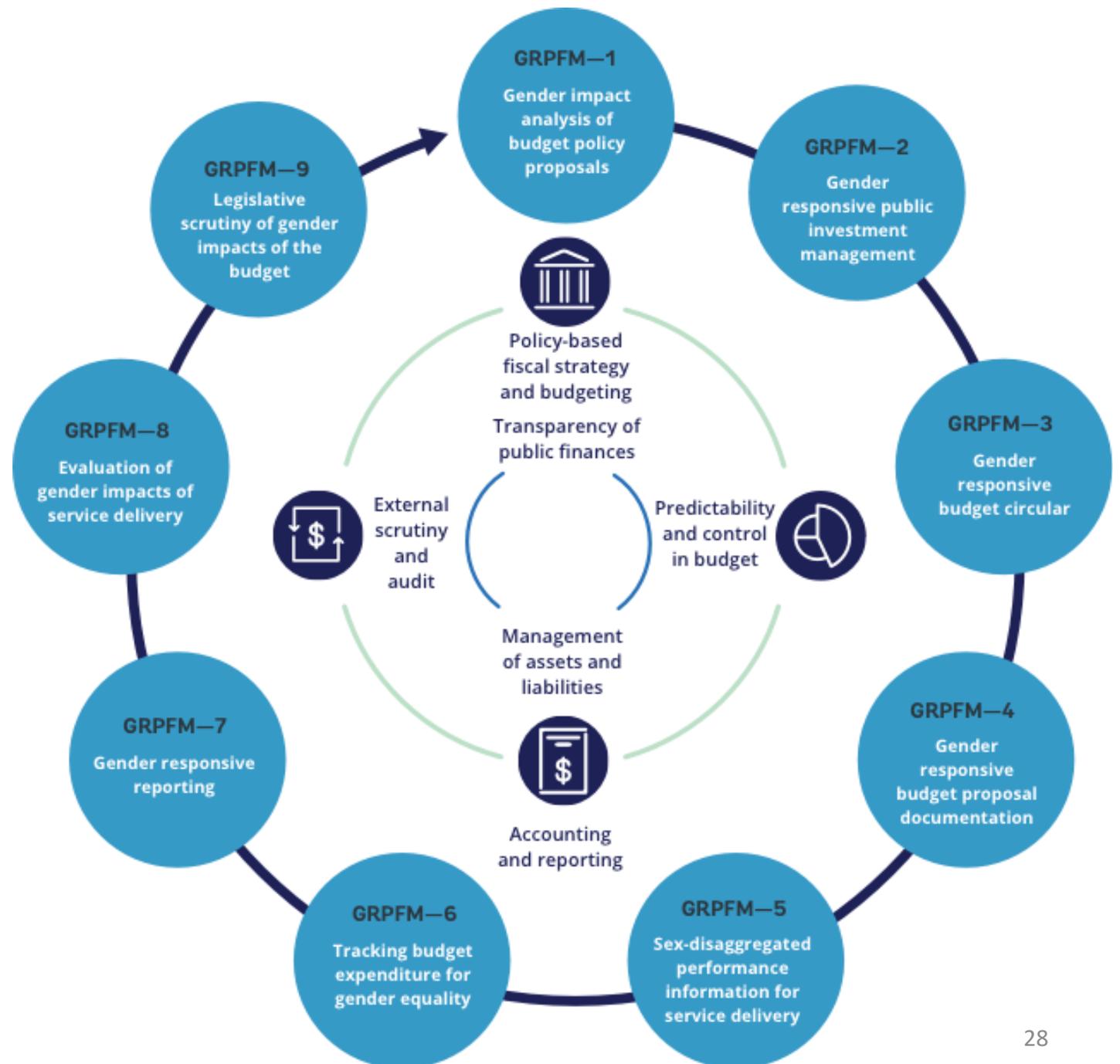
- The budget execution reporting system provides information on performance relating to service delivery, which enhances the overall control environment.
- The SAO conducts financial, compliance and performance audits, and makes recommendations on service delivery performance
- Information and communication of internal control awareness is continuously promoted through targeted and cross-cutting training. Monitoring is strong through the processes of internal and external audit, with strong follow-up embedded in the system.

