

Georgia

Public Financial Management Reform
Strategy to 2018 – 2022

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ABBREVIATIONS AND ACRONYMS

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

I. INTRODUCTION: BACKGROUND TO THE PFM REFORM STRATEGY

Aim of the strategy

The aim of the Public Financial Management Reform Strategy (PFMRS) is to achieve sound financial management. This is to be realised by improving the PFM systems that ensure (1) ‘fiscal discipline’, (2) ‘operational efficiency’ and (3) ‘effective allocation’ of Georgia’s public resources. Given the importance of budgetary resources for public service delivery, improvement in the Public Finance Management system will affect all service areas and benefit the citizens making use of them.

The PFMRS builds on previous and successful transformation in public financial management, including ‘strategic planning and budget preparation’, ‘budget execution’, ‘accounting and reporting’ and ‘audit and oversight’. As the Public Finance Management system covers all processes relating to the preparation, execution and reporting on the budgetary resources, the PFMRS has an overarching perspective that brings together all of the responsible agencies for PFM. Thus, there are detailed action plans based on strategies such as the strategy for External Audit, strategy for Procurement and strategy for Parliamentary Oversight as well as those strategic areas that fall under the responsibility of the Ministry of Finance: budget preparation, public investment, budget execution, accounting and reporting, public internal financial control and internal audit as well as taxation and revenue. Moreover, given the degree of decentralisation in Georgia, attention is also given to areas of concern relating to municipalities. Many of the existing systems are common to both central and local government in areas of budget execution (reporting and accounting) and procurement but there are areas such as budget formulation and oversight that require specific attention in the context of local government.

Relevance of the strategy for the partnership of Georgia with the European Union

Adopting a PFM reform programme is also a prerequisite for sector budget support from the EU. The Government of Georgia plans to apply for the budget support mechanism in various sectors. The EU will use the PFMRS as a benchmark for the commitment of Georgia to ensure good governance and sound financial management.

Method of preparation

Given that there are different actors in the area of Public Finance Management, the PFMRS has been prepared by the responsible agencies. Within the Ministry of Finance, its departments: Budget, Treasury, Internal Financial Control, Debt and Revenue Services all contributed to the Ministry of Finance’s part of the strategy. The State Procurement Agency (SPA) has inputted to the strategy. As well, the State Audit Office (SAO) and the Parliamentary Budget and Finance Committee which are functionally independent from the Government, has added their relevant actions to the PFMRS within their own reform strategies. The overall strategy is to be collated through the various agencies participating in a PFMRS Coordination Council which will ensure its endorsement as a sector reform strategic document.

The PFMRS has been consulted with the representatives of development partners (EU, IMF, WB, GIZ) particularly in relation to the diagnostic work that has been carried out leading up to the strategy. This includes the relevant commitments in the Open Government Partnership Action Plan of Georgia 2018-2019.

Highlights of Georgia's PFM Reforms and Review of weakness identified in the National and Subnational Assessments

The highlights of Georgia's PFM reforms to date are summarized as follows:

- Impressive progress has been made in revenue administration and accounting.
- Good progress in ensuring transparency of public finance in line with international standards;
- Fiscal discipline and developed fiscal rules;
- Impressive tax policy reform;
- Capabilities were developed to assess the aggregated fiscal risk enterprises and as such, it improved financial oversight of the public sector.
- Developed sound tool for macroeconomic and fiscal analysis;
- Important reforms were implemented at the State Government which are also applied at the municipality level. They include:
 - Program Based Budgeting for Results;
 - The Treasury Single Account to cover central and local governments and public entities; and
 - Strengthening of internal controls and accounting systems facilitated by web-based Public Finance Management Information System (PFMIS).
 - Fully integrated in-house developed electronic system (ePFMS) for Budgeting, Treasury and other related areas.
 - The State Audit Office has transformed from the traditional control-inspection function to the new function of modern institution, that conducts financial, performance and compliance audit in line with international audit practice of Supreme Audit Institutions.
 - The legal and methodological basis for internal audit has been established and its harmonization is being rolled out throughout the Government including municipalities.
 - The Academy of the Ministry of Finance has been developed into the key provider of training related to PFM reforms and initiatives.
 - The State Procurement Agency moved from paper based to e-procurement in 2011. All government including municipalities contracts are procured through Georgian E-Government Procurement System. Procurement records are maintained on the system and they are publicly available.
 - Ongoing reforms are improving Parliamentary Oversight of PFM. They include:
 - The Budget Office of Parliament which is an independent fiscal institution that reviews the budget.
 - The Budget and Finance Committee of Parliament that is making progress in the scrutiny of audit reports with the support of its Working Group.

