

The Annual Report on Completion of 2019 Action Plan of Public Finance Management Reform

I - Budgeting

1. Improvement of budget management

1.1. development of law of annual budget code project

Responsible Body: Budget Department, Macroeconomic Analysis and Forecasting Department, Public Debt and (the parties involved: spending agencies, the State Audit Office, the Government of Georgia, the Parliament of Georgia)

Performance Indicator: 2020 state budget draft law is prepared and submitted to the Parliament of Georgia within the period prescribed by law;

Draft state budget law is in line with the law of the fiscal parameters.

Budget documents are in line with standards set by the program budgeting methodology, including the standards of developing programming budget methodologies.

Period: January-December

Progress: "Draft 2020 State Budget of Georgia" (first, second and third submissions), the processed document of 2020-2023 data of the country and its directions and the annexes of budget code were submitted to Georgian government within the period prescribed by law. Draft 2020 State Budget of Georgia in the editable format is available on the webpage of Ministry of Georgia of Finance.

Georgian Parliament approved the Draft 2020 State Budget of Georgia within the period prescribed by law. The document is fully in line with the law of the fiscal parameters. Draft 2020 State Budget of Georgia is available on the webpage of Ministry of Georgia of Finance. The draft projects and draft law is available in editable format.

1.2 Medium-Term Planning (MTEF)

Responsible Body: Budget Department, Macroeconomic Analysis and Forecasting Department (involved parties: Spending agencies, the Government of Georgia, the Parliament of Georgia)

Performance Indicator: The final version of the Basic Data and Directions document for 2019-2022 years has been prepared and submitted to the financial-budgeting committee of Parliament of Georgia.

The primary and revised versions of the Basic Data and Directions for 2020-2023 has been prepared and submitted to the Government and the Parliament within the term prescribed by law and comply with legal requirements;

The forecasting for the medium term income and expenditures based on existing policies and in case of changes of policies and relevant data is posted in the 2020-2023 Basic Data and Directions document on no less than 2 Ministries of Georgia (Ministry of Education, Science, Culture and Sport of Georgia and Ministry of Environment Protection and Agriculture of Georgia);

The detailed information about causes of interference with the last period medium-term parameters is prepared.

Ministries medium-term action plans are improved, it is consistent with the methodology developed by the Minister of Finance; Approved by the relevant ministries, the medium-term action plans include the relevant estimations.

The comparison of medium-term forecasting is being created and will be annexed to the Draft 2020 State Budget of Georgia.

Period: January-July

Progress: The document of 2019-2022 Basic Data and Directions was enhanced by the information gathered from local governments and autonomous republics and the final version of the document was created, which was submitted to the finance-budgeting committee of the Parliament of Georgia. The final version of the document is available on the webpage of Ministry of Finance of Georgia.

The project of Georgian government on “Steps to be taken in creation of Basic Data and Directions document” was developed and approved with the ordinance N125 on 28th of February 2019. The annex forms, which will be used in creating 2020-2023 Basic Data and Directions (BDD) document have to be submitted to the Ministry of Finance of Georgia.

The 2020-2023 Basic Data and Directions first draft was created and approved by Georgian Government within the period prescribed by law. The draft budget was accompanied by the processed versions of the document on each hearing, which are available on the webpage of Ministry of Finance of Georgia.

The detailed information about causes of interference with the last period medium-term parameters is prepared, which is annexed to the Draft 2020 State Budget of Georgia and is available on the webpage of Ministry of Finance of Georgia.

Based on the changes to the budget code of Georgia, to assure the accordance of Ministries’ action plans to it, the medium-term plans of Ministries’ are in accordance to the BDD and budget law of Georgia. According to the methodology of creating program budget, ministries’ have to include changes in medium-term plans not later than 1 month after the new budget year start.

1.3 Improvement of the Program Budgeting on National and Local Municipalities level

Responsible Body: Budget Department, (the parties involved: Spending agencies, local authorities, donors)

Performance Indicator:

Trainings and workshops held with every Ministry and more than 40 municipality representatives.

Coaching of 3 or more municipalities with the budgeting process and their budgeting documentation created based on new methodologies. (Priority documents, action plans, program budget, annex).

The preparation of program budgeting methodology is updated according to new experience.

Period: January-December

Progress: On 27th of July 2018, the change was made to the ordinance N385 of 8th of July 2011 about “Creation of Program budgeting methodology” of the Minister of Finance of Georgia. The methodology for creating autonomous republic and local municipality budget was updated. To implement the methodology, Academy of Ministry of Finance of Georgia held trainings for representatives of municipalities.

1.4 Ensure the Transparency of the Budget Process

Responsible Body: Budget Department (the parties involved: the state budget spending units, the Government of Georgia, the Parliament of Georgia)

Performance Indicator:

Information delivery mechanisms to the public in the budget process at all stages have been developed; The relevant measures to eliminate the shortcomings found while The Open Budget Survey process has been completed;

Based on Open Budget Survey, all the main budget documentation was available on the Ministry of Finance's website (www.mof.ge) within the prescribed period of the law.

Reference book for at least 18 municipalities is created by the help of donors.

Citizens Guide for 2020 state budget is published on the website; BDD document and Performance report guides are created and are available on the Ministry of Finance's website.

The platform to engage citizens in budget development process is functioning and available on the Ministry of Finance's website. Short report on the engagement of citizens in creating 2019 budget via this platform is developed and available on the Ministry of Finance's website.

Period: January-December

Progress: Based on Open Budget Survey, all necessary budget documents were available for every person on the Ministry of Finance's website (www.mof.ge) within the period prescribed by law.