# **GENDER RESPONSIVE PFM ASSESSMENT 2022**

# Overview of the Assessment

- The PEFA supplementary framework for assessing gender responsive public financial management (GRPFM)—is a set of [supplementary indicators that collect information](#) on the degree to which a country’s public financial management (PFM) system addresses the government’s goals with regard to acknowledging [different needs of men and women and promoting gender equality](#).
- The supplementary GRPFM indicators are [aligned with the existing PEFA framework](#) for assessing PFM performance
- The indicators [mirror the mapping of PFM practices and assessment of PFM institutions, processes, and systems](#) typically carried out during a standard PEFA assessment process
- Conducted by the [Ministry of Finance \(MoF\)](#) with technical and financial support from [UN Women](#) and the [Ministry of Foreign Affairs of Norway](#).
- It was conducted within the framework of the “[Good Governance for Gender Equality in Georgia](#)” (GG4GEG) project.
- The assessment was carried out from December 2021 to May 2022 and covers the period 2019-2021.

# Supplementary Framework for Assessing Gender Responsive Public Financial Management: Nine Key Dimensions



# Overview of the GRPFM assessment 2022

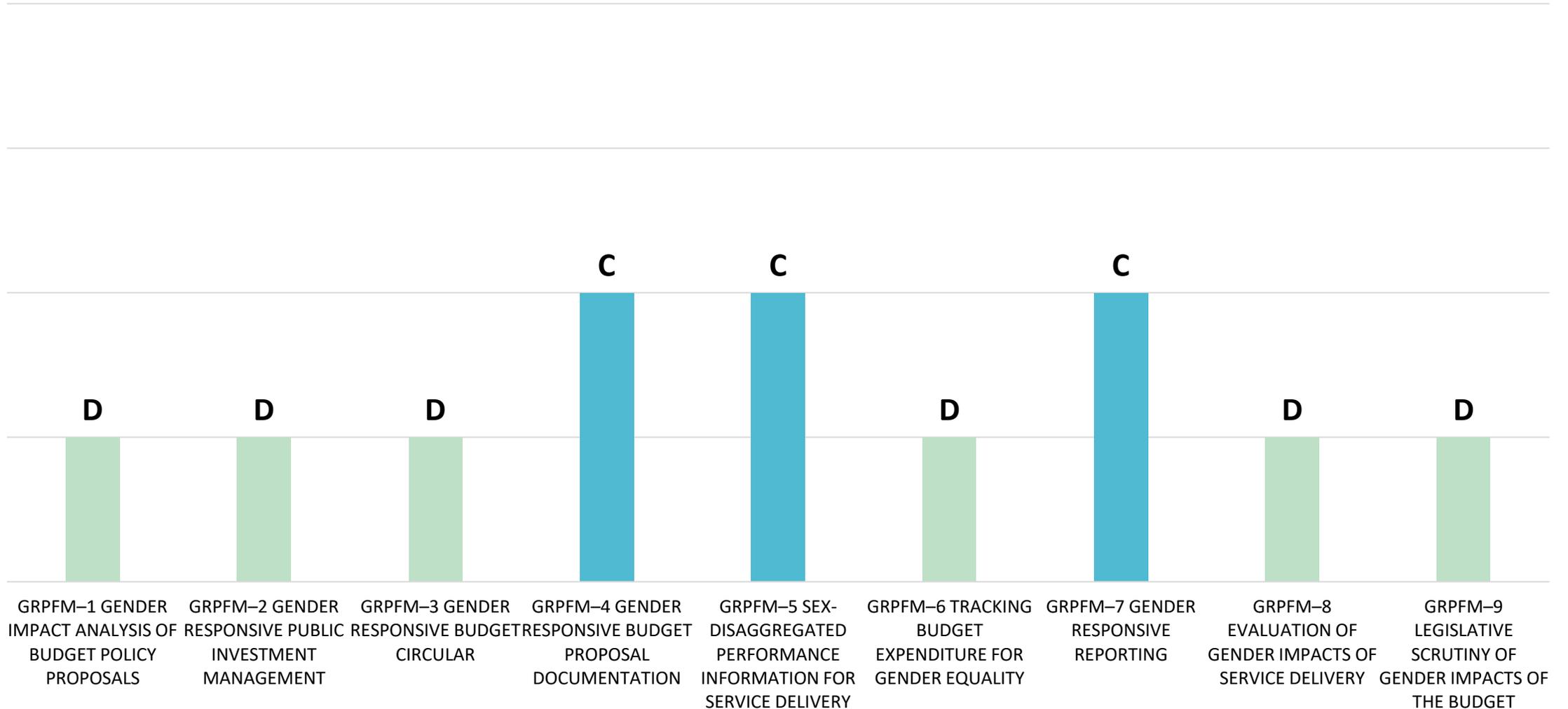
- The principles of equality, regardless of one's sex, are embedded in Georgia's Constitution and all the other major legislative acts
- Program budget methodology recommends that all spending units define at least one gender-related performance indicator to measure the outputs/outcomes of the program/subprogram, especially when the program/subprogram is gender sensitive.
- Some project appraisals of major investment projects funded by donors include gender impact assessments.
- Several key public policy documents developed by the Government of Georgia include information on gender gaps, as well as gender sensitive objectives and performance indicators.
- Several governmental action plans on gender equality and women's empowerment have been costed in the past.

