

PUBLIC FINANCIAL MANAGEMENT REFORM

Action Plan  
2016

The Annual Report

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## I - BUDGETING

### 1. IMPROVEMENT OF BUDGET MANAGEMENT

#### 1.1 Improvement of Reporting on Annual Budget Execution towards Controlling Authority

**Responsible Unit:** Budget Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Parliament of Georgia)

**Performance Criteria:** Report on State Budget Execution in and Overview of State Budget for 2016 have been submitted to the Parliament of Georgia within the deadlines defined in the legislation of the country and they comply with the requirements defined in the legislation of the country by covering reports on results achieved within this context. Mechanisms have been introduced for a follow-up on the findings of the State Audit Office.

**Timeframe:** January-December

**Progress:** State budget execution annual report of 2015 was submitted to the government on 30 March of current year. Together with the annual report, according to the requirements of Government Resolution №144 of March 30, 2015 “On Some Measures of Reporting and Strengthening of Accountability in the process of Public Finance Management”, “The State Audit office’s report of the possibility of taking in account the comments and recommendations during the budgetary process on the State Audit Office’s annual report on the execution of the 2014 State Budget of Georgia” Government Action Plan (Approved by the government with a decree №2836 December 30, 2015) performance report was sent.

In accordance with the requirements of Government Resolution №144 of March 30, 2015 “On Some Measures of Reporting and Strengthening of Accountability in the process of Public Finance Management”, and in accordance with the Decree of Georgian Government №1823, 9 September, 2016 “Action plan of possibility of taking in to account comments and recommendations during the budgetary process, introduced in the report prepared by State Audit office, on the State Budget Execution Annual Report of Georgia in 2015” was developed and approved.

**Note:** In process

#### 1.2 Mid-Term Expenditure Framework (MTEF)

**Responsible Unit:** Budget Department, Fiscal Forecasting Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Original draft and updates of the Basic Data and Directions (BDD) Document of the country have been drafted for 2017-2020. DBB has been submitted to the Government and Parliament of Georgia within the deadlines defined in the legislation of Georgia. It complies with the requirements of the legislation. Guidelines on the Costing have been endorsed on the grounds of the lessons learned. Action Plans of the Line Ministries comply with the methodology developed by the Ministry of Finance of Georgia. Mid-term Plans are compatible with parameters of fiscal policy defined in the Organic Law. Mid-term Plans have been endorsed by Line Ministries of Georgia. They feed into the National Mid-Term Action Plan by envisaging the respective costing and adhering to the Guidelines on Costing.

**Timeframe:** February-December

**Progress:** The final version the document of Basic Dimensions and Directions of the country for 2016 – 2019 has been prepared, which includes information on the main directions of local budgets and is allocated at the Ministry of Finance's website.



Ordinance of the Government of Georgia “about measures to be taken for implementing documentation on main data and directions of country” was prepared and approved with decree №104 of 24 February, 2016.

Annexes forms has been developed, according to which to the purpose for preparation of documentation about the Basic Dimensions and Directions of country information must be submitted to the Ministry of Finance step by step. Among them, renewed attachment of medium-term action plan for the 2017-2020 is introduced for the ministries, which includes information about programs / subprograms/ events to be implemented in accordance with the priorities of the state budget: Description and purpose, the expected medium -term and final outcomes, evaluation Indicators ( Basic indicator, the target rate according to years, implementation, possible risks, probability of failure, as well as information about the program / sub-program / event represents the continuation of the existing policy or the part of the new policy). In addition, for each program / sub-program / event the funding sources are indicated, which, in turn, must conform to the parameters stipulated by documentation of the state budget and of the Basic Dimensions and Directions. In addition, pilot ministries (Ministry of Corrections, Ministry of Labor, Health and Social Affairs, Environment and Natural Resources, Education and Science, and the Ministry of Finance) in accordance with decree, must prepare and introduce the action plan of 2016 in the Ministry of Finance with the renewed format.

With the updated program budget methodology conducting the process of medium-term action plans by the ministries in the working group format is proposed, among them, in the frameworks of public finance management reform of European Union (PFM III) recommendation was issued by the assessment mission, about involvement of high-level management in the medium-term action plan preparation process by ministries and for this purpose, implementing the working groups in all ministries. According to the ordinance, the working group will be chaired by the Minister, while the working group will consist of Heads of Departments / representatives, as well as Heads of Departments / representatives of sub-divisions and other controlled structural units in the relevant direction of policy. Based on the decision of ministry, employee of Budget Department in the Ministry of Finance can be asked to participate in the working group.

On March 28-31, of the current year, meeting were held with the Ministries in order to conduct correctly the above mentioned process and events, which have to be implemented in the current year. The main aspects of preparation of the medium-term action plan and preparation process of the mentioned documentation was discussed.

On June 14-17, of the current year, meetings were held with the Ministries, the first versions of the medium-term action plans, prepared by the ministries, were discussed, among them the existing difficulties and challenges related with the preparation process of action plans. Recommendations were issued on the relevant amendments before the adoption of the mentioned plans.

In accordance with the Budget Code, before the 30 of June, of the current year, revised medium-term action plans were approved, in line with the requirements of the requirements of the updated methodology for the preparation of the program budget. Document for the Basic Dimensions and Directions of the country for 2017 – 2020 was prepared and with the draft of the Georgian Law "On the State Budget of Georgia in 2017" (The first submission) in accordance of the requirements of the Georgian Budget Code was submitted to the Georgian Government on the 23 September, of the current year, with the letter № 04-02/92745.

Medium Term Action Plans with relevant costings prepared by the Mnistries are in line with the State Budget law for 2017 and BDD.

**Note:** In process

### 1.3 Annual Budget Drafting



**Responsible Unit:** Budget Department, Fiscal Forecasting Department, Public Debt and External Financing Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Draft Law on State Budget for 2017 has been developed and submitted to the Parliament of Georgia within the deadlines defined in the legislation. Draft Law complies with the fiscal parameters set out in the Mid-Term Plans and legislation. Submitted is consistent with standards defined for Program Budgeting.

**Timeframe:** July-December

**Progress:** In accordance with the first part of the article 37 of the Budget Code was prepared and with the letter № 04-02/88567 of the 15 September, of the current year, was introduced the main parameters of state budget of Georgia for the 2017 at the Georgian Government session for discussion.

"Law on State Budget for 2017" with relevant annexes was submitted to the Parliament of Georgia on November 29, 2016 with the Letter #04-02/131395 within the timeframe prescribed by the law.

"Law on State Budget for 2017" was adopted by the Parliament on December 14, 2016 by the Decree №64-იბ, 23.12.2016

**Note:** In process

#### 1.4 Improvements to the Introduction of Program Budgeting

**Responsible Unit:** Budget Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Program Budgets defined by the Spending Institutions on the grounds of the updated Methodology on Program Budgeting have been improved. Spending Institutions apply the Methodology on Program Budgeting and Guidelines on Costing while developing Draft Laws on Annual Budgets.

**Timeframe:** January-September

**Progress:** For the purpose of more comprehensive management and program budgeting improvements

Work is ongoing with donors, there is planned meetings / seminars at each stage of the budget process with the parties involved.

On March 28-31, of the current year, during the meeting with the ministries issues about major challenges and preparation of program budget based on the updated methodology was discussed. This in turn is related to the medium-term action plans.

On March 15 of the current year, representatives of Dutch Finance and Economy of the National Academy conducted one-day seminar at the Ministry of Finance Academy on "Strengthening the role of institutions in the budgetary process of spending." The seminar was attended by representatives of all ministries and at the seminar, the budgetary process of Georgia was discussed, Dutch experts shared their experience with the budget process, accountability and responsibilities. In the frameworks of the public finance management the current reforms were discussed.

On September 17, of the current year, meeting was held in order to discuss the program budget of the years of 2017 – 2020, the meeting was attended by invited experts of the European Union project, who were assisting in the refinement of the program budget, as well as representatives of Georgian Finance Ministry (among them curators of the relevant ministries) and representatives of other ministries. Existing challenges were discussed, recommendations were given



for further improvement on program budgeting, for the right coordination and implementation of the mentioned process by the representatives from the all sides.