All the above-mentioned are assessed and reflected in the evaluation reports, including 2018 Central Government and Municipality PEFA assessments. Annex 3 presents a summary of the PEFA results at the Central and Municipality levels of Government.

The Fiscal Transparency Assessment report prepared by the International Monetary Fund (IMF) in the framework of the Technical Assistance Mission has been confirmed by the results of the activities carried out during the last decade within the framework of the Public Finance Management Reform. Based on the Fiscal Transparency Code, three main directions - reporting, fiscal forecasts and budgeting and analysis of fiscal risks and management -

evaluated 36 indicators, from which 18 indicators were evaluated as best or good, including medium-term planning, budget legislation, quarterly and annual reporting, Budgeting classification, program budgeting, macroeconomic and fiscal risks, macroeconomic forecasts and more.

As a result of the reforms that have been implemented, the Open Budget Survey 2017, scored Georgia at 82, ranked 5th among the 115 countries assessed. According the same survey in 2015 Georgia scored 66 and ranked 16rd and was among the substantially transparent countries, in the top five countries with New Zealand, South Africa, Sweden and Norway.

Despite these impressive achievements resulting from previous reforms, there are still weaknesses that the 2018 Central Government and Municipality PEFA assessments have revealed.

The following areas of weakness (D to C scores) identified are:

- Under **Public Asset Management (PI-12)**: monitoring of non-financial management assets and transparency of asset disposal at central government level.
- Under **Public Investment Management (PI-11)**: economic analysis of investment proposals, investment project selection, costing and monitoring.
- Under **Annual Financial Reports (PI-29)**: International Public Sector Accounting Standards (IPSAS) and timeliness of financial statements for audit by the State Audit Office.
- Under **Medium Term Perspective in Expenditure Budgeting (PI-16)**: consistency of budgets with previous year estimates at both national and subnational level, and medium-term expenditure ceilings at subnational level.
- Under **Fiscal Risk Reporting (PI-10)**: monitoring of subnational governments by the central government (ensuring that financial reports for municipalities are audited annually) and municipalities with owned corporations with comprehensive consolidated financial reporting.
- Under **Fiscal Strategy (PI-15)**: fiscal impact of policy proposals to the budget, and reporting of fiscal outcomes/results, that is, progress report on the fiscal strategy.

Areas of weakness at National and Subnational level: These include:

- **Debt Management (PI-13)**: debt management strategy.
- **Legislative Scrutiny of Audit Reports (PI-31)** at both Parliament and Sakrebulo.
- **Procurement (PI-24)**: procurement complaints management appeals process is not independent.

Areas of weakness at National Level: These include:

- Under Revenue Administration (PI-19): revenue arrears monitoring and historical arrears.

Areas of weakness at Subnational Level: These areas include:

- **Transfers from a Higher-Level Government (HLG-1)**: uncertainty of earmarked grants affecting the budgeting process of municipalities.
- **Budget Preparation Process (PI-17)**: the budget calendar process and budget submission to the legislature. The budget calendar process is hindered by the timing of information on grants which limits the time available to prepare the budgets.

- **External Audit (PI-30):** frequency of municipality audits and timely submission of the audit reports for scrutiny by the Sakrebulo.
- **Performance Information for Service Delivery (PI-8):** performance plans, achievements and evaluations for service delivery.
- **Debt Management (PI-13):** recording and reporting of debt and guarantees.
- **Revenue Outturn (PI-3):** revenue composition and production of accurate total revenue projections.
- **Expenditure Composition Outturn (PI-2):** composition by function and economic type especially in the smaller municipalities.
- **Predictability of In-Year Resource Allocation (PI-21):** significance of in-year budget adjustments

The results of the PEFA and other assessments have guided the new PFM reform strategy.