Reference books for municipalities were created by the help of donors.

In 2019, a pilot program for Budget Transparency and Participation System (eBTPS) was created, which gives citizens possibility to participate in budget planning, creation of main priorities which have to be financed from the budget. Based on the system, citizens will be able to plan state budget for spending parties and main priorities of the country. The system will give them feedback on how possible it is to implement their priorities. From 2020, citizens will be able to get involved in planning budget.

The guide and short brochure are created about 2020 state budget project and budget law. It is available on the Ministry of Finance's website. The brochure was published with the help of USAID.

With the help of USAID, an event was held by Ministry of Finance about transparency and citizen engagement. The guide and brochure were presented on the event, as well as the Budget Transparency and Participation System (eBTPS).

1.5 Further Aligning of Fiscal Management Principles to International Standards

Responsible Body: Budget Department (the parties involved: the state budget spending units, the Government of Georgia, the Parliament of Georgia)

Performance Indicator:

With the technical help of IMF, fulfilling the 2019 recommendations outlined in the "Fiscal Discipline Framework Enhancement" document:

Reflecting detailed descriptions of accordance to fiscal discipline in BDD and budget documentation.

Period: January-December

Progress: Based on changes made to organic law of Georgia on "Economic Freedom" according to the recommendations of IMF, the conditions of using fiscal rules became more detailed and the obligations of their fulfilment and consequences in other cases became stricter. The obligation to include the fiscal rule forecasting in the annual budget draft was added to the budget code as well. The changes were made in 2018 and regulations are in place from 1st of January 2019.

BDD document and budget documentation of the country includes the information about fiscal discipline.

1.6 Annual and quarterly reports on budget execution, strengthening the accountability towards to the controller

Responsible Body: Budget Department (involved parties: Spending agencies, the State Audit Office, the Parliament of

Georgia);

Performance Indicator:

The annual report about 2018 annual budget performance is created and submitted to the Georgian Government and Parliament of Georgia within the prescribed period in the law. Performance reports includes descriptions of fiscal rules, planned and accomplished goals and explanations of discrepancies. The information about last year performance report recommendations by State Audit Office is developed.

The quarterly reports on 2019 budget were submitted to the Parliament within the term prescribed by law and consistent with the requirements of the legislation;

Information about the 6-month budget performance report and the performance of the mid-term review of the budget are prepared and submitted to the Parliament of Georgia;

The preparations of the action plan as prescribed about the report of the state budget implementation considering the recommendations of the state audit are finished.

Period: January-December

Progress: 2018 annual performance report of annual budget was prepared, which is available on Ministry of Finance's webpage. The action plan is uploaded with the report, based on the 31st October 2018 ordinance N2051 about "Possibility of including notes and recommendations of State Audit Department on the 2017 annual budget performance report" and Ordinance N144 of 30th of March 2015 on "Actions to improve and strengthen reporting in the process of public finance management".

With the 2018 annual budget performance report, the "Information about the 2018 program completion" is submitted to the Parliament of Georgia. It includes information about planned and completed medium and final goals and performance indicators. 2018 Performance Report is available on Ministry of Finance's webpage in editable format.

In 2019 quarterly reports were created (3, 6 and 9 months) about budget performance and were submitted to the Government of Georgia and the Parliament of Georgia. They are available on Ministry of Finance's webpage in editable format.

1.7 Capital/Investment project management unified cycle development and studying the international experience of assessing program effectiveness

Responsible Body: Budget Department, Division of Fiscal Risk Management (involved parties: Macroeconomic Analysis and Forecasting Department, Spending Agencies, the State Audit Office, the Government of Georgia, the Parliament of Georgia, donors)

Performance Indicator: The Capital / Investment Projects Management Guide is revised. Support of the introduction piloting of Capital / Investment Project Management is ongoing.

Investment project management guide is harmonized with PPP laws.

Trainings are held for spending agencies and employees of municipalities, with the help of donors.

International experience of assessing program effectiveness is studied.

Period: January-December

Progress: On national and local levels, changes based on ordinance 191 of 22nd of April 2016 about "Approval of Investment Projects Management Guide" of Georgian Government were implemented. Based on the changes, guide is implemented for every Capital / Investment Project, which does not exceed 5 million GEL, with any source of funding, including donor funded projects. The guide defines the roles and obligations of every initiator and implementor spending agency during the projects'

life cycle, as well as those of Ministry of Finance. The working group and the group policy for investment project evaluation were renewed in the Ministry of Finance.

With the help of USAID Ministry of Finances held meetings and consultations with spending agencies and representatives of municipalities and created “Pilot analysis of selection of investment projects within the Investment Projects Management implementation reform” document. 14 investment projects were analyzed based on guide and methodology requirement. This document is annexed to the Draft 2020 State Budget and is available on Ministry of Finance’s webpage in editable format.

1.8 Support of budgeting process by improving relevant laws

Responsible Body: Budget Department, Law Department (involved parties: Spending agencies, the Government of Georgia, the Parliament of Georgia)

Performance Indicator: Within the reform of public finance management, the held events are supported by relevant legislation and regulations.

Period: January-December

Progress:

1.9 Improvement of finance management by municipalities

Responsible Body: Budget Department (involved parties: municipalities, donors)

Performance Indicator:

In at least 10 municipalities the Public Expenditure and Financial Accountability Assessment at sub-national level is held.

In up to 15 municipalities, the mechanisms for improving the errors assessed by Public Expenditure and Financial Accountability Assessment at sub-national level are implemented.