“Law on State Budget for 2017” is in line with the methodology of the program budgeting prepared by the Ministry of Finance.

**Note:** in progress

### **1.5 Development of Mechanisms for Selection and Implementation of Capital/Investment Projects**

**Responsible Unit:** Budget Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Methodology for Selection and Implementation of Capital/Investment Projects has been developed, along with the relevant Guidelines on Costing. Referred Methodology will be piloted shortly.

**Timeframe:** January-September

**Progress:** Investment Projects Management Guide was prepared and approved by the Georgian Government on the 22 April of the current year with the ordinance №191.

A detailed methodology of investment projects management has been developed and approved with the order of Finance Minister №165 dated on 22 July, of the current year and became the part of the program budget methodology.

Presentation on methodology and roadmap is prepared. Municipalities have sent the list of possible projects for piloting.

**Note:** In process

### **1.6 Full Inclusion of Budgets of Local Authorities and Legal Entities of Both Private and Public Laws in the Budget System Regulations of Georgia**

**Responsible Unit:** Budget Department (Engaged Stakeholders: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Reporting on Budget Execution and Revenue Collections complies with a common standart when incurring costs and making transactions with funds generated from any and all revenue sources.

**Timeframe:** January-September

**Progress:** From the 1<sup>st</sup> January of 2016 Budget execution and performance is reported under a uniform standard for all local self-government Public Legal Entities and for Non-profit (Non-commercial) legal entities.

**Note:** In process

### **1.7 Proper Operation of (Electronic) Budget Management Module of the Public Funds Management System (PFMS)**

**Responsible Unit:** Budget Department, Financial Analytical Service – Legal Entity of Public Law (LEPL); (Engaged Stakeholders: Spending Institutions of the State Budget, Municipal Legal Entities and Public and Private Laws)



**Performance Criteria:** Every functional unit of the Budget Management Module is working well and E-Budget is fully integrated in the Budget Cycle.

**Timeframe:** January-September

**Progress:** Budget Management Module is working well and E-Budget system is fully operational for the Budget Cycle.

**Note:** in process

### 1.8 Ensured Transparency of the Budget Cycle

**Responsible Unit:** Budget Department (Engaged Stakeholders: Spending Institutions of the State Budget, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Mechanisms for the provision of information to general public have been developed at every phase of the budgetary cycle. Measures have been implemented to address the faults identified in the process of Open Budget Survey. Citizens Guide for the State Budget of 2017 has been posted on the web.

**Timeframe:** January-December

**Progress:** For more comprehensive implementation of budgetary process work is ongoing with donors, in terms of public involvement.

Mid-term review document was prepared for the 2016 Budget Performance and was added as an appendix to the 6 month state budget performance report for 2016 year. This will improve state index indicator gained with the open budget survey.

Citizen's guide for 2017 Budget is established on the MoF official web-site in Georgian and English languages.

<http://mof.ge/images/File/gzamkvlevi/2017-biujetis-kanonis-moqalaqis-gzamkvlevi.pdf>

<http://mof.ge/images/File/gzamkvlevi/Citizens-Guide-2017-State-Budget-english.pdf>

**Note:** In process

### 1.9 Support of Budget Cycle with Improvements of the Legislation

**Responsible Unit:** Budget Department, Legal Department; (Engaged Stakeholders: Spending Institutions of the State Budget, Government of Georgia, Parliament of Georgia)

**Performance Criteria:** Measures planned within the scope of the Public Funds Management Reform have been supported with respective laws and regulations.

**Timeframe:** January-September

**Progress:** In order to maintain the parameters specified by Organic law for the necessity of Sustainable fiscal policy and "Economic Freedom", the limits are defined with the annual budget law and the local government code both state and municipal budgets. "The State Budget of Georgia 2017" with the draft law and the following draft legislative acts have been presented to the Parliament of Georgia: The changes of the law of Georgia through "the budget code", "The Tax Code" and "The Gambling Business fees", The changes of the Organic law of Georgia through "The local Government Code".



In order to maintain the parameters specified by Organic law for the necessity of Sustainable fiscal policy and “Economic Freedom”, the limits are defined with the annual budget law and the local government code both state and municipal budgets. In particular:

**According to the Budget Code of Georgia:**

The planning of the tax revenue over the amount of the forecast that is supplied by the Ministry of Finance of Georgia is prohibited to the municipality. Herewith, Increase the tax revenue plan is possible only with the consent of the Ministry of Finance of Georgia.

**According to the State Budget Law 2017:**

The Municipalities have been asked to take appropriate measures to the budgetary organizations, which financed by the budget 2017 (except the kindergartens) administrative/operating costs (mainly to the cost of the economic classification of “Remuneration”, “Goods and Services” and “Subsidies” to the paragraph) amount should be no more than 90% of the cash performance indicators 2016 (expected).

"On the state budget of the Regional Development Fund to finance the local Government and Regional projects selection procedures and criteria" the government resolution №23 of February 7, 2013, the criteria of the project financing is determined the above-mentioned parameters of the Municipal Budget.

**According to the Local Government Code:**

The municipality has the right under the authority to the coordination of its activities, according to the legislation of Georgia to establish a non-profit (non- commercial) legal entity, Cc or Ltd (fully applied from 2018).

**Changes to the Tax Code:**

Changes were made of 2017 revenue part of the state budget to the assurance of the tax revenue, also with the purpose of EU Association Agreement and other international commitments, “The Gambling Business Fees” according to the draft law optimization the amount of the gambling business fees in order to increase the state budget revenues.

**Note:** Completed

## II – TAX POLICY AND CUSTOMS-RELATED ISSUES

### 1. IMPROVEMENT OF THE LEGISLATIVE BASE

#### 1.1 Improvement of the International Tax Policy

**Responsible Unit:** Tax Policy Department

**Performance Criteria:** Implementation of procedures for the conclusion of Double Taxation Treaties with Revenue Authorities of priority countries; Implementation of procedures for the conclusion of Tax Information Exchange Agreements (TIEA) and Mutual Support Agreements with Customs Authorities; Second Phase of Assessment of the Georgian Jurisdiction has been progressing since December 2014 for the identification of the degree of compliance with standards on Transparency of Tax Information and Exchange of Information. Second Phase of Assessment envisages the evaluation of practical implementation of the current legislation.

**Timeframe:** January-December



**Progress:** Agreement with Cyprus, South Korea and Liechtenstein on avoidance of double taxation on income and capital has come in a force; Agreement between Georgian and The Republic of Kyrgyz was sign on avoidance of double taxation on income and capital; The second round of negotiations between Georgia and the Republic of Moldova has been completed and the text of the agreement was initialed; Negotiations were conducted and initialed the updated text with Poland. Herein, by competent bodies multilateral agreement was signed in order to exchange reports among countries.

In February 2016, report on the second phase of evaluation of the transparency and exchange of information has been approved by the Global Forum. Subsequently, with the second phase, the existing practice in Georgia in the fields of transparency and information exchange has been recognized to be largely compliant with international standards.

**Note:** In process

### **1.2 Development of Draft Regulations Deriving from the Tax Code of Georgia and Customs legislation**

**Responsible Unit:** Tax Policy Department

**Performance Criteria:** Draft Customs Code of Georgia has been developed; Draft amendments have been developed in relation with the Customs Code of Georgia; Draft Ministerial Orders and Government Resolutions have been developed to regulate the customs system of the country.

**Timeframe:** January-December

**Progress:** Work proceeded for fulfillment the draft normative act for regulation of Custom field in regards of European Union Code, for reaching the high-level of harmonization.

**Note:** In process

### **1.3 Further Improvement of Tax Legislation and Development of Draft Regulations for the Execution of Amendments made to the Tax Legislation**

**Responsible Unit:** Tax Policy Department

**Performance Criteria:** Analysis of problems identified in the process of tax administration; Analysis of presented legislative initiatives; Identification of current vague and dual-interpretation provisions and development of a Draft Law to address the issues; Development of respective amdnemtns to the legislation for capturing key obligations of taxpayers.