# Overview of the GRPFM assessment 2022

- Georgia does not have a comprehensive gender responsive budgeting (GRB) framework in place yet.
- Despite some singular activities to include a gender perspective in the public financial management system, GRB related instruments have not been institutionalized in Georgia.
- Georgia's legislation on PFM, Budget Code and PFM Reform Strategy and Action Plan for 2018-2021 does not integrate gender dimensions.
- There is significant gap in terms of capacities of public servants on GRB, as well as lack of coordination and accountability mechanisms for implementing GRB reform in Georgia

PEFA GRPFM INDICATOR		SCORING METHOD	DIMENSION RATINGS		OVERALL RATING
			1	2	
<b>GRPFM-1</b>	Gender impact analysis of budget policy proposals	M1	D	D	<b>D</b>
<b>GRPFM -2</b>	Gender responsive public investment management	M1	D		<b>D</b>
<b>GRPFM -3</b>	Gender responsive budget circular	M1	D		<b>D</b>
<b>GRPFM -4</b>	Gender responsive budget proposal documentation	M1	C		<b>C</b>
<b>GRPFM -5</b>	Sex-disaggregated performance information	M2	C	C	<b>C</b>
<b>GRPFM -6</b>	Tracking budget expenditure for gender equality	M1	D		<b>D</b>
<b>GRPFM -7</b>	Gender responsive reporting	M1	C		<b>C</b>
<b>GRPFM -8</b>	Evaluation of gender impacts of service delivery	M1	D		<b>D</b>
<b>GRPFM -9</b>	Legislative scrutiny of gender impacts of the budget	M2	D	D	<b>D</b>

# Visual depiction of the GRPFM scores



# Proposed areas for the PFM Strategy

# Maintaining and building on existing system

- Highlight of the PEFA Assessment 2022
  - The PFM system is sufficiently robust to deal with the consequences of COVID
- First Priority
  - Ensure that the excellent progress on PFM in terms of process and procedures is maintained or strengthened e.g. on program based budgeting, public investment management, IPSAS implementation, internal and external audit.

# Proposed areas for PFM Strategy - Central Government

- Public Asset Management, particularly nonfinancial asset monitoring
- Revenue arrears monitoring, whereby there is need to address historical arrears
- Continued Implementation of International Public Sector Accounting Standards (IPSAS)
- Consolidation of Central Government Financial Statements
- Timely submission of Financial Statements for external audit
- State Audit Office audit of the State's consolidated financial statements prepared by Ministry of Finance

# Proposed areas for PFM Strategy – Municipality Level (actions by Center Government and SAO)

- Align the decision making on targeted grants to the budget process so that it is earlier and these grants are able to be included in the planned budget
- Where feasible, align targeted grants to the municipal priorities document so that they cover the medium term in the same way that VAT related transfers are aligned
- Assist the municipalities in specifying better KPIs (both output and outcome). This could be linked with the assistance to Central Government ministries
- Carry out more performance audits:
  - By the Internal Audit Unit in a municipality (or groups of small municipalities) supported by the Central Harmonization Unit
  - By the SAO carrying out thematic performance audits across a representative sample of municipalities
- Sakrebulo Scrutiny of Audit Reports enhanced by Municipality submitting Financial Statements to SAO directly and SAO submitting completed audits directly to Sakrebulo

# Proposed areas for PFM Strategy – Gender Responsive Budgeting

- Build Gender Tagging into the Chart of Accounts and the Budget Classification Structure. This will facilitate:
  - Gender impact analysis of budget policy proposals
  - Gender responsive public investment management
  - Gender responsive budget circular
  - Tracking budget expenditure for gender equality
  - Evaluation of gender impacts of service delivery
  - Legislative scrutiny of gender impacts of the budget