Period: January-December

Progress: In 10 municipalities (Kaspi, Kazbegi, Borjomi, Gardabani, Dedoplistkharo, Senaki, Sagarejo, Samtredia, Sighnaghi, Tskaltubo) the Public Expenditure and Financial Accountability Assessment at sub-national level is held.

Based on Public Expenditure and Financial Accountability Assessment at sub-national level, mechanisms to improve errors were implemented in 27 municipalities. Based on the Public Expenditure and Financial Accountability Assessment at sub-national level of 2018-2021 public finance management strategy planned events, with the aim of improving errors, memorandums were signed between the Ministry of Finance and 27 of the municipalities (Kutaisi, Rustavi, Marneuli, Gardabani, Zestaponi, Khashuri, Mtskheta, Tskaltubo, Sagarejo, Samtredia, Poti, Lantchkhuti, Akhalkalaki, Martvili, Lagodekhi, Terjola, Kareli, Khobi, Kaspi, Senaki, Oni, Dusheti, Kazbegi, Dedoplistkaro, Sighnaghi, Borjomi). With the period described in memorandum, the municipalities will have the ability to get capital grant if they complete specific goals and indicators. Overall grant for municipalities in years 2020-2023 is not more than 58.5 million GEL. The completion of conditions and indicators is assessed by the Ministry of Finance of Georgia.

The events planned will support municipalities while they implement the reform, improve their finance management, improve their employee capabilities and give them the capital grant of specific amount based on the completion of goals.

II – Public Debt Management

1. Development and Publishing of Public Debt Management Strategy

1.1 Development and Publishing of Public Debt Management Strategy

Responsible Body: Public Debt Department

Performance Indicator: Publishing on Ministry of Finance webpage

Period: January-December

Progress: The strategy of public debt management is created based on best international practices. Within the strategy, debt portfolio risks and expenditures were analyzed, based on which, risk-indicator goals were created. Main aims of the strategy are: supporting funding of government financial needs by minimizing expenditure in medium and long term periods, within adequate risks; development of securities market of government. The strategy is published on the Ministry of finance's webpage.

2. Improvement of State Securities Market

2.1 Implementation new management operation instrument – Buy-back

Responsible Body: Public Debt Department

Performance Indicator: Implementation of New Instrument

Period: January-December

Progress: From November of 2019, new instrument – Buy-back operations is implemented, which supports the refinancing risk of securities and effective management of liquidity.

2.2 Implementation of Primary Dealer System

Responsible Body: Public Debt Department

Performance Indicator: Creation of recommendations about effectiveness of primary dealer system; creation of changes to implement pilot primary dealer system

Period: January-December

Progress: Action plan for implementing primary dealer system is developed, regular meetings are being held with market participants.

2.3 Improving communication with investors

Responsible Body: Public Debt Department

Performance Indicator: Creation of communication strategy with investors. Implementation and broadening of continual dialogue with market participants and potential investors.

Period: January-December

Progress: Regular meetings are held with market participants. Road Show is planned for foreign investors.

III – Accounting and Reporting

1. Development of IPSAS standards related to the accrual concept

1.1 Inclusion of IPSAS implementation detailed action plan for 2019 standard requirements into accounting and financial reporting instructions of state budget organizations

Responsible Body: State treasury service

Performance Indicator: Budget organizations use accounting and financial reporting instructions for their purposes, which include 2019 implemented IPSAS standard requirements.

Period: January-December

Progress: With the aim of improving public finance management and making it closer to international practices, within the IPSAS implementation action plan, based on 2019 implemented standard analysis and changes made to budget classification of Georgia, project for accounting and reporting was created, which will be used by budget organizations to create financial reports for 1st of April, 2020.

1.2 Informing budget organizations about IPSAS standard requirements implemented in 2019 instruction for accounting and financial reporting, creation of study programs and retraining

Responsible Body: State treasury service, LEPL - The Academy of the Ministry of Finance

Performance Indicator: Accountants of the budget organizations are aware and use the IPSAS standard requirements implemented in 2019.

Period: January-December

Progress: Not implemented

Note: Will be implemented in 2020

1.3 Analysis of IPSAS implementation action plan 2020 standards and creation of instruction project for budget organizations for accounting and financial reporting

Responsible Body: State treasury service

Performance Indicator: Analysis of IPSAS implementation action plan 2020 standards is created and according document is developed

Period: June-December

Progress: With the technical help of IMF, analysis of IPSAS standard implementation in accordance to accounting and reporting instructions standards was conducted, and recommendations were created. A united account plan project was created based on accrual concept according to IPSAS standards. IPSAS standard instructions project was also developed. These instructions are developed for organizations and treasury operation accounting and reporting to be used from the 1st of January 2020.

1.4 Raising awareness about IPSAS standards for local self-government units

Responsible Body: State treasury service, LEPL - The Academy of the Ministry of Finance

Performance Indicator: As a result of seminars, workshops, etc. local self-government unit representatives are aware of IPSAS standard requirements

Period: January-December

Progress: To support implementation of IPSAS standards in local governmental units, based on the cooperation memorandum signed on 8th of December, 2017 between State treasury service and Georgian Financier Association of local self-governing units (GFA), seminars about IPSAS standards were held with pilot municipalities' representatives and accountants of autonomous republics and local self-governing units.

1.5 Creation of 2018 financial reports according to IPSAS requirements-based accounting/reporting methodology by pilot self-governing units

Responsible Body: State treasury service

Performance Indicator: Pilot self-governing units have created 2018 financial reports, based on local budget specifics and according to IPSAS standard based accounting/reporting methodology.