**Timeframe:** January-December

**Progress:** Georgian Parliament adopted the Law "On Amendments in the Tax Code", it aims to improve the system of tax administration and simplify the process of Tax liability provisions. In particular, according to the law bad tax debts have been written off. (Tax debts accrued before 2011 and sanctions imposed until 2013 are discarded), tax control will have been exercised only by tax authorities and other controlling and law enforcement authorities are prohibited to implement tax control of the legal or natural body. The law also provides the VAT payment deferral period for imported fixed assets. Importer, who is using the fixed assets for the operations, which are taxable with the VAT, will not pay for VAT while importing.

For additional tax revenue mobilization, approach to European Union legislation and for clarifying the certain issues, implementing the draft of Georgian law of "the Tax Code Change" is being proceeded. For special trade zone





arrangement, in order to continue the period of making tax legislation in compliance with the requirements before January 2018, amendments in the Georgian Tax Code was prepared and approved by parliament.

Draft resolution of the Georgian Government was developed for the affirmation of list of commodities specified in the codes 8401-9033, developed by the National Foreign Economic Activity Commodity Nomenclature. Mentioned project defines the list of goods, according to which will work the VAT payment deferral mechanism according to the article 171, paragraph 31.

For implementing the income tax reform program, to enforce the amendments in the tax code, work is ongoing to develop appropriate subordinate normative acts. In particular, the draft resolution of government is proceeded to determine the list of countries with preferential taxation. Also, with collaboration of the Revenue Service, new form of income tax declaration and the filling instructions have been developed.

**Note:** In process

#### **1.4 Approximation of Tax Legislation with EU Directives within the Scope of EU Association Agreement**

**Responsible Unit:** Tax Policy Department

**Performance Criteria:** Development of an Action Plan for Approximation of Tax Legislation of Georgia with EU Directives within the scope of the EU Association Agreement; Comparative Analysis of Tax Legislation of Georgia with EU Directives and development of Draft Amendments to the Tax Code of Georgia.

**Timeframe:** January-December

**Progress:** For additional tax revenue mobilization, approach to European Union legislation and for clarifying the certain issues, implementing the draft of Georgian law of "the Tax Code Change" is being preceded:

- The first part of the article 161 of the Tax Code was amended. The date of VAT payment is prescribed as the date of prepayment, if this payment is made before the goods /services supply.

- The excise tax on cigarettes is increased - filtered cigarettes 20 pieces- 0.6 lari, non-filtered cigarettes to 20 pieces - 0.3 lari. Also the tax was increased on other types of Tobacco products

**Note:** In process

#### **1.5 The income tax reform - growth-oriented tax system (new)**

**Responsible Body:** Tax Policy Department

**Performance Indicator:** Developing the draft for the related amendments in the Tax Code

**Period:** January- December

**Progress:** Georgian Parliament adopted the Law "On Amendments to the Tax Code," which aims to implement the income tax reform. Mentioned Tax Code is based on the "Estonian Model", According to the mentioned reform, taxpayer will pay income tax while profit distribution instead of receiving it, accordingly enterprises shall pay profit tax only in case of income distribution. According to the applied law, company will pay income tax if it gives dividend to partner, also in case of profit distribution any other form, like costs for non-economic activity, representation expenses above the limit, free transactions and other hidden profit distributions. Income tax reporting period is determined by the calendar month and companies, which will be taxed with the new regime, will not have any more to pay prepaid



(advance payment) payment. Implementation of the income tax reform will promote business start-ups and will create favorable conditions for the development, investment growth, and acceleration of economic growth, the accessibility of the financial resources to companies, as well as tax calculation and simplified administration.

**Note:** In process

## 2. IMPROVEMENT OF TAX AND CUSTOMS SYSTEMS

### 2.1 Capacity Building of Tax Audit

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Improvement of a training system for tax auditors; Allocation of increased human resources to the Tax Audit Department.

**Timeframe:** January-December

**Progress:** Since May 2016 trainings are held in respect of the Orders №994 and №996, issued by Ministry of Finance. By the end of 2016, 119 auditors have passed the training also there are 367 workers in the audit department.

**Note:** In process

### 2.2 Reduction of Timeframe for Tax Audits and Simplification of Tax Audit Scope

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Introduction of a computer-assisted system of audit procedures.

**Timeframe:** January-December

**Period:** January-December

**Progress:** Based on the recommendations of the US Treasury Technical Assistance Service Experts, new form of tax audit act was worked out and approved in 2016, also the form of recalculation was also simplified in case of the verifying the complaint of the tax payer; Draft regulation project was developed for filed tax audit procedures and is submitted to the Legal Department for the conclusions. With help of experts of GIZ work is ongoing to draw out the Audit Manual.

**Note:** In process

### 2.3 Optimization of Service Areas

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Timely and accurate compliance of taxpayers with their tax obligations; Timely and efficient tax refunds of tax credits; Improvement of service standards; Assessment of current service standards and correction of faults.

**Timeframe:** January-December



**Progress:** Terms of refund for overpaid taxes to taxpayers and defining all the reasons of origin of surplus were shortened to one month. Also, number of documentation required for return surplus was reduced. Further, with help of Tax Data Automated System, for automotive refund of overpaid tax, automatic learning software logic “taxpayer's request” has been developed. In order to cover the debts in other kind of taxes with surplus was cancelled for "Taxpayer's request" requirement and from 2016, in the regard of the unified public code of transition, and with establishment of unified private registration card, request from taxpayers to cover the recognized tax debts with overpaid taxes is performed automatically by the tax authority. Several “Open days” were conducted with the taxpayers in different regions. The purpose of the meetings was to inform the about the news in taxation, mainly the new model of income tax reform.

**Note:** In process

#### **2.4 Facilitation of Voluntary Compliance**

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Improvement of risk analysis by sector-specific focus to improve the taxpayer compliance with filing and tax payment obligations; Acquisition of relevant hardware and implementation of relevant studies; Development of flyers and journals to convey key information to taxpayers; Design and development of commercials and public relations campaigns of Georgian Revenue Service (GRS).

**Timeframe:** January-December

**Progress:** In the frameworks of enhancing the culture and voluntary declaration and payment by taxpayers, with recommendation of IMF, work out the electronic database. Herewith, measures that have to be taken in regards of different segments of taxpayers are developed and terms are scripted in details, time to time meetings are held with IMF experts to evaluate the performed work and receive/consider new recommendations. We are working on program, which will help to transfer the tax risk analysis in a sectorial section.

**Note:** In process

#### **2.5 Improvement of Trade Facilitation Tools and Customs, Sanitary and Phyto-Sanitary Border Control Measures**

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Accession to Conventions on Simplification of Commodity Trade Formalities and Common Transit Procedures; Development of infrastructure for phyto-sanitary and veterinary border control at customs checkpoints; Acquisition of hardware; Introduction and implementation of vegetable food safety control measures at border crossings; Development of Guidelines for Phyto-Sanitary and Veterinary Control Procedures; Staff Training in Phyto-Sanitary and Veterinary Disciplines; Implementation of relevant measures for the introduction of a concept of Authorized Economic Operators; Implementation of relevant measures in relation with the introduction of a concept of Authorized Economic Operators.

**Timeframe:** January-December

**Progress:** For the purpose to overcome the problems, identified with a result of discussion of convention text, we are working actively to organize meetings with experts of the European Union. Also, developing and decision making about informational issues are in working process with help of experts from European Union Commission and various EUROPEAN UNION countries. Within the frameworks of “Comprehensive Institutional Building” (CIB) project, acquiring



process of appropriate inventory for phytosanitary and veterinary control at the customs check points has begun. Within the frameworks of the same project, learning visits were carried out in Latvia and Estonia with relevant organizations. (15-20 May and 12-18 June 2016), where there was involved 9 employees of the sanitary, phytosanitary and veterinary control units. For the purpose to create the drafts of procedural manuals related to the realization of the phytosanitary, sanitary and veterinary control procedures, a working group was creating based on the ordinance of head of the Revenue Service. For development of Authorized Economic Operator Institute, we are working on relevant legal act projects. For development of Authorized Exporter Institute, by the working group, developed with the ordinance of head of the Revenue Service, was implemented drafts for amendments in the subordinate normative legal acts, which was sent to Finance Ministry of Georgia for further legal procedures.