**Thank you!**

# Annexes

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-1 Aggregate expenditure out-turn</b>	<b>A</b>	<b>C</b>	
<b>1.1 Aggregate expenditure out-turn</b>	A	C	A significant decline in the actual compared to the budget in 2020 and 2021 was caused by the outbreak of COVID-19 worldwide in late 2019, which significantly changed the global and national economies. The deviation in these two years were different from that of 2019 which was similar to earlier years.
<b>PI-2 Expenditure composition out-turn</b>	<b>A</b>	<b>B+</b>	
<b>2.1 Expenditure composition out-turn by function</b>	A	B	The results have been affected by COVID-19
<b>2.2 Expenditure composition out-turn by economic type</b>	A	B	The results have been affected by COVID-19
<b>2.3 Expenditure from contingency reserves</b>	A	A	
<b>PI-3 Revenue out-turn</b>	<b>B+</b>	<b>C+</b>	
<b>3.1 Aggregate revenue out-turn</b>	A	C	The results have been affected by COVID-19
<b>3.2 Revenue composition out-turn</b>	B	B	

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-4 Budget classification</b>	A	A	
<b>4.1 Budget classification</b>	A	A	Further improvements have been made: A separate chapter for state institutions and sectors was added to the budget classification, covering all state institutions and all non-market non-profit institutions controlled by state entities.
<b>PI-5 Budget documentation</b>	B	A	
<b>5.1 Budget documentation</b>	B	A	The BDD reflects the fiscal impact of the new policy directions in the medium term. Work on evaluating for Evaluating Tax Expenditures within VAT for 2020.
<b>PI-7 Transfers to sub-national governments</b>	A	B+	
<b>7.1 Systems for allocating transfers</b>	A	B	A new rules based transfer system based on VAT has been introduced. However as a result of COVID-19 outbreak, a reduced distribution of value added tax to municipalities necessitated allocations to municipalities in order to supplement their own revenues.
<b>7.2 Timeliness of information on transfers</b>	A	A	

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-10 Fiscal risk management</b>	<b>B</b>	<b>B</b>	
<b>10.1 Monitoring of public corporations</b>	B	B	
<b>10.2 Monitoring of sub-national government (SNG)</b>	C	C	
<b>10.3 Contingent liabilities and other fiscal risks</b>	B	A	The coverage of other fiscal risks is now comprehensive.

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-11 Public investment management</b>	<b>C</b>	<b>A</b>	
<b>11.1 Economic analysis of investment proposals</b>	C	A	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
<b>11.2 Investment project selection</b>	C	A	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
<b>11.3 Investment project costing</b>	C	A	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
<b>11.4 Investment project monitoring</b>	C	A	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
<b>PI-12 Public asset management</b>	<b>C+</b>	<b>B</b>	
<b>12.1 Financial asset monitoring</b>	B	B	
<b>12.2 Non-financial asset monitoring</b>	C	C	
<b>12.3 Transparency of asset disposal</b>	C	B	Better information on disposal of assets.

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-13 Debt management</b>	<b>B</b>	<b>A</b>	
<b>13.1 Recording and reporting of debt and guarantees</b>	A	A	
<b>13.2 Approval of debt and guarantees</b>	A	A	
<b>13.3 Debt management strategy</b>	D	A	An approved Debt Management Strategy is operational and updated annually.
<b>PI-14 Macroeconomic and fiscal forecasting</b>	<b>A</b>	<b>A</b>	
<b>14.1 Macroeconomic forecasts</b>	A	A	
<b>14.2 Fiscal forecasts</b>	B	A	The explanations of differences were not available at the time of the previous assessment which downgraded the score.
<b>14.3 Macro-fiscal sensitivity analysis</b>	A	A	
<b>PI-15 Fiscal strategy</b>	<b>D+</b>	<b>A</b>	
<b>15.1 Fiscal impact of policy proposals</b>	D	A	Estimates of the fiscal impact of policy changes are prepared
<b>15.2 Fiscal strategy adoption</b>	B	A	
<b>15.3. Reporting on fiscal outcomes</b>	D	B	A report on fiscal outcomes is submitted to Parliament.