Period: January-December

Progress: With GIZ funding and cooperation with The Academy of the Ministry of Finance workshops were held with accountants of pilot municipalities. They created financial reports of their municipalities based on accounting/reporting methodology based on IPSAS standards.

1.6 Training and retraining of pilot municipalities' accountants in IPSAS standards

Responsible Body: State treasury service, LEPL - The Academy of the Ministry of Finance

Performance Indicator: Accountants of pilot municipalities are aware of IPSAS standards' requirements and are creating reports based on them.

Period: January-December

Progress: To support implementation of IPSAS standards, with GIZ funding and cooperation with The Academy of the Ministry of Finance workshops were held with accountants of pilot municipalities about IPSAS standard based accounting and reporting methodology. Trainings for local self-governing unit accountants were held about general accounting/reporting issues.

2. Development of integrated Public Finance Management Informational System (PFMS)

2.1 Development of functionals of General Ledger of Treasury based on accrual method in PFMS.

Responsible Body: State Treasury Service, Financial Analytical Service

Performance Indicator: Analysis of relevant business-processes is made; Program support is developed

Period: January-December

Progress: not implemented

Note: Will be implemented in 2020. In the reporting period, informational system was improved and has simpler business processes and more support for user needs.

2.2 Training and retraining of representatives of state budget and local self-government in using e-system of treasury.

Responsible Body: State treasury service, LEPL - The Academy of the Ministry of Finance

Performance Indicator: Representatives of state budget and local self-government are retrained about changes in using e-system of treasury.

Period: January-December

Progress: Not implemented

Note: Will be implemented in 2020-2021, parallel to the process of integrating public kindergartens and schools in treasury e-system.

3. Cash Management

3.1 Forecasting of treasury cash flow and use/development of effective cash management instruments

Responsible Body: State treasury service

Performance Indicator: During the use of financial instruments, module of cash management is functionally improved in the integrated state system of finance management

Period: January-December

Progress: To improve cash management effectiveness in State treasury, in 2019, state treasury held 66 auctions in Bloomberg system. This made possible to place cash in commercial banks and gain additional income. Auctions were held based on ordinance N301 of 22nd of June 2018 of Georgian government, which specifies important details of cash management, such as:

- Organizing existing cash in state treasury accounts and main conditions;
- Rules and announcement of auction
- Cash management in cases of deposits
- Cash management in case of secured deposits, etc.

As a result, in 2019 47.4 million Gel interest income was made to state budget.

From technical perspective, three systems are used during cash management process:

- Using Bloomberg terminal, auction is held in a competitive environment and winner commercial bank is chosen;
- Using the CSD system, relevant types and amounts of securities are booked to secure deposits;
- Using electronic module of state treasury cash management, money is transferred to winner commercial banks. This module was functionally improved during 2019.

Cash reform actively started in 2015, when new department of State Treasury was created – Cash forecasting and management department. It is worth noting that in the first part of the reform, State treasury department got help from international organizations/projects, such as EU financial management reform support project and USAID program Good Government Initiative.

Nowadays each system works well and cash management auctions are held regularly, according to the ordinance 301 of 22nd of June 2017.

3.2 Training of Cash management department employees about financial markets and Bloomberg system

Responsible Body: State Treasury service

Performance Indicator: Employees of Cash forecasting and management department are trained about the issues of financial markets and Bloomberg system.

Period: January-December

Progress: Successful cash reform can be accomplished if employees are aware of issues such as cash forecasting, reporting of agreements, control, risk management and use of appropriate information technologies.

Due to this, during 2019 year, Bloomberg representatives shared their experience with State Treasury Service employees about contemporary financial markets, institutes and instruments. Such learning events were regularly held during the last years, for the employees to be successful in tasks, such as creation of legislative changes, development of financial instruments, implementation of technical and program security, reporting and registering. In the beginning stages of reform, international experts, hired with EU funding held trainings about cash management and forecasting.

As a result, State Treasury Service employees have necessary qualifications for cash management

Professional development of personnel will continue in the future.

IV – Tax and Custom Issues

1. Improvement of Legislative Base

1.1 Harmonization of tax legislation with EU directives within the Framework of the Association Agreement

Responsible Body: Tax and Customs Policy Department

Performance Indicator:

-Creation of changes project to Georgian Tax code, with the aim of harmonizing code with the EU Directive N2006/112/EC on common system of value added tax.

- Creation of changes project in Georgian Tax Code with the aim of harmonizing code with the Council directive 2003/96/EC of 27th of October 2003, on restructuring of taxing energy products and electric power.

Period: January-December

Progress: The changes project to Georgian Tax code, with the aim of harmonizing code with the EU Directive N2006/112/EC on common system of value added tax was created and submitted to the Georgian Parliament.

1.2 Improvement of Tax Code

Responsible Body: Tax and Customs Policy Department

Performance Indicator: Analysis of presented legislative initiatives, analysis of problems in tax administration process, identification of vague points and creation of legislation to eliminate them. Creation of the according changes project.

Period: January-December

Progress: The project to make changes to Georgia Tax code was created and submitted to Georgian Parliament

1.3 Creation of new guide “Pocket Tax Book” for investors and its publishing

Responsible Body: Tax and Customs Policy Department

Performance Indicator: Raising awareness of investors and taxpayers

Period: January-December

Progress: The publishing version for tax and customs policies were created with the help of Ernst & Young, but was not published.