Strategies and Action Plans to 2022

The various agencies involved in the PFMRS have existing strategy and action plan documents:

- Ministry of Finance PFM Strategy 2018-2021. This has been updated in early 2019 to reflect implementation in 2018.
- Budget and Finance Committee of Parliament Strategic and Action Plan 2018-2020
- State Audit Office Strategic Development Plan for 2018-2022
- While the State Procurement Agency does not formulate a specific strategy and action plan it is continuously upgrading its processes and procedures in the light of internal and external assessments.

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

Based on its updated Strategy document the Ministry of Finance has prepared a matrix which outlines the areas where PFM reform initiatives are in its revised Action Plan.

Result frameworks under the Ministry of Finance (Annex 1) and other individual entities (Information Annex 2) present:

- Strategic directions and objectives for each broad policy area
- Aim for 2022
- Best practice documentation such as PEFA, TATAD, PIMA etc.
- Baseline indicator
- Target indicator for 2022
- Risk
- Sources of verification
- Comments

Information Annex 2 has been developed by each of the 3 responsible agencies for the delivery of the overall PFM Strategy and Action Plan.

Priorities and Implementation Time frame

The Ministry of Finance Strategy includes a table with priorities and the broad time frame for implementation and is included below.

Ministry of Finance Strategy				
	Direction	Priority	Purpose within	Period
1.	Institutional Coverage	High priority	Reflection of consolidated information of LEPL operations	Medium term ¹
2.	Medium-term Planning Framework	High priority	Strengthening the accuracy of the medium-term forecasting, reliability and connection with the annual action plans. Improvement of comparative analysis of updated projections and factual indicators.	Medium term
3.	Fiscal discipline	High priority	Revision of fiscal rules and implementing relevant amendments in order to ensure sustainable fiscal policy framework	Medium term
4.	Reporting and Control of Contingent Liabilities	High priority	An analysis of obligations of public and private partnership (PPP) and Guaranteed procurement agreements (PPA) of electricity and reflecting in the fiscal risk document	Long term ²
5.	Managing SOEs	High priority	Establishing unified management system of SOEs, including classification, contingent liabilities, monitoring / prevention of other possible financial risks based on their operations	Long term
6.	Management / Identification of all assets	Medium priority	Preparation and implementation of a single management plan for non-financial and financial assets	Long term
7.	Accounting and annual reporting according to the international standards	Medium priority	Preparation of financial report of the consolidated budget according to the international standards. Introducing international standards of accounting and practice	Long term
8.	Management of investment projects	Medium priority	Implementation of unified and structured cycle of investment projects management which will ensure prioritization of projects based on objective criteria	Long term
9.	Results based planning and full introduction of FMC	Medium priority	Effective FMC system will be introduced in all spending agencies which will ensure efficient management of public finances and improvement of result-oriented approaches	Long term
10.	Local self-governments	Medium priority	Planning, accounting and publicity of PFM operations of Municipalities and Autonomous Republics according to the international standards; increasing accountability and transparency regarding the public finances of municipalities and autonomous republics	Medium term

¹ Medium term - 4-5 year period, which covers the strategy and BDD for 2019-2022.

² Period above 5 years.

The implementation of the strategies of the Parliament Budget and Finance Committee, the State Audit Office and the State Procurement Agency are planned to be undertaken in the short term.

PFMRS Coordination Mechanism

Since 2010, the Coordination Council of the Public Finance Management Reform Implementation, established by the Ministry of Finance of Georgia, chaired by the Minister of Finance of Georgia and consists of representatives of the Ministry of Finance, as well as the Parliament of Georgia, State Audit, State Procurement Agency as well as non-governmental and donor organizations. The Council meets four times a year and discusses reform-related documents such as strategies and annual action plans. It reports on the implementation of the action plan. However, in addition, the Council meets if necessary and will discuss items such as the research and evaluations of the NGO sector on issues related to the reform. This format facilitates communication between all government parties involved in the reform, as well as consultations with donor and non-governmental organizations.