On November 29, 2016 in Belgium was held the meeting of EU-Georgia project-group for customs cooperation. One of the issues was involvement in Transit Convention. Parties have agreed that in order to successfully implement project the TWINNING program is needed. Georgian side will provide the project request and if the program will be started the implementation will be started in the last quarter of 2017.

In the frame of CIB necessary equipment of the sanitary, phytosanitary and veterinary control is purchased. Also the territory of the "Red Bridge" is equipped and built in line with the European standards.

**Note:** In process

## 2.6 Facilitation of EU Integration Process

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Extension of scope for the exchange of information; Successful implementation of the Second Phase of the Global Forum of the Organization of Economic Cooperation and Development (OECD); Facilitation of the approximation process of the Georgian legislation and VAT provisions with EU Directives within the scope of the EU Association Agreement.

**Timeframe:** January-December

**Progress:** Completed negotiations with the Government of the Commonwealth of the Bahamas to exchange information according to the agreement. By this time, the internal procedures are in progress for gaining the signing authority; within the frameworks of information exchange in the automatic mode system the agreement text was signed by competent bodies of USA and Georgian Revenue Service, for the purpose of FATCA implementation. According to the memorandum, implemented in the automatic mode, information was sent to Lithuania, Latvia and the Netherlands; in the frameworks of convergence process between Georgian Legislation and European Union Directives on VAT (Council directions 2006/112/EC 28 November, 2006 (on the unified system of value added tax (VAT)) discussions on the future amendments issues of Value Added Tax payment in the Tax Code are in process. Also we are working on the preparation of legislative changes in the frameworks of working groups in the Revenue Service. With funding from the British government discussions are held with PwC regarding the impact assessment report of service provision on the ground. For the purpose of convergence of Georgian Legislation of the Council of June 21, 2011 2011/64 / European Union Directive (on the manufactured tobacco excise tax structure and rates) from the first January of 2016, amendment was made in Tax Code and excise tax was increased on tobacco (filtered and non-filtered cigarettes) as fixed, as well as Ad valorem tax. Work in progress with terms of the agreement on rate increase, in particular according to the regional context; in the frameworks of convergence between Thirteenth Council Directive 86/560 / EEC of November 17, 1986 to Georgian Legislation an agreement was reached with GIZ on the technical assistance project on launching. In addition, working groups, created between the agencies of the Ministry of Finance to work on the package of legal changes. Currently the expert of GIZ relevant amendments and draft ministerial decree for tax code is prepared. Draft documents are on internal discussions and will be adopted by the end of February, 2017



**Note:** In process

## **2.7 Development of HRM Strategy**

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Start developing the Human Resource Development Strategy Paper.

**Timeframe:** January-December

**Progress:** For the purpose to implement the integrated policy of the Revenue Service and planning the actions for their execution, special working group has developed a strategy for the project of the Revenue Service. The action plan for revenue service operation, entire policy preparation and execution is adopted.

**Note:** In process

## **2.8 Improvements to the Organizational Structure of GRS**

**Responsible Unit:** Georgian Revenue Service (GRS)

**Performance Criteria:** Development of a new organizational structure of the Georgian Revenue Service.

**Timeframe:** January-December

**Progress:** With help of USAID financial support, in case to improve human resources, organizational and institutional capacity, implementation of the project is planned, one of which component will be the organizational structure analysis. For this purpose independent auditing company has prepared the functional analysis of the RS and relevant report recommendations were provided. This report is on internal discussions in RS.

**Note:** In process

# **III – MACROECONOMIC FORECASTING AND ANALYSIS**

## **1. IMPROVEMENT OF MACROECONOMIC FORECASTING AND ANALYSIS**

### **1.1 Improvement of Macroeconomic Forecasting and Analysis; Increased Scope of Analytical Information**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Improved forecasting; Presentation of findings on the grounds of macroeconomic analysis (Introduction of a system for regular discussions).

**Timeframe:** January-December

**Progress:** The area of macro-economic indicators is increased. Analysis of the companies declared turnover based on VAT database is implemented systematically. These data is used for macroeconomic forecasting.

**Note:** Completed



## **1.2 Scrutiny of New Analytical Indicators of Economic Activities on the Grounds of Information Obtained from Administrative Sources**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Extension of a product-line for the analysis of economic activities.

**Timeframe:** January-December

**Progress:** The monthly VAT turnover and their calendric corrections data analyze are prepared.

**Note:** Completed

## **1.3 Periodic Analysis of Economic Position and Release of Information on Findings**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Information on economic position is posted on the MOF URL on a regular basis.

**Timeframe:** January-December

**Progress:** Congruous analytical and informative material about the country's indicators of macroeconomic development and stability is made on the monthly bases in the department. Information is allocated on the official web-site of ministry.

The information for 2016 is prepared and indicates the following:

1. Current, basic economic trends (GDP dynamics, prices, Lari exchange rate, unemployment level, foreign direct investments, foreign trade, current account analysis, credit rating, economic growth, business sector turnover and production release);
2. Georgia and neighbour countries;
3. Economic activity analysis with the regard of sectors;
4. Consolidated budget income analysis; etc.

Fiscal multiplier was reassessed according to the country`s economic development.

According to the situation for the August, 2016 presentation was prepared - "Overview the economics of Georgia"

**Note:** Completed

## **1.4 Periodic Analysis of Fiscal Policy**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Quarterly monitoring of deficit; Scrutiny of structural deficit; Methodology of structural deficit; Monitoring of monthly budget deficit.

**Timeframe:** January-December



**Progress:** The deficit of the first, the second and the third quarters was figure out, according to the released official data, the third-quarter deficit calculation will be made after receiving the official data. The initial calculation of the structural deficit has been prepared, according to the 2015 official GDP data. Analysis of the obtained results is in process.

**Note:** Completed

### 1.5 Diagnostics of Vulnerability

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Scrutiny of international practice.

**Timeframe:** January-December

**Progress:** Continues search and learning of the methodology

**Note:** In process

## 2. IMPROVEMENT OF REVENUE PROJECTIONS AND ANALYSIS

### 2.1 Improvements in the Budget Revenue Projections

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Improved projections; Development and application of an alternative methodology; Scrutiny of the Revenue Elasticity Ratios; Scrutiny of Excise Goods Elasticity Ratio.

**Timeframe:** January-December

**Progress:** Analysis was prepared in respect of different taxes paid to the budget buy taxpayers (according to the industry and legal forms), working on the base analyze of VAT, the analysis of the dynamics of the salaries in the economy is continuing, as well as learning of the new methods of international experience on the revenue forecasting.

The VAT elasticity coefficient was calculated, studying and analyzing of the initial results are in process.

Amendments and income and macroeconomic parts for “State Budget Law 2016” and “State Budget Law 2017” were prepared with the renewed methodology. Also the influence of new tax teform on revenues was calculated.

**Note:** Completed

### 2.2 Tax System Appraisal

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Tax GAP Analysis; Scrutiny of tax expenditures, tax compliance, international methodologies and practices.

**Timeframe:** January-December

**Progress:** Continues work for searching and learning of methodology



**Note:** working process with IMF is underway. Assessment of this issue will be continued in 2017

### **2.3 Collection, Processing and Analysis of Information on Tax Assessments**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Use of data for analytical purposes and projections.

**Timeframe:** January-December

**Progress:** After switching to the new system of tax accounting, results of tax database are different according to the periods of payment and filling of the declaration. At the present we are working on comparison of tax revenue data and observation.

**Note:** Completed

## **3. IDENTIFICATION AND ASSESSMENT OF FISCAL RISKS**

### **3.1 Macroeconomic Risk Assessment**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Improvements in the macroeconomic risk analysis.

**Timeframe:** January-December

**Progress:** Work has started on the document of macro-economic risk analysis, which will be added to the state budget project of 2017.

**Note:** In process

### **3.2 Assessment of Contingent Liabilities of State Owned Enterprises**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Creation of Registry of Liabilities derived from State Owned Enterprises (SOEs); Assessment of Fiscal Risks derived from SOEs; Improvement of the Data Collection System/Questionnaire designed for SOEs.