1.4 საერთაშორისო საგადასახადო პოლიტიკის სრულყოფა

Responsible Body: Tax and Customs Policy Department

Performance Indicator: Implementing procedures to renew agreements/make new agreements to avoid double taxation on income and capital with priority countries.

Implementation and improvement of international tax standards, developed within The Global Forum on Transparency and Exchange of Information for Tax Purposes. Based on Global forum new 2016 methodology, implementation of new legislative changes within the 2nd stage of information exchange assessment.

Implementation of 4 minimal standards within BEPS plan of Erosion of taxed base and profit shifting, developed within OECD and G20 and further monitoring. Initiating legislative changes within CbC.

Implementation of convention developed within OECD and G20 BEPS Action Plan 15th Event about Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and monitoring of implementation.

Period: January-December

Progress: Agreement project on double taxation of income and capital was initialed with Hong Kong. Internal procedures are ongoing to gain the right to sign the agreement.

The 2nd round assessment of Georgia according to the 2016 new methodology based on The Global Forum on Transparency and Exchange of Information for Tax Purposes, was rescheduled for 2022.

Implementation of 4 minimal standards within BEPS plan of Erosion of taxed base and profit shifting, developed within OECD and G20 and further monitoring:

FHTP held on 17-21 of June 2019, International financial company operating in Georgia and the virtual zone was assessed to be “Potential harmful but actually not harmful”, therefore, we did not have to implement other events. The process of information exchange about tax decisions, aimed to provide data for statistics and spontaneous exchange of mandatory information about identified preferential tax regimes was assessed positively in the report of 23rd of December, 2019 (with no further recommendations).

Action 7 (prevention of tax treaty abuse) – Based on 2019 report of OECD, Georgia had progress in implementing minimal standard of action 6 and nowadays is modifying double taxation agreements with multilateral financial instrument.

Action 13 (Country-by-Country Reporting): Project discussion on implementing BEPS action 13 on Country-by-Country reporting in Georgia is finished. Project is ready to be sent to Parliament.

Action 14 (improving mechanisms to solve tax-related disputes): Work is in progress on project of mutual agreement ordinance.

The multilateral convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, developed within action 15 of OECD/G20 BEPS action plan is in action in Georgia since 1st of July, 2019. Nowadays, synthesis texts are being prepared for each tax agreement which will refer to multilateral instrument points, which was used to modify this agreement according to Georgian positions. Synthesis texts are finished for Great Britain, Serbia, Slovakia and India.

1.5 Improvements to Customs Code

Responsible Body: Tax and Customs Policy Department

Performance Indicator: Continuation of work to improve Georgia's Customs field regulatory legislature, with the aim of harmonizing it with EU customs legislature and creation of according normative act projects.

Period: January - December

Progress: New Customs code was created to harmonize Georgian and EU customs laws and based on it new normative acts were created.

2. Implementation of structured method of risk of compliance

2.1 Creation of compliance risk management methodology document and its approval

Responsible Body: Revenue Service

Performance Indicator: Methodology of tax risk management is created and approved.

Period: January-June

Progress: Methodology of compliance risk management is created and approved

2.2 Structured risk methodology implementation in practice

Responsible Body: Revenue Service

Performance Indicator: Risk management is based on risk management methodology

Period: January-June

Progress: Methodological direction for compliance risk management was created and approved. The aim of the guide is to implement structured method in the Revenue Service, which will reduce tax risks in the country and increase budget revenue. The methodology guide is developed based on the risk management guidelines of OECD, IMF and ISO.

3. Creation of automatic return program for VAT overpayment and its implementation

3.1 Implementation of program of automatic refund of VAT overpayment

Responsible Body: The Revenue Service

Performance Indicator: Structural units are created, VAT refund program is created, 90% of requests to refund VAT overpayment are processed automatically.

Period: January-March

Progress: From February of 2019, automatic system of VAT overpayment refund is working, which is based on the simplified procedures of refunding money and modern methods of risk management. The time necessary to refund money was shortened to 2 days. With the aim of continuous improvement of the system, the system of controlling declarations was created in Audit Department.

4. Creation of Taxpayer Register

4.1 Creation of working group for Taxpayer register development

Responsible Body: The Revenue Service

Performance Indicator: Working group is created to develop taxpayer register.

Period: January-December

Progress: To effectively manage registration data of taxpayers, special group implemented tax registration project, which aims to provide security of existing data. Within the project, tax registration concept and “data management of taxpayers” guide was created.

4.2 Creation of concept for developing taxpayer register

Responsible Body: The Revenue Service

Performance Indicator: Concept was created by working group

Period: January-December

Progress: To effectively manage taxpayer data, taxpayer registration project was implemented. Its aim is to secure the data existing in the revenue service. Within the project, tax registration concept and “data management of taxpayers” guide was created.

4.3 Creating projects to implement concept

Responsible Body: The Revenue Service

Performance Indicator: Implemented concept

Period: January-December

Progress: Work on implementation is ongoing

V – Macroeconomic Analysis and Fiscal Policy

1.1 Improving macroeconomic forecast analysis and analytical information

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Improvement of analytical products for economic activity, improved forecasting, introduction of the results gained by the macroeconomic analysis (the establishment of the regular review system).

Period: January-December

Progress: The information is broader; together with monthly presentations and a brochure, analytical information is being prepared, directed for specific groups, including credit rating agencies, investors, etc.; existing account and external debt analysis directions are broader; external susceptibility analysis is being worked on. 2018 models of economic

analysis/forecasting are improved. Fiscal multipliers are assessed, which created the bases of assessing potential results of fiscal reform.