Structure of the Document

The PFMRS is based on a thorough analysis of the existing strengths and weaknesses in the PFM systems of Georgia using the PEFA methodology at the Central Government and Municipality levels. These PEFA assessments were carried out by the World Bank. Additionally, the IMF applied the TADAT methodology and the PIMA methodology which provided a drill down of the PEFA tax and investment indicators respectively. The SAO has also has an SAI Performance Measurement Framework (SAI PMF) and the results are included in its 2018- 2022 Strategy.

Chapter II is based on the strategies and action plan of the Ministry of Finance and are further elaborated in a matrix in *Annex 1* which includes specific measures/activities based on specific indicators for years 2019-2021 as well as a summary of the costs of the additional resources to conduct the planned activities. *Annex 2* is based on the strategies and action plans of the individual entities: Parliament and Budget Office, State Audit Office, State Procurement Agency and includes specific measures/activities based on specific indicators for years 2019-2021 as well as a summary of the costs of the additional resources to conduct the planned activities. *Annex 3* presents an analysis of the 2018 PEFA Assessments.

II. STRATEGIES AND ACTION PLANS: MINISTRY OF FINANCE

The Ministry of Finance's PFM Reform Strategy cover eight thematic areas:

1. Budgeting
2. General Government Debt Management
3. Accounting and Reporting
4. Tax and Customs issues
5. Macroeconomic Analysis and Fiscal Policy
6. Fiscal Risks
7. Public internal financial control
8. Supervision of Accounting, Reporting and Auditing

1. Budgeting

Reforms have been continuously implemented to improve public financial management, including the budgetary system. Within the framework of the Public Finance Management Reform, measures set out in the direction of budgeting have been implemented to ensure efficient management and transparency of public finances in order to mobilize resources for the implementation of planned policy to develop different sectors keeping fiscal sustainability and develop fiscal policy which supports economic growth in parallel with the accomplishment of social safety obligations.

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

Reforms ensured to improve the links between policy directions; medium-term planning and annual budget have been implemented. The development of program budgeting in the budget process commenced in 2012 with the state budget law prepared in the program budget format with municipalities added in 2013. In 2015 the program budget methodology was updated with a new methodology that included regulations for the line ministries on how to develop programs and subprograms, how to prepare program and subprogram costing, and how to determine the expected outputs and outcomes and performance indicators based on their medium-term plans, sector strategies and available resources. Spending agencies were instructed to submit their program budget annex, such as the baseline of indicators, targeted indicators/data, deviations from targeted indicators and possible risks for each program and subprogram. The programs/subprograms/activities in their Action Plans or sector strategies should be linked to the Annual budget and BDD documentation. In 2016 state budget program budget part has been prepared according to the New Methodology.

Steps have been also been taken to improve the quality of the reports of result-oriented budgeting. New format of performance reporting has been developed. This initiative allows the assessment of realisation of planned outcomes and outputs and indicators and provides information on any possible deviation.

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

For the consolidated management of state finances, the planning, implementing and executing of Legal Entities of Public Law (LEPLs) has been integrated into the PFMS – Public Finance Management electronic system, through the Treasury Accounts System and the operations of LEPLs are fully incorporated in the annual budget process. Within the framework of Public Finance Reform from January 1, 2015, all levels of budget (State, Autonomous republics, Local) and all budget organizations were fully integrated into the Single Treasury Account both in the Planning and Execution stages. The Financial Analytical Service of the Ministry of Finance of Georgia updated the relevant modules. The concept of Budget Organization has expanded and the Budget Code regulates all level of budget organization (established by central, autonomous republics and local government) except for legal entities with entrepreneurial status and the National Bank of Georgia.

Important steps have also been taken to establish a unified system of public investment / capital projects management in the country. In 2016, with support of the World Bank, Public Investment Management Guideline (Decree No.191 of April 22, 2016 of the Government of Georgia) and Detailed Methodology (Order No.165 of 22 July 2016 of the Minister of Finance of Georgia) were developed. These documents specify the rules and procedures for developing investment projects, as well as the roles and responsibilities of the responsible agencies prior to the implementation of projects and for all subsequent stages of Public Investment Management process. This methodology is intended to ensure that proposed different capital investments are evaluated so as to determine the priority of the projects in the strategic planning and budget preparation process for both the economy and its different fields.