**Timeframe:** January-December

**Progress:** Based on the data, gained from the public organizations, information about the contingent liabilities of the enterprises were processed, in addition, data from the number of enterprises under the governance of municipalities was added to the existing data, we are working to process and refine the mentioned data. According to the assessment of international experts and according to the recommendations designed for improvement of analytical documentation, we requested the complete information from number of agencies and organizations, that shall include a 5-year period of activity of enterprises, wider range of their financial indicators and their contingent liabilities. The mentioned information has already being sent from organizations and we are working to process them for the purpose of further analyze.

Fiscal risks assessment document is prepared according to the interational styandards and was annexed to the "State Budget Law 2017".





**Note:** Completed

### **3.3 Assessment of Risks Related to Social Liabilities**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Assessment of current pension and healthcare systems; Impact of population ageing on social liabilities.

**Timeframe:** January-December

**Progress:** Demographic and financial model has been developed within the frameworks of pension reform.

**Note:** In process

## **IV – PUBLIC DEBT MANAGEMENT**

### **1. IMPROVEMENT OF PUBLIC DEBT MANAGEMENT**

#### **1.1 Improvements to the Analytical Segment of the Public Debt Management (Middle Office)**

**Responsible Unit:** Public Debt and External Financing Department

**Performance Criteria:** Updates to the Public Debt Management Strategy Paper; Development of Public Debt Sustainability Analysis; Introduction of best practices and current trends in public debt management.

**Timeframe:** January-December

**Progress:** Draft “public debt law” is amended for December 31, 2016 date; Debt sustainability analysis document for 2017-2024 was annexed to the State Budget Law 2017”; Best practices were shared from Romania and Slovak Republic.

**Note:** In process

## **V – ACCOUNTING AND REPORTING**

### **1. INTRODUCTION OF IPSAS STANDARDS FOR COMPATIBILITY WITH ACCRUALS METHOD**

#### **1.1 Provision of Information to Public Sector Accountants on the Requirement to Comply with IPSAS Standards (IPSAS 13, IPSAS 19, IPSAS 22, IPSAS 23, IPSAS 24) as Elaborated in the Guidelines on Accounting and Financial Reporting; Development of Training Materials; Staff Training**

**Responsible Unit:** Treasury Service; Academy of the Ministry of Finance of Georgia – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Public sector accountants have been applying IPSAS 13, IPSAS 19, IPSAS 22, IPSAS 23, IPSAS 24 provisions since 2016.

**Timeframe:** January-December



**Progress:** Training materials were prepared by State Treasury Service in the IPSAS standards (IPSAS 13, IPSAS 19, IPSAS 22, IPSAS 23, and IPSAS 24). Trainings for accountants of the budget organizations are planned from the October, 2016. Approximately 400 accountants were trained.

**Note:** Completed

### **1.2 General Analytics of Remaining IPSAS Standards; Staff Trainings; Development of Post-Introduction Detailed Action Plans**

**Responsible Unit:** Treasury Service

**Performance Criteria:** Post-IPSAS-Introduction Action Plan has been developed for 2016-2020; Treasury Service staff have been trained in IPSAS.

**Timeframe:** January-December

**Progress:** For the purpose, to promote the development the accrued method according to the IPSAS standards, and, in general, for improvement of public finance management and taking it in line with international practice, within the frameworks of technical assistance European Union, detailed action plan of IPSAS (2017-2020) was prepared by foreigner experts, thus was determined frequency for each standards by years. Within the frameworks of same project, trainings was held on IPSAS standards, as for spending organizations as well for the state treasury service employees of the departments of reporting and methodology.

**Note:** Completed

### **1.3 Analytics of Standards Envisaged in the Post-IPSAS-Introduction Action Plan; Incorporation of Requirements in the Guidelines for Accounting and Financial Reporting**

**Responsible Unit:** Treasury Service

**Performance Criteria:** Draft amendments have been developed. They include the requirements of selected IPSAS standards.

**Timeframe:** June-December

**Progress:** Studying and analyzing of standards (IPSAS 1, IPSAS 5, IPSAS 9, IPSAS 14, IPSAS 16, IPSAS 36 and IPSAS 37) which will be introduced in regards of existed accounting system from 2017 is undergoing. according to the requirements of above cited standards, affirmation of the normative act project approved by the order of Finance Minister will be in force since April 1, 2017.

**Note:** In process

## **2. DEVELOPMENT OF INTEGRATED PUBLIC FUNDS MANAGEMENT INFORMATION SYSTEMS**

### **2.1 Integration of Accounting Entries with Various Modules of the General Ledger of Treasury Service**

**Responsible Unit:** Treasury Service; Financial Analytical Service

**Performance Criteria:** General Ledger of the Treasury Service includes information on various payments made from the budget.



**Timeframe:** January-December

**Progress:** In the frameworks of state finance management reform, since 1<sup>st</sup> January of 2016, at the integrated informative system base of state finance management the unified treasury code has become operative. We continue to work on the accrued module of tax In the Treasury General Ledger. In order to improve the efficiency of fiscal decision making, refinement and adoption of module is carried out continuously. Furthermore, with financial and analytical service, based on the initial documentation, in the General Ledger of Treasury according to the accrual basis method of accounting revenues and expenditures business process analytics is carried out.

**Note:** In process

## **2.2 Improvement of a Web-Based Service of Procurement Data on Tender Payments made by Eligible Organizations via Integrated Public Funds Management Information System**

**Responsible Unit:** Treasury Service; Financial Analytical Service

**Performance Criteria:** Bidders pay tender fees via the Treasury System.

**Timeframe:** January-December

**Progress:** Expanding the integration service between procurement agency and treasury system is carried through three directions:

- Erect the procurement data web-service on the bid amounts paid by pretender organizations on the integrated informative system of state finance management, for which relevant software program was worked out and was launched in the test mode. The real-mode operation of the mentioned feature by the procurement agency is planned till the end of the year;
- Agreement status update from the procurement base to the treasury system;
- The validation of the total sum of procurement plan allocations.

**Note:** In process

## **2.3 Assessment/Analysis of Revenue Management Module of Budgetary Organizations at Treasury Single Account**

**Responsible Unit:** Treasury Service; Financial Analytical Service

**Performance Criteria:** Business Process Analytics of Revenue Management in Budgetary Organizations has been developed.

**Timeframe:** January-December

**Progress:** With financial and analytical service, based on the initial documentation, in the General Ledger of Treasury according to the accrual basis method of accounting revenues and expenditures business process analytics is carried out.

**Note:** In process



### 3. DESIGN OF CASH MANAGEMENT MECHANISM AND DEVELOPMENT OF A DRAFT STRATEGY

#### 3.1 Development of Cash Management Mechanism and Tools by Treasury Service; Development of Draft Strategy Paper

**Responsible Unit:** Treasury Service

**Performance Criteria:** Draft Strategy Paper for Cash Management has been developed.

**Timeframe:** January-December

**Progress:** For the purpose of effective forecasting and management of cash and for the purpose to work out the mechanisms and instruments management of cash, treasury service was visited by the technical mission, composed by foreigner experts. The mentioned mission has prepared a draft strategy for the project, where the existing situation is discussed, in terms of the best practice of cash management and forecast, the basic investment guidelines, financial instruments, risk management structure and etc. The project of normative act was prepared on the basis of the draft strategy, which will be approved till the end of year according to plan. For the purpose to work out the cash management module analytics and software program, the process of learning available on the market, approved various of software systems is going. Also, we are working for preparation/processing proper legislative act(s), which shall define selection and assessment criterions for free cash, risk, banks and financial instruments

**Note:** Completed

#### 3.2 Training of Cash Management Department Staff in Financial Markets

**Responsible Unit:** Treasury Service

**Performance Criteria:** Cash Management Department staff have been trained.

**Timeframe:** January-December

**Progress:** For the purpose to train the cash management and forecasting department staff, invited experts conducted the training on the cash management issues. Among the discussed topics, there was reforming the treasury services in the developing countries, budgeting, accounting and reporting infrastructure issues, cash forecasting and monitoring models, their management procedures. During the training, special attention was paid to the practical exercises and to the participants work in separate groups. The second phase of training was conducted in April, during which there was discussed the need for specific models and tools for managing the funds. Despite of this, in the May representatives of the company Bloomberg introduced to the cash forecasting and management department the function side of system and the specification of allocating funds in financial instruments.