1.2 Creation of analytic information about economic development tendencies of the country

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Information about economic situation is periodically published on the Ministry of Finance's website.

Period: January-December

Progress: Centralized system for data processing was created, which works with MATLAB programming support. The system increased speed of processing information. Monthly publication design was renewed and its informativeness increased. Employee retraining is being held (IMF direct and online trainings on using analytical indicators). Different working files are created, which are used to process the information and provide graphical analysis. VAT payer entity turnover analysis is continued. Methodology for economic activity assessment is improved. Customs data analysis process is improved to assess foreign trade trends.

1.3 Analysis of shocks impacting economic development, creation of scenarios and macroeconomic risk assessment

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Renewal of macroeconomic risk analysis; using DSGE model to analyze different political scenarios

Period: January-December

Progress: From 2019, Ministry of Finance started operating by using DSGE model, which includes analyzing scenarios of fiscal policy and different shocks. This model is also used to simulate political reform results on economy.

As for the Macroeconomic risks, yearly document on fiscal risks is developed, which includes foreign macroeconomic risks, results of their realization and policy answers, as well as risks from public-private agreements and governmental enterprises. The document, together with optimistic and pessimistic scenarios, was annexed to 2020 budget.

1.4 Creation of medium-term fiscal policy and creation of recommendations

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Document of medium term fiscal policy

Period: January-December

Progress: Document of basic data and directions was created, which is a medium length framework for budget. This document is published on the Ministry of Finance's website.

1.5 Creation of technical specifications for DSGE and its implementation for political analysis

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Technical specifications for DSGE model, implementation of forecast part in program.

Period: January-December

Progress: Activities were held in the beginning of 2019 according to the action plan developed with IMF. Trainings were held, including those about Macroeconomic metric forecast, fiscal policy analysis, monetary and fiscal policy analysis using DSGE,

etc. Model already includes all relevant economic characteristics of Georgia, which is necessary for assessing policy impacts. Action plan for 2020 is created, which includes improving forecast model.

1.6 Participation in assessment of socioeconomic decisions and creation of strategies with the framework of macroeconomic forecasting

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Influence of socioeconomic decisions on macro-fiscal indicators

Period: January-December

Progress: Assessment of different political decisions/reforms is ongoing in different scenarios. For example, education reform results were assessed with DSGE model.

1.7 Coordinating strategy and cooperation with international rating companies to improve credit rating of the country

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Draft version of strategy

Period: January-December

Progress: Active cooperation with international companies, such as Fitch, Moody's and S&P is ongoing. During the year, delegations from these companies visited Georgia several times. They had meetings with Georgian Ministry of Finance and representatives of different public and private institutions. Ministry of Finance was organizing these meetings. Active communication is ongoing with email and phone too, where the rating companies are introduced to the main economic tendencies of the country.

2.1 Creation of unified and state budget revenue forecast, improvement budget revenue forecast methodology and creation of alternative methodology

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Improved prognosis, alternative methodology and its use, study of revenue elasticity coefficients, study of excise goods elasticity coefficient

Period: January-December

Progress: Whole tax and independent tax (including VAT, excise, customs, income, profit and property taxes) elasticities were studied for GDP in short- and long-term periods. In 2021 budget revenue forecast will be based on DSGE model. During forecasting, several changes made to tax code in 2019 will be accounted, for example, excise changes, cancellation of gold list, etc.

2.2 Organizing state finance statistics work and data distribution based on statistical methodology and IMF and other international organization recommendations

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Published reports

Period: January-December

Progress: Every year, reporting of public finances is improved and closer to international standards. This information is published on Ministry of Finance's website on a yearly, quarterly and monthly basis. Ministry of Finances also creates analytical data about economic and financial indicators, published with the state budget projects.

VI – Fiscal Risks

1. Identification, management and assessment of fiscal risks

1.1 Identification and assessment of governmental entity conditional obligations

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Improvement of methodology to gather information from state enterprises; update of conditional obligations of state enterprises; analysis of state enterprises work and assessment of fiscal risks.

Period: January-December

Progress: With the aim of assessing financial risks of state enterprises, information about financial indicators, conditional obligations and ongoing and forecast indicators of state enterprises was gathered from government structures, national statistics office and other administrative sources. The quality of information in this reporting period is much better than the previous one. The information was used to update government entity register and 288 of those were identified as important for fiscal risk analysis. From this, 52 are subsidiary companies. Information about this data is shown in “document of fiscal risk analysis”.

Compared to previous years, 2019-2023 fiscal risk analysis document was annexed to the draft state budget, which is positive assessment of budget process transparency. In the 2019 October-December update, the document was complete with balance reporting of public sector, sectorization of state enterprises and natural disaster risk chapters.

1.2 Quasi fiscal activity identification, assessment and analysis

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Update of the quasi-fiscal activity register; assessment of quasi-fiscal activity fiscal risks

Period: January-December

Progress: Based on information gathered from state enterprises, 6 enterprises were identified, which are engaged in quasi-fiscal activities. Their activities are in the sector of energy and communal service sectors. Their net expenditures and fiscal risks were assessed.

International practices are reviewed and mechanisms are being implemented for reduction of fiscal risks from quasi-fiscal activities and their relevance assessment.

1.3 Sensitivity analysis of state enterprises and stress-test conduction to assess fiscal risks

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Use of sensitivity analysis and stress test methodology based on large state enterprises data; use of modelled shocks and their influence of enterprises' financial situation

Period: January-December

Progress: With the help of IMF technical help mission, sensitivity analysis model and methodology for government enterprises was created. With the aim of implementing it in practice, it was updated and improved.