Since 2016, “Citizens Guide” to the State Budget has been regularly prepared by Ministry of Finance of Georgia and with the support of donors, and is printed and published and made available.

Important steps have been undertaken to strengthen accountability. Since 2015, the Ministry of Finance of Georgia has prepared an action plan on the implementation of the State Audit Office recommendations on the report of the state budget execution (approved by a Government of Georgia decree).

There have been two relevant assessments that have shown the progress that has been made. Public Expenditure and Financial Accountability (PEFA) assessment report carried out with

the support of the World Bank reflects the results of reforms carried out in public finance management. The PEFA scores have significantly improved in comparison with 2013 assessment. The PEFA results are summarised in Annex 3 as well as in the introduction. The Fiscal Transparency Evaluation Report which has been prepared with support of the International Monetary Fund (IMF) Technical Assistance Mission also confirms the results of the activities carried out during the last decade within the framework of the Public Finance Management Reform including medium term planning, budgetary legislation, frequency of preparation quarterly and annual reports, program budgeting etc. The Action Plan attached to the report included the activities for further improvement as follows:

- Expand the Institutional Coverage of Fiscal Reports (Include LEPL own-source revenues and related expenditures in GFS reports);
- Review and amend the fiscal rules;
- Explain changes in fiscal forecasts;
- Tighten criteria for drawing on budget reserve funds;
- Regularly publish financial information of municipalities, etc.

These assessment reports prepared has enabled the analysis of the different fields within the Public Finance Management Reform framework and provided the background to the development of medium-term action plans to ensure the implementation of the reforms in consistent and in the right direction. The overall objectives and activities planned in Budgeting are to ensure: effectiveness and transparency of managing financial resources; mobilizing available resources for the implementation of activities for improving and further developing different sectors and at the same time maintain fiscal sustainability; and fiscal policy which ensures economic growth in parallel with ensuring that social commitments are covered.

Objectives and goals

1.1 Increase Effectiveness of Medium-Term Planning

The reform aims to continue to improve medium-term planning over the 2018-2022 period. Compliance with the program of the Government of Georgia and various Sector Strategies with medium-term parameters will be ensured; sustainable and effective mid-term (not less than 4 years) budget planning will be developed which includes:

- To present complete information about the fiscal parameters and compatibility of existing fiscal rules established with the legislation (Expenditure rule, Balance rule, Debt rule, Revenue rule).
- To present the government revenues and expenditure forecasts in the medium-term period within the existing policy (baseline information) as well as new policy initiatives;
- To provide detailed explanation of the reasons for the deviations from the medium-term parameters of the previous period.

With the support of the Academy of the Ministry of Finance, workshops and meetings will be continued with the representatives of the Ministries to better coordinate and develop the budgetary process.

1.2 Enhancing Fiscal Discipline

The relevant activities will be implemented as outlined in the performance initiatives of the Action Plan of Fiscal Transparency Evaluation report prepared by the International Monetary Fund as well as to implement related EU directives. Revision and further development of existing fiscal rules will be undertaken to develop a more sustainable system of fiscal planning at both the budget planning and execution stages.

1.3 Establishment of a single cycle of Public Investment / capital projects Management

Active work will continue to implement an effective investment/capital project management system. Decision on each project's implementation will be based on appropriate research and analysis. The introduction of the system will allow investment projects to be carried out from the preliminary selection phase including the further evaluation phase of their implementation through the methodology, by the pre-determined responsible structural units and stakeholders. The unified system of investment projects management will be developed, which will facilitate the implementation of only those projects that meet the requirements of the life cycle. This action will also improve the overall management of public finances. Stronger coordination processes will be established. Relevant measures will be taken to retrain and improve qualification of staff of responsible ministries/agencies participating in the process.