**Note:** completed

## VI – REFORM OF PUBLIC INTERNAL FINANCIAL CONTROL

### 1. DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL

#### 1.1 Planning, Assessment and Public Awareness on the Reform of Public Internal Financial Control

**Responsible Unit:** Central Harmonization Unit



**Performance Criteria:** 1. Strategy Paper and Action Plan for the Development of Public Internal Financial Control have been endorsed by the Government of Georgia; 2. PIFC Conference has been held.

**Timeframe:** March-July

**Progress:** Public Internal Financial Control Development Strategy and Action Plan for year was developed. It was sent to the experts of OECD/SIGMA for remarks, who later introduced their comments, which will be considered during the final version of strategy, and after implementation of final version of strategy, mentioned document, before introducing to the government for approve, it will be sent to the interested parties, in order to get the additional comments and remarks, which, to its side will also ensure increasing awareness around priorities, envisaged by strategy and promote a common approach to development and formation of vision to the direction of state internal financial control reform development.

On 14th of December annual conference was held regarding the public internal financial control reform development. Conference was attended by representatives of internal audit and financial service/department. This year's conference was regional due to the presence of representatives of Armenia, who acquainted us with their experience in state internal financial control reform. There was an appraisal of OECD/SIGMA experts on financial management and control among other presentations, as well as effective audit experience of independent expert and experience of representatives of state audit service.

**Note:** Completed

## **1.2 Facilitation of Financial Management and Control System and Effective Operation in Public Sector**

**Responsible Unit:** Central Harmonization Unit

**Performance Criteria:** 1. Guidelines on Introduction of Rules and Procedures of Financial Management and Control System have been endorsed by the Government of Georgia; 2. Second Phase of Financial Management and Control System: Guideliens for Introduction of Manaement Control have been developed; 3. Reports have been developed within the scope of facilitation and in line with the Guidelines on Financial Management and Control System by 8 Line Ministries.

**Timeframe:** January-December

**Progress:** According to the instructions, worked out with help of the experts of OECD/SIGMA and engagement of Central Harmonization Unit, in four pilot ministries were implemented the first phase of the financial management and control, and monthly and quarterly sample plans were sent to the economic / financial departments. At the end of the April four additional ministries were defined, which joined to the implementation process of the financial management and control system. It should be noted, that all of the ministries expressed the readiness to the direction of financial management and control system. Staff of the Central Harmonization Unit conducted an introductory presentations for interested ministries. The four additional ministries were: Ministry of Defense, Ministry of Regional Development and Infrastructure, Ministry of Sport and Youth Affairs and the Ministry of Labor, Health and Social Affairs.

For the second half of May, in the frameworks of the following visit of OECD / SIGMA experts work has started on the implementation of instructions for managerial control and working meeting were held with representatives of Ministries. With participation of The Dutch Ministry of Finance representatives and with support of the Academy of the Ministry of Finance in the May of current year, 2 day training on "financial management and control system in the public sector" was held for representatives of finance/economics departments of the pilot ministries. With help of the German International Cooperation Society GIZ on the 20-24 of June staff of Central Harmonization Unit and 2 representatives of the pilot ministries passed the training on the finance management and control in the Ljubljana. In July, for the pilot



ministries, participants of the second phase of financial management and control system implementation, training was conducted on the topic: "risk management". The training was led by the OECD / SIGMA experts. Another visit of OECD / SIGMA experts was in September, they met to the pilot ministries which were short-listed to the second stage, evaluated the work done and agreed about the arrangements that have to be taken before the end of November. Instructions for terms and procedures of the implementation of the finance management and control system was sent to OECD/SIGMA for comments. This is the final stage to prepare for submission to the government.

**Note:** Completed

### 1.3 Facilitation of Internal Audit Development and Effective Operation in Public Sector

**Responsible Unit:** Central Harmonization Unit

**Performance Criteria:** 1. Internal Audit Methodology and System Audit Guidelines have been endorsed; 2. Qualification of Internal Auditors has been improved through the planned and implemented staff trainings; 3. Improvement of practical experience of Internal Auditors through at least 1 Financial and Pilot Compliance Audits and 4 Effectiveness or Pilot System Audits; 4. Performance criteria have been set for the assessment of Internal Audit functions.

**Timeframe:** January-December

**Progress:** Internal audit methodology was sent to internal audit subjects for notes, and edited version based on the comments is submitted to the common system of government for final approval from the authorities, after which it will be approved.

Training of internal audits are carried out according to the developed program, which is agreed as with donors, as well as with the Academy of the Ministry of Finance, which is a permanent and reliable partner of Central Harmonization Unit. This year, in the Academy of the Ministry of Finance, with assistance of the German International Cooperation Society GIZ Has already been carried out:

Two System Audit Trainings for 25-25 Internal Auditors;

One training for 16 internal audits in the principles of the internal auditor;

Two Performance Audit training for the ministries involves in the pilot project;

In September, for the internal audits, in the frameworks of NATO-Georgia Professional Development Project, in the Academy of the Ministry of Finance four trainings were conducted on the topic: Risk management audit, costs audit, the information systems audit and business continuity.

At the end of March, two pilot effectiveness audit and one system audit reports were finished, which was held with assistance of Louis Berger in the frameworks of European Union technical assistance project. In addition, on the 20-24 June of the current year, with assistance of Louis Berger in the frameworks of European Union technical assistance project to six pilot ministries, in particular, Ministry of defense, Ministry of internal affairs, Ministry of environment and natural resources, Ministry of regional development and infrastructure of Georgia, Ministry of labor health and social affairs of Georgia and to the Ministry of Agriculture.

Training on the efficiency audit was conducted by international experts for internal audits, which is a kind of preparation for the implementation of pilot projects properly and for the implementation internal audit activities according to the international standards requirements. In the near future, with involvement of international experts and internal auditors employed in the executive branch, efficiency audit will be conducted in the above mentioned six ministries.



In the current year, the evaluation criteria were developed for internal audit activities, in particular, at this stage following 4 criteria for the internal audit activities were developed: The independence of internal auditing activities, internal auditors' qualifications and ability to perform work, activity relevance to the existing legislation, internal audit report quality, based on which the internal audit subject activities were assessed and the results are reflected in the consolidated annual report of the Central Harmonization Unit, which was presented to the Georgian government for the first time on the 16 May of this year, by the Minister of Finance, Mr. Nodar Khaduri.

**Note:** Completed

## VII – INFORMATION AND COMMUNICATION TECHNOLOGIES

### 1. SUPPORT AND DEVELOPMENT OF PUBLIC FINANCIAL MANAGEMENT INTEGRATED INFORMATION AND COMMUNICATION SYSTEMS

#### 1.1 System Development and Inclusion of New Functionalities to E-Budget

**Responsible Unit:** Financial Analytical Service – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Delegation of current functionalities in the system by budgets and organizational structures; Design and development of budget adjustment process modelling functionalities; Design and development of crisis budget management and consolidation functionality.

**Timeframe:** January-December

**Progress:** the budget balance Automatic Control has been added to the system and control validation statements were set. The budget payment plans synchronization feature was added to the performance of LEPL. The first automatically executable so called regress-test case was developed and deployed, which covers the main process of organizational structure and assigns specification. Rights boot process optimization was held. Microsoft Excel- formulas generation feature was added to the reporting documents in system. To the integration process of the treasury system was added a feature for requesting the change reference chains and baskets from treasury, which ensures a balanced budget amendment while requesting from the treasury the appropriate plans for expenses. In order to better ascertain the chronology of various actions which have took place in the system, modification of database was carried out, which has improved the management process of change archives and historical records. For improvement of the quality of analytical reports, which includes the data of numerous period, feature of networking classifiers between periods was changed. Conception, for coping outdated system interface (Silverlight) to new technologies (HTML, AnguladJS) was prepared. Coping process of two main modules of system (modules of payment and administration) are in process. To new technology (HTML, AnguladJS) payment module feature was copied. Statistical reporting document was added to the system. New scenario for automatic regress-test was prepared, which covers the feature of chains and baskets. The logic and validation scheme of program numbering has changed.