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-16 Medium term perspective in expenditure budgeting</b>	<b>B+</b>	<b>B+</b>	
<b>16.1 Medium-term expenditure estimates</b>	A	A	
<b>16.2 Medium-term expenditure ceilings</b>	A	A	
<b>16.3 Alignment of strategic plans and medium-term budgets</b>	A	A	
<b>16.4 Consistency of budgets with previous year estimates</b>	D	C	Deviations at the aggregate levels are explained.
<b>PI-19 Revenue administration</b>	<b>B+</b>	<b>B+</b>	
<b>19.1 Rights and obligations for revenue measures</b>	A	A	
<b>19.2 Revenue risk management</b>	A	A	
<b>19.3 Revenue audit and investigation</b>	A	A	
<b>19.4 Revenue arrears monitoring</b>	D	D	There has been a reduction in the total stock of revenue relative to the revenue collected in 2021 but the age profile of revenue remains the same.

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-22 Expenditure arrears</b>	<b>C+</b>	<b>A</b>	
<b>22.1 Stock of expenditure arrears</b>	A	A	
<b>22.2 Expenditure arrears monitoring</b>	C	A	Monitoring is undertaken through e-Treasury
<b>PI-23 Payroll controls</b>	<b>A</b>	<b>A</b>	
<b>23.1 Integration of payroll and personnel records</b>	A	A	
<b>23.2 Management of payroll changes</b>	A	A	
<b>23.3 Internal control of payroll</b>	A	A	
<b>23.4 Payroll audit</b>	A	A	

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-24 Procurement management</b>	<b>B+</b>	<b>A</b>	
<b>24.1 Procurement monitoring</b>	A	A	
<b>24.2 Procurement methods</b>	A	B	There are a variety of reasons for this decline. Fifty per cent of non-competitive purchases are National Health Agency purchases which are most likely related to the pandemic. A further and perhaps more in-built reason for the decline is that the threshold has been the same since 2010 which is now much smaller in real terms both in GEL and US\$.
<b>24.3 Public access to procurement information</b>	A	A	
<b>24.4 Procurement complaints management</b>	D	A	A new fully independent complaints review system has been put in place that meets the PEFA criteria.

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-26 Internal audit</b>	<b>B+</b>	<b>A</b>	
<b>26.1 Coverage of internal audit</b>	A	A	
<b>26.2 Nature of audits and standards applied</b>	B	A	Internal auditors are more focused on conducting system and performance audits, unlike the previous period, when mainly financial and compliance audits were conducted in government institutions.
<b>26.3 Implementation of internal audits and reporting</b>	A	A	
<b>26.4 Response to internal audits</b>	A	A	
<b>PI-27 Financial data integrity</b>	<b>A</b>	<b>A</b>	
<b>27.1 Bank account reconciliation</b>	A	A	
<b>27.2 Suspense accounts</b>	A	NA	Revenue suspense accounts noted in the previous PEFA have been removed
<b>27.3 Advance accounts</b>	A	A	
<b>27.4 Financial data integrity processes</b>	A	A	

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-29 Annual financial reports</b>	<b>D+</b>	<b>C+</b>	
<b>29.1 Completeness of annual financial reports</b>	B	A	
<b>29.2 Submission of reports for external audit</b>	D*	C	The 2018 PEFA was unable to get information to score.
<b>29.3 Accounting standards</b>	C	B	Additional IPSAS standards have been incorporated since the previous PEFA
<b>PI-30 External audit</b>	<b>B+</b>	<b>A</b>	
<b>30.1 Audit coverage and standards</b>	A	A	
<b>30.2 Submission of audit reports to the legislature</b>	A	A	
<b>30.3 External audit follow-up</b>	B	A	The SAO has implemented an electronic monitoring system that provides more timely information.
<b>30.4 Supreme Audit Institution (SAI) independence</b>	A	A	

	2018	2022	
Indicator/Dimension	Score	Score	Comment
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>C+</b>	<b>A</b>	
<b>31.1 Timing of audit report scrutiny</b>	C	A	The scrutiny of the annual budget and reporting to Parliament is done within three months of receipt.
<b>31.2 Hearings on audit findings</b>	C	A	The number of hearings has increased and is focused on reports that have a qualified opinion
<b>31.3 Recommendations on audit by the legislature</b>	C	A	The follow up system has been improved since the previous PEFA.
<b>31.4 Transparency of legislative scrutiny of audit reports</b>	A	A	