For the improved model, based on their financial importance, 6 large state enterprises were chosen, aggregated gross assets of which in 2018 is 65% of all state enterprises, reviewed in fiscal risk analysis.

For the chosen enterprises, 3-year historical (2016-2018) and five-year pro-form (2019-2023) financial forecasts were created. Sensitivity (stress-tests) were included in the model, based on different economic factors, acute economic shocks and modelled scenarios, for example, increase of GDP, currency rates and interest rates.

1.4 Creation of legislative framework about state enterprises/identification of state enterprises as public interest persons

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Creation of criteria to identify state enterprises as public interest persons

Period: January-December

Progress: N584 ordinance about “Accounting, reporting and audit criteria on identifying legal person as public interest person”. Based on this document, legal person can be public interest person, “if it is an enterprise, founded according to Georgian law about enterprises and operates with 25% or more participation of government/municipality and by the end of reporting period qualifies as a first or second category enterprise based on Accounting, reporting and audit criteria law of Georgia.” Based on ordinance N1781 of December 2019 of Accounting, Reporting and Audit Supervision Service, the list of enterprises was created which were identified as public interest persons.

1.5 Gathering data on ongoing projects of public and private sector partnership and its assessment

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Creation of register of private and public partnership; Use of PFRAM model developed by IMF and World Bank, to assess and analyze private and public cooperation projects.

Period: January-December

Progress: Based on best international practices and public sector accounting international standard IPSAS 32, in 2019, an assessment of PPP projects and government obligations was held. Fiscal risk analysis document includes the ongoing conditional obligations/fiscal risk assessment of electric energy agreement. These projects are a form of PPP.

Ministry of Finance of Georgia has created a full register for PPP Projects.

Note: There were no projects in 2019 to assess with PFRAM. Last year, PFRAM was updated. In January of 2020, employees of Fiscal Risk Management division will be retrained in PFRAM.

1.6 Creation of methodological-practical handbook for PPP together with international partners, based on ordinance N426 of August 17 2018, about development and implementation of rules of PPP projects

Responsible Body: Division of Fiscal Risk Management

Performance Indicator: Creation of methodological-practical handbook for PPP

Period: January-December

Progress: Creation of methodological-practical handbook for PPP is planned for April 2020.

At this stage, second phase of the project on creating a handbook is ongoing, with the experts of ADB technical mission.

VII – Development of Public Internal Control System over Finances

1. Reform of Public Internal Control

1.1 Planning, assessment and rising awareness about reform of public internal control over finances

Responsible Body: Central Harmonization Unit

Performance Indicator: 1. Steps are taken according to development strategy and action plan of improving public internal financial control; 2. Monitoring of development strategy and action plan of improving public internal financial control is in place; 3. Annual report on Public Internal financial control reform of 2018 is presented on government meeting.

Period: January-December

Progress: Central Harmonization Unit successfully completed 2019 activities of public internal financial system development strategy and action plan, both in the field of financial management and control and internal audit. Monitoring of development strategy and action plan was in place; 2018 consolidated report about the system development was presented to Georgian government. Based on ordinance N2085 of 27th of December 2018, the Government approved it.

1.2 Support of implementation and effective functioning of financial management and control system in public sector

Responsible Body: Central Harmonization Unit

Performance Indicator: Within the pilot project, self-assessment of existing financial management and control system is created and implementation plan for minimum 2 Ministries is created; 2. Financial management and control workgroups are created in minimum 2 ministries; 3. Risk register for risk management program is created in minimum 2 ministries.

Period: January-December

Progress: Within the pilot plan, Central Harmonization Unit, with the help of Netherlands Finance Ministry and engagement of international experts, conducted self-assessment of financial management and control system in Ministry of Environment and Natural Resources Protection of Georgia and Ministry of Education, Science, Culture and Sport of Georgia. In these ministries, groups of finance management and control were created, which include representatives of support function structural units and are headed by finance/economic unit curator deputy minister. In 4 ministries (Ministry of Finances of Georgia; Ministry of Internal Affairs of Georgia; Ministry of Environment and Natural Resources Protection of Georgia and Ministry of Education, Science, Culture and Sport of Georgia), employees were trained in effective risk management, including the issue of creating risk register. With the support of Government of Sweden, risk management systems are being worked on at the level of ministries.

1.3 Development and support of internal audit activities in public sector

Responsible Body: Central Harmonization Unit

Performance Indicator: 1. Concept of National Program for certifying internal auditors is created; 2. Within the pilot project, at least 2 internal audit subjects' activities are externally assessed; 3. Methodology for assessing corruption and fraud risks is developed for internal auditors.

Period: January-December

Progress: Concept of national certification program for internal auditors was created and with the support of "Center of Excellence in Finance" (CEF), local trainers are retrained and methodology handbook is being made; Within the pilot projects, with the support of GIZ and Netherlands Ministry of Finances, in 4 Ministries of Georgia (Ministry of Finance of Georgia; Ministry of Economy and Sustainable Development of Georgia, Ministry of Education, Science, Culture and Sport of Georgia and Ministry of Regional Development and Infrastructure of Georgia), external assessment of internal audit activities was held. Methodology for assessing corruption and fraud risks is developed for internal auditors.