Enhancement of the system is planned also for the next years.

**Note:** In process

#### 1.2 System Development and Inclusion of New Functionalities to E-Treasury

**Responsible Unit:** Financial Analytical Service – Legal Entity of Public Law (LEPL)





**Performance Criteria:** Extension of integration service functionality with Public Procurement Agency (for capturing tender proceeds in the Single Treasury Account); Integration of accounting entries made to the General Ledger of Treasury Service with various modules of the treasury system; Assessment/Analysis of a module for the management of revenues generated by budgetary organizations.

**Timeframe:** January-December

**Progress:** In the back office section new operations was added to the system "Overpaid refunds" and "transfer funds". Budget code abundance administration feature was also added. "Other income refunds" operation was changed and feature of connecting of transfer recordings was added. In the feature of multicurrency account change was made in the operations of "the targeted grant of currency from outside" and "uncertain returns". It became possible to determine of several targeted grant agreements in one transfer. Validation feature for returned funds was added to system. To launch a feature for ten-count reports of treasury has become possible for users, also generation of reports automatically and their automatic send to the recipients. Green channel has expanded, covering sources and global conditions of business trips were added to it. Service provision to the public registry was developed. The sub-module of the principal amount of the securities services was added to the income module and integration among eDMS and eTreasury systems were done. In favor of local budget distributed tax reporting was added. In the client section of system, it became available to connect the working period liabilities to the previous period liabilities. Also, feature for correction of organization establishment date and addition of CPV codes in agreements, in the budget requests payments of the third party has been added. For organizations, information about their uncertain and unreturned funds has become available. To the agreement for the recipient's bank account and bank code fields were added. During the formation of non-budgetary requirement, in that case, if the payer and the recipient's identification code is the same, it became possible to select the account number from the list filled in back office of the Treasury. On the sub-codes of organization, reflection of deposits has become available. With help of e-procurement agency service taking the status of the agreement and its reflection in reporting has been added, also new reports of business trips and deposit operation were added. In the search engine of enrollment, besides of banking revenues and expenses, it became possible to see the information about internal transactions and export.

**Note:** In process

### 1.3 System Development and Incorporation of New Functionalities to E-DMS

**Responsible Unit:** Financial Analytical Service – Legal Entity of Public Law (LEPL)

**Performance Criteria:** System front refactoring and launch; Automation of principal service through the implementation of new integration service with treasury; Implementation of planning and analytic module of future emissions; Integration with the central bank of the country to obtain information on treasury emissions; Automation of provision of information on domestic debt required for budgeting; Work started on the implementation of external debt module.

**Timeframe:** January-December

**Progress:** New version of client was launched in operating system. Out of the date technology of system (Silverlight) was changed with a new one (AngularJS), which is easier and quicker, and allows the user to enter the system with any browser.

Analytical module of planned calendar was launched in production, which is a flexible tool, through which the system users of internal debt will be able, to release the emissions for future years, to plan any scenario and monitor the outcomes (costs, net increase).





Treasury emissions section of the Domestic debts and two regress test-scenario of service schedule are designed and in the process of implementation, also one regress test-scenario of state obligations module. We are still working on the annual calendar and planed calendar module test-scenarios.

Detailed information module of the projects has finished and is in a phase of stabilizations. Module covers total, non-financial information about projects (Register - all types of project-related agreement, details, budget co-financing funds, implementations, expenditure categories).

Design of system was updated according the taking into account the overall design of FAS service products. Related to the design implementations markup works have been finished and new design is launched in production.

“Cash flows”, “portfolio dynamics” and “quarterly calendar” is added in the reports of the system. Full refactoring of system client section was done.

**Note:** In process

#### **1.4 System Development and Incorporation of a new Functionality to E-HRMS**

**Responsible Unit:** Financial Analytical Service – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Compliance of the E-HRMS system with a new standard designed by the Public Service Bureau; Further integration of the E-HRMS System with Single Treasury System; Development of a dynamic accounting construction functionality.

**Timeframe:** January-December

**Progress:** System features were improved and refined. Also, system refactoring was carried out, classificatory management scheme was renewed and the private card of employees. New features and reports were added to the system.

The integration was carried out with the electronic system of the State Treasury. In the system, feature for preparation of the pay-sheet was realized which is used to generate a payroll file, where the remuneration data of employees are gathered according to the economic codes. Salary pay-sheet is of two types: Pay-sheet with an automatic calculation of the income statement, where reflected employees' salaries monetary indicators is without excluding the income tax and pay-sheet with indicated the income tax payment, where employees' salaries are reflected in the number of working days, with distinguishing the income tax and net payment to the employees separately. Accordingly, if desired, employee will generate payroll file, which will send it to the same organization's accountant, who in turn will continue the process of imposing taxes in treasury system.

System is Introduced more than 295 state organizations.

**Note:** In process

#### **1.5 Ensured Sustainability of ICT Infrastructure of the Ministry of Finance of Georgia**

**Responsible Unit:** Financial Analytical Service – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Improved infrastructure - Blade Server Capacity and Data Storage System has been upgraded in capacity to cater the workloan; Introduction of information asset risk management policy; Automation of operating



system and software monitoring and management; Service level management process introduction; Introduction of Application Centered Infrastructure (ACI).

**Timeframe:** January-December

**Progress:** Change Management System for ITIL standard at the technical platform of the Microsoft system-center was implemented.

Migration of servers of Public Finance Management System (PFMS) on load balancer was implemented, which, allows as load balancing, as well as adding the new servers without system shutdown.

Information security has been enhanced on web applications to protect against unauthorized access. The existing Web application weaknesses were explored and eliminated and their protective filter was installed on the external interfaces.

**Note:** In process

## VIII – RESOURCE MANAGEMENT

### 1. DEVELOPMENT OF DOCUMENTS DERIVING FROM THE STRATEGY PAPERS

#### 1.1 Amendments to the Socio-Economic Development Strategy of the Country, Branded as Georgia 2020 on the Grounds of Government Resolution N1355 Dated June 25, 2015

**Responsible Unit:** MOF/Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Relevant draft amendments developed and incorporated to the Socio-Economic Development Strategy of the Country, Branded as Georgia 2020.

**Timeframe:** January-April

**Progress:** Draft is prepared for the appropriate amendments.

**Note:** Completed

#### 1.2 Engagement in Drafting Various Document Stemming from the Socio-Economic Development Strategy of the Country, Branded as Georgia 2020

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department

**Performance Criteria:** Documents/regulations developed and submitted in the relevant format to the authorised body; Incorporation of comments and suggestions submitted in relation with a Draft Law on Deposit Insurance.

**Timeframe:** January-December

**Progress:** At this stage the final versions of all documents for launching the deposit insurance system are prepared.

**Note:** Currently, the working on the issue is completed.

#### 1.3 Engagement in the Pension System Reform within the Mandated Competence (Including the Development of Strategy Paper and Action Plan)



**Responsible Unit:** Macroeconomic Analysis and Forecasting Department/Respective Institutions

**Performance Criteria:** Document developed for the operation of the Pension System.

**Timeframe:** January-December

**Progress:** The concept of pension reform is approved by the Government; the initial version of the draft law on "private pensions" is developed.

**Note:** Work is underway to improve the draft law.

#### **1.4 Engagement in the Development of Capital Market Reform Strategy and Action Plan within the Mandated Competence**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department Respective Institutions

**Performance Criteria:** Documents developed as required for the capital market Reform

**Timeframe:** January-December

**Progress:** Work is ongoing on the capital market reform strategy and on action plan project.

**Note:** Currently in working group review and agreement on document are in process.

#### **1.5 Engagement in the Development of a Legal Framework, Policy Document and Draft Law on Public-Private Partnership (PPP) within the Mandated Competence**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department/ Respective Institutions

**Performance Criteria:** Policy document and draft law developed.

**Timeframe:** January-December

**Progress:** Public and private partnership policy document was approved. Work is underway on the final version of the draft law.