With the support of the financial-analytical service of the Ministry of Finance of Georgia, the e-platform of the Investment / Capital Projects Management Process will be integrated into the Public Finance Management System (E-PFMS). This action will facilitate the implementation of the reforms fully.

With the support of the Academy of the Ministry of Finance, the training cycle will continue for the representatives of the relevant responsible agencies involved in the reform of investment / capital projects management.

1.4 Increase Effectiveness of Result-oriented planning

The Ministry of Finance will continue active work to further develop program budgeting. Implementation of results-oriented budget will be ensured, expected outputs and outcomes and performance indicators will be further improved to be used as a basic instrument in the process of budget planning as well as execution. In parallel with assessment of the financial resources spent, more attention will be paid to assess the achieved performance indicators. Program budgeting reform needs to be further developed in parallel with the Internal Financial Control (IFC) reform and to designate each responsible structural unit/person for each result within each spending unit so as to implement stronger internal control systems.

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

1.5 Develop high standard of Accountability and transparency

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

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

In-year and annual execution reports of the budget, the reporting against the planned goals and outputs and outcomes will be strengthened and the links between annual outputs and outcomes with medium-term action plans will be strengthened.

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

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

1.6 Improvement of financial management by the municipality

Within the framework of fiscal decentralization reform, work will continue to improve the independence of the municipality and the predictability of their finances. Workshops and training will be held, including donors' support for municipalities to enhance their capabilities.

The equalization transfer system has been changed through the tax sharing system and 19% of the value added tax will now be distributed to the municipality. The income received by the new system does not discourage the municipality's own revenues mobilization and creates additional motivation for municipalities. The reform will facilitate the improvement of medium-term planning by the municipality.

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

An action plan will be prepared for the elimination of the deficiencies identified by the municipality PEFAs and the municipalities will receive additional funding from the state budget in the pre-determined amount.

1.7 Strengthen the link between the budget and strategic / sectoral policy documents

In order to strengthen the links between strategic and policy documents and the budget, an electronic budget link classifier will be integrated into the electronic budget management system, allowing both spending agencies to adapt their programs / sub-programs / activities to the relevant policy union classifier (eg UNDP Climate change, energy efficiency, green budgeting, etc.).

As a result, it will be possible to produce relevant reports according to a separate classifier, in the format of program budget.

2. General Public Debt Management

Sustainability of the Government's external debt is one of the strongest component in the

sovereign credit ratings of Georgia, recognized by rating agencies "Standard & Poor's", "Fitch" and "Moody's" in recent years. This has been achieved through active and pragmatic management of the external debt of the government, as well as directing the country's domestic resources for the development and investment priorities. Currently, the external debt of the Government of Georgia is mostly concessional. Loans from foreign sources are directed to fund vital projects for the development of the country.

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

In 2008 the Ministry of Finance issued Eurobonds and thereby introduced the country to international capital markets and its many large institutional investors. This development constituted one of the key elements of the strategy of encouraging diversified capital inflows. In 2011, Georgia successfully issued another 10-year Eurobond. Its financial parameters, in terms of attractiveness, equaled the securities of sovereign states with higher credit rating. Within this transaction, the refinancing of 5-year Eurobonds issued in 2008 was advanced.

Treasury Bonds and Treasury Bills are securities issued by the Ministry of Finance denominated in GEL. Treasury Bonds and Bills support development of domestic financial and capital markets. Such securities allow the diversification of budget financing sources by attracting highly credible capital denominated in national currency. In order to develop the domestic capital market and to meet demand, the volume of Treasury securities has been gradually increased as well as the variety of maturities has been increased and now government securities have maturities from 6 months to 10 years.

Presently, commercial banks are the main owners of government securities. To develop the market, the attraction of other local and foreign investors is a priority. For foreign investors, the small market and the underdeveloped secondary market is seen as a hindrance, particularly for large investment funds. The more the volume of each issue and the net issue of government securities increases, the more the foreign investors will be attracted and the interest rates and risks associated with debt service will be reduced.

In response, the Ministry of Finance of Georgia started the issuance of so-called benchmark bonds since 2018 on its primary market. Benchmark Bonds will increase investor interest towards Georgian government securities and promote market development, which in turn ensures the growth of liquidity.