VIII –Accounting, Reporting and Auditing Supervision

1. Effective functioning of Reporting Portal

1.1 Development of Reporting Portal

Responsible Body: Service for Accounting, Reporting and Auditing Supervision

Performance Indicator: 15 presentations to raise awareness about financial reporting international standards and legal changes are conducted to enterprises;

IFRS standards are translated and published on service’s webpage;

Training modules of IFRS for SMEs are translated and published on service’s webpage;

IFRS for SMEs trainings are conducted to target audience with support of donors and sponsors;

By reporting presentation (Reportal.ge/SARAS), up to 20000 enterprise reporting is published on the service portal (Reportal.ge)

Period: January-December

Progress:

15 presentations to raise awareness about financial reporting international standards and legal changes were conducted for enterprises. Updated IFRS (2019 version) were translated and are published on service’s webpage. Training modules of IFRS for SMEs were also translated and published on service’s webpage. With organization and funding from World Bank, USAID Project G4G and EBRD, 16 trainings for IFRS for SMEs were conducted and up to 500 accountants were retrained. Up to 4000 reports of public interest persons of first, second and third category enterprises were publicly posted to service portal (Reportal.ge). Publishing of reports of fourth category enterprises were postponed by changes to law made on 26th of November, 2019. 22000 enterprises from category four provided their reports. Towards the enterprises (except fourth category ones) who did not provide reports, sanctions were issued. Reports are being provided on an ongoing basis.

2. Support of improvement of Audit service quality

2.1 Improving Audit service quality

Responsible Body: Service for Accounting, Reporting and Auditing Supervision

Performance Indicator:

Quality control system monitoring is conducted for up to 25 audit companies.

Period: January-December

Progress: For 30 companies – the process is finished. In 8 companies – the process is ongoing.

IX – Informational Technologies

1. Development and Support of the Public Finance Management Integrated Information System

1.1 eBudget – System development and addition of new features

Responsible Body: LEPL Financial-Analytical Service

Performance Indicator: Implementation of configuration module for new technology; broadening the functional for planning balance (by identifying balance at the beginning and end of a period); broadening the structural change identification functional with the aim of increased possibility to work with donor types and move within budget units; automatic synchronization of information from State Treasury system to Budget system and creation of integrating functional with State Treasury necessary for planning, identifying and controlling revenue; change of target grant resource counting logic; broadening of functional for formula managed and dynamic reports; improvement of threshold mechanism for autonomous republics and municipalities budget; transferring state treasury reports to budget system.

Period: January-December

Progress: The optimized mechanism of payment plans, blocks, resource exchange and validation between budget and treasury electronic systems were finished and implemented. The electronic system integration for revenue classification unification, budget and debts is finished, as well as other tasks.

1.2 eTreasury - Improvement of the system and addition of new features

Responsible Body: LEPL Financial-Analytical Service

Performance Indicator: Switch to accrual method of accounting second stage – analysis of part of revenue and creation of technical task;

Registering accounting transactions in balance sheet; modernization of system functionals or addition of new ones.

Period: January-December

Progress: 10 new functionals were added to the system (Detection of employee status of the Pension fund and automatic synchronization of treasury and pension agency database information; sending the refund request from treasury about returning money from pension fund; automatic process of returning money from pension agency; sending the request of voluntary participation in pension schema for employees of treasury; electronically getting tax documentation from Revenue Service; processing of schema of agreement obligations and validations; accounting of LEPLs and local governments; return of remaining balance from events; gathering revenue classifications from budget system; possibility of having two different accounting plans). Grant validation scheme changed, as well as obligations form, detail validation for agreements and obligations, connections of classifications to accounting transactions, functional of SWIFT transaction processing, logic of gathering and processing information from Procurement agency. New methods were added to treasury electronic services; new reports were added to financial agency portal and treasury module. Spending agency portal and treasury modules were optimized.

1.3 eDMS - Improvement of the system and addition of new features

Responsible Body: LEPL Financial-Analytical Service

Performance Indicator: Unification of finance systems existing for debt management; improvement of accessibility of information and simplification of information reporting and management.

Period: January-December

Progress: Integration task for electronic systems of debt management and budget management was implemented in real environment. Reporting documents were updated to include procured securities. Safety measures for working in the system is stricter and other tasks were finished as well.

1.4 eHRMS - Improvement of the system and addition of new features

Responsible Body: LEPL Financial-Analytical Service

Performance Indicator: Dissemination of new version of the system to user organizations; integration of assessment module in the system; integration of training and development module in the system; management of export of information from the system; integration with other systems; continual development of system according to requirements.

Period: January-December

Progress: More than 10 new functionals, modules and reports were developed and added to the system. First stage of integration is finished and the next stages are underway.

Technical task is being developed for realizing reporting constructor.

1.5 Ensure the sustainability of ICT infrastructure of Ministry of Finance

Responsible Body: LEPL Financial-Analytical Service

Performance Indicator: Improvement of infrastructural and systemic sustainability of Public Finance Management electronic system; implementation of new server and information storage systems; providing compliance of business processes with ITIL; implementation of ISO 27000 standards and improvement of informational security level.

Period: January-December

Progress: In both of the information processing centers, QNAP storage installation was finished. To ensure high sustainability, data storage was installed on 2 independent cores. The system was updated and was integrated in existing infrastructure. Tests on network sustainability and throughput with different configurations. Server structure of databases (Oracle and SQL) were improved and developed. eDocument and eTreasury system databases were optimized, information was compressed and divided by years. Database monitoring and management tools were implemented (Oracle Enterprise Manager Cloud Control 13c), which will make it possible to prevent possible incidents and investigate analyze existing problems.