**Note:** In process

#### **1.6 Engagement in Relevant Measures Aimed at the Introduction of Regulation Impact Assessment within the Mandated Competence**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department/Respective Institutions

**Performance Criteria:** Legal framework developed for the introduction of a regulation impact assessment system.

**Timeframe:** January-December

**Progress:** Work is underway to implement a system of regulatory impact.

**Note:** we are studying the experience of other countries, in parallel we started to work for preparation of legislative changes.



### **1.7 Engagement in the Development of Small and Medium Business Facilitation Strategy Document within the Mandated Competence**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department/Respective Institutions

**Performance Criteria:** Strategy Paper developed for the Facilitation of Small and Medium Business.

**Timeframe:** January-December

**Progress:** "the Small and Medium Enterprise Development Strategy of Georgia" was developed and approved by the government

**Note:** finished

### **1.8 Provision of Relevant Recommendations for Improving the Country Rating in Doing Business within the Mandated Competence**

**Responsible Unit:** Macroeconomic Analysis and Forecasting Department/ Respective Institutions

**Performance Criteria:** Specific recommendations provided to various institutions.

**Timeframe:** January-December

**Progress:** the work is underway for one of the components of Doing Business, which is related to the insolvency case proceedings.

**Note:** In process

## **2. ACADEMY OF THE MINISTRY OF FINANCE OF GEORGIA**

### **2.1 Training of Financial Staff at Local Authorities**

**Responsible Unit:** Academy of the Ministry of Finance of Georgia

**Performance Criteria:** Trained staff.

**Timeframe:** January-December

**Progress:** With cooperation of German International Cooperation Society GIZ South Caucasus Office, for 191 employees of Non-financial entities in Georgian regions with financial directions training was conducted on the "State Treasury electronic service system".

"Financial accounting and reporting" training was conducted for the 45 representatives of financial services in local self-government.

**Note:** Completed

### **2.2 E-Budget Planning for 2017**

**Responsible Unit:** Academy of the Ministry of Finance of Georgia



**Performance Criteria:** Trained staff.

**Timeframe:** January-December

**Progress:** Workshop on eBudget system use was conducted for 25 representatives of financial services in local self-government.

**Note:** Completed

### **2.3 Cooperation with Ministry of Finance of the Netherlands for the Improvement of Public Financial Management in Organization of Trainings and Consultation Meetings**

**Responsible Unit:** Academy of the Ministry of Finance of Georgia

**Performance Criteria:** Trainings and consultations delivered by experts of the Ministry of Finance of the Netherlands; Retrained staff in the system of the Ministry of Finance of Georgia.

**Timeframe:** January-December

**Progress:** In March 2016 with the support of the Dutch Ministry of Finance and involvement of the Budget Department of the Finance Ministry of Georgia workshop was held with the financial and economic department staff of various ministries in Georgia, which aimed to strengthen the role of spending organization in the budgeting process. The meeting was attended by 34 people.

In May of 2016, by the representatives of the Dutch Ministry of Finance, workshop was held on the topic Financial Management and Control, which was attended by 20 representatives of various ministries.

Also the training “experience and best practice sharing on Debt Management Issues” was conducted for the employees of Public Debt and External financing Department and Macroeconomic Analysis and Forecasting Department (15 persons).

Additionally the Dutch Ministry of Finance has conducted the trainings for the management staff of the 8 pilot Ministries on “Financial Management and Control”.

**Note:** In process

## **3. UPGRADE OF THE E-AUCTION SYSTEM AND ATTRACTION OF NEW PARTNERS**

### **3.1 Improvement/Modernization of E-Auction System**

**Responsible Unit:** Service Agency of the Ministry of Finance of Georgia – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Electronic portal modernized by taking into account the consumer feedback; Video consultation and video manual included to the services rendered to customers; Application of e-bank guarantees in the functionalities for the private legal entities

**Timeframe:** January-December

**Progress:** In case of contingency (for example cyber-attacks), for management the transfer process of paid amounts, corresponding works were carried out; For the LEPL Revenue Service on the web site [eauction.ge](http://eauction.ge) new function was



added, which considers the monitoring of property by the appropriate authority after transferring the timber to the buyer. Integration of the electronic services with Commerce and Industry Chamber is in process, tax system is expanding, which considers to pay for service with phone balance. Also, through quick payment terminals of Liberty Bank, mechanism of paying for site service, guaranteed and remaining values are in process. Existing search engine for auctions was improved, through which website navigation for users are significantly simplified. Messaging system on terminated auctions has been activated (Email, SMS); Mobile application of web-site eAuction.ge was developed and is in a testing mode; to the auctions announced by private entities were added the bank guarantee application feature; improved administration feature of lots; For viewed lots by users, offer for similar lot was activated, new space for advertising banners placement was allocated, reporting system for administrators of website has been improved, linking a special marking supplement for discounted lots is has been completed, at the lot page payment button was added, for the webpage of resident legal person during the authentication has been added the possibility of data verification, bring out the proper status and in parallel of new name, possibility to make changes on webpage. For incorrectly transferred and / or non-activated amounts, new feature of sending short SMS to users was activated. Also, to prevent the over-activation of above mentioned transferred money, a unique code by system is assigned for transferred money; also working on allocation the new guidelines for using webpage and statistic data on the website has been finished, we are continue to work on video instructions and video consultation issues.

**Note:** In process

### 3.2 Attraction of New Partners to E-Auction.ge

**Responsible Unit:** Service Agency of the Ministry of Finance of Georgia – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Effectiveness of public property management; attraction of local authorities.

**Timeframe:** January-December

**Progress:** In order to attract legal entities and natural persons, to the electronic auctions website eAuction.ge the updated form of property realization was added in the online shop (e- shop) form; to increase the number of users and partners of website, we are working on different directions, with the potential users we are in a continues regime of marketing – email marketing, through which they receive information about property allocated on portal, we are working permanently to promote the disposal of property of natural person and legal entity, (announcement internet and public auctions, monitor applications, giving information to users through hotline and online consultation), also popularization of Agency Services is conducted on the daily bases at social networks (auction, e-shop), the project was planned for small-scale advertising campaign on social networks, the presentation was prepared to dispose the property effectively with public agencies and organization of meeting is planned.

**Note:** In process

## 4. STATE SUPERVISION OVER PRECIOUS STONES, METALS AND ITEMS MADE OF SUCH

### 4.1 Introduction of Public Supervision System over Precious Stones, Metals and Items Made of Such

**Responsible Unit:** Service Agency of the Ministry of Finance of Georgia – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Implementation of key tasks for the establishment of the supervision system; Regulation of legal issues; Cooperation with European and international organizations (including the donor agencies); Cooperation with European Test Agencies; Development of infrastructure; Development and endorsement of a communication plan.

**Timeframe:** 2016 – 2019



**Progress:** We are working on the legal issues, in particular on the draft law and regulations. Also, in regards of implementation of international commitments measures are taken in the context of money laundering and terrorist financing - risk assessment document prepared for the market.

**Note:** In process

## 5. SERVICE QUALITY IMPROVEMENTS

### 5.1 Service Quality Improvements

**Responsible Unit:** Service Agency of the Ministry of Finance of Georgia – Legal Entity of Public Law (LEPL)

**Performance Criteria:** Service quality management; Staff training (in quality management).

**Timeframe:** January-December

**Progress:** For simplifying the use of electronic services for the users of portal eAuction.ge, guidelines for the use of web-site were updated and placed in the appropriate fields, to simplify the process of searching statistical information about eAuction.ge, the new web-page supplement “statistics” was prepared, through which any interested person can gain the desired statistical information about web-page. Employees are involved in the project of Organization for Economic Policy Research Centre (EPRC) - “Improvement of the quality of service in the existing public sectors and improvement of customer-oriented service”. This considers the provision of existing service improvement in Georgia and providing the customer oriented service through the main principles of design management and mechanisms. In the frameworks of mentioned project, small-scaled study of customers was conducted, which aimed to consider the customer requirements and notes according to the test version of mobile application. Project of expansion of service field is in process (public centers in regions), training for staff to study various graphic programs is finished, and training on service quality management is planned.

**Note:** In process