The 2018 Treasury Bills and Bonds Issuance calendars have been developed for Benchmark Bonds with a maturity of 2, 5 and 10 years. This instrument presents the embedded issues with known timetable and equal volumes (uniform coverage). With the recommendation of the Joint Technical Assistance Mission of the World Bank and International Monetary Fund and consultation with the National Bank of Georgia, benchmark bond volume was estimated at 240 million GEL for each maturity, considering the market value.

Benchmark Bonds increase the predictability of the primary market. The increased volume of issues contributes to secondary market trades, the interest of large investment funds and the corporate market participants. It is an important instrument for the development of capital market in Georgia.

Objectives and goals

The following activities are planned for the improved and efficient management of government debt:

2.1 Management of the Government Debt in accordance with Debt Management Strategy

The Government will prepare and adopt the government's debt management strategy document, which includes the government's policy objectives of debt management and activities to be implemented to achieve the objectives of the action plan, as well as the desired portfolio composition of the government debt. This will lead to:

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

2.2 Development of Government Securities Market

Introduction of a new instrument of liability management operations - Buy-back. This tool will facilitate the effective management of the debt portfolio, refinancing risks, increase the liquidity of government securities and facilitate the so-called Benchmark Bonds issuance Policy. Taking into consideration the recommendations of international organizations, relevant legislative amendments will be prepared and initiated.

Introduction of primary dealers system. A pilot version of the primary dealers system will be developed. In this regard, a working group will be created. The rights and obligations of the primary dealers will be defined. Relevant legislative amendments, taking into account the recommendations of international organizations will be drafted. The introduction of a fully fledged primary dealers system will ensure increased activity in both primary and secondary markets. As a result, a diversified investor base will be created.

Improve communication with investors: Introduction and improvement of a continuous dialogue regime with market participants and potential investors is planned. Developing a communication strategy with investors will help to increase transparency and predictability of the government's securities in its home market. This will lead to a rise in demand for government securities, a quick feedback on actions / plans related to debt management as a result of effective management planning and implementation of debt management policies.

3. Accounting and Reporting

At the state budget level, in the framework of the accounting and reporting reform, the gradual introduction of International Public Sector Accounting Standards (IPSAS) in public budget organizations began in 2009, when by the order of the Minister of Finance N701 of November 3, 2009 was approved the implementation of International Public Sector Accounting Standards (IPSAS). Which determined compliance with the requirements of the standards for 2020. In order to implement the reform, on the basis of the Resolution N38 of the Government of Georgia of February 19, 2010, a permanent deliberative body of the Government was established - the Georgian Public Sector Accounting Standards Board, which is responsible for discussing issues related to accounting and reporting in the public sector. Within the framework of the Memorandum of Understanding with the International Federation of Accountants (IFAC), the International Public Sector Accounting Standards were officially translated into Georgian and published for publicity. Since 2013, IPSAS standards based on the accrual method have been gradually introduced. Since 2013, consolidated financial statements have

been prepared annually for the central government, which, to ensure accountability and publicity, are published on the Treasury Service website www.treasury.gov.ge. At the same time, in order to facilitate the introduction of standards, the qualification of the accountants of the budget organizations is being improved every year.

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As for the local self-government units and autonomous republics, IPSASs reform has been ongoing since 2016. Initially IPSAS awareness seminars for local self-government units were conducted. In 20 municipalities research was carried out which aimed to study existing accounting and reporting system. This indicated that financial departments were using different software for accounting and reporting purposes; and existing accounting and reporting practices did not meet the requirements of international standards. In order to define the strategy for implementation of IPSAS in local self-government units, amendments were made to IPSAS Implementation Strategy (Decree of the Ministry of Finance of Georgia No. 701 of November 3, 2009) by the Decree of the Minister of Finance N 485, 29 December, 2017 which defines the main stages of IPSAS implementation process in Autonomous Republics and Local Self-Government Units with subsequent years to take into account that full compliance with accrual-based IPSAS should be achieved by 2020.

Despite the activities realized under public sector accounting reform project, accounting and reporting system at the state budget level as well as public sector accountants qualification do not correspond to the international practices and requirements. Existing level of accountability at the local budget level does not ensure constant monitoring and evaluation of public finances because of that presentation of financial statements of local self-government units does not have permanent characteristics. In many cases, they are not published.

According to the order #483 of the Minister of Finance dated 15 June 2010, the State Treasury electronic service system was implemented. By the order #578 of the Minister of Finance of Georgia dated 14 July 2010 an instruction “On State Treasury Electronic Service System” was approved. Regional offices of Treasury Service were abolished and organizations served by the Treasury stage-by-stage moved to the new type of service (in Tbilisi, as well as in regions).

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

Since January 1, the Ministry of Finance of Georgia initiated enhancement of the Treasury Single Account for the purpose of ensuring that Municipalities, Autonomous Republics, Legal Entities of Public Lows (LEPL) and Non-commercial (Non-profit) Legal Entities (NNLEs) established and/or accountable to Central or Local Governments are covered. For this purpose, according to the amendments made to the Budget Code of Georgia, central, two autonomous and 76 local self-government budgets were gradually transferred to the State Treasury's

electronic system, as well as LEPLs and Non-commercial (Non-profit) Legal Entities (NNLEs). As a result of the reform, the number of organizations served by treasury has increased from 450 to around 1,647 public entities. In order to properly record the revenues of all these organizations, treasury codes of budget revenues have been established, and all their accounts have been included within the Treasury Single Account and the controls mechanisms for the funds on these accounts have been introduced.

There are presently integrated budget planning, execution, accounting and reporting modules in the Public Financial Management Integration System (PFMS). The system which is based on web technologies ensures real-time implementation of budgetary operations and maintains reliable and timely reporting. These are the following modules:

- Budgeting Electronic Module – taking a commitment in the Electronic Treasury is fulfilled within the Electronic Budget Quarterly Distribution Plan;
- Debt Management System Electronic Module - for donor funded projects;
- Electronic module of the HR management system, which provides organizational structure, staff schedule, salary, hiring/firing dates, etc.
- Electronic Module with Revenue Service - Returning the overpaid amount, reimbursement of funds deposited in the form of deposits or electronically transferring transactions to the budget;
- Electronic Module of the State Procurement Agency - It is possible to download the information about registered contracts with the State procurement system in the State Treasury system, as well as providing information to the State Procurement Agency about the payments made by the organizations from the electronic treasury on time and etc.

For the purpose of acquiring skills for working with the modules of Treasury Electronic System, training and informational workshops are held for representatives of financial units of central and local self-governments, LEPLs and NNLEs.

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

Although state budgetary organizations, autonomous republics and local self-government budgets, as well as their LEPLs and NNLEs are served by the Treasury, certain part of legal entities of public law and non-commercial (non-profit) legal entities (such as Public schools and kindergartens) remain outside the system. In addition, the accrual-based Treasury General ledger is not fully functional in the system, in which it would be possible to reflect all operations with the double accounting principle. The timely access to full financial information would improve the efficiency of fiscal decisions.

Objectives and goals

3.1 Accounting and reporting reform in the public sector

In order to complete the implementation of IPSASs in the public sector the activities to be completed are:

- Implementation of IPSAS in state-funded organizations, as well as in local self-government units;
- Improving the accounting methodology in accordance with IPSAS standards for the purposes of accounting for assets, liabilities, revenues and expenses incurred on behalf of the State;
- Improve the training and retraining of public sector accountants to facilitate the implementation of IPSAS standards;
- To ensure public financial accountability and transparency, prepare and publish government consolidated financial statements on the Treasury Service website;
- Translate and edit newly issued IPSAS standards to facilitate the introduction of IPSAS standards, as well as update existing IPSAS standards.

3.2 Develop Treasury Electronic System (e-Treasury)

The existing Treasury Electronic System that was established in 2010 and continuously upgraded will be further enhanced and expanded. The following activities are planned to be implemented:

- Full development of accrual-based treasury ledger functions, ensuring integration of all public finance transactions and records into a single system, introduction of IPSAS-based unified chart of accounts, and real-time government asset-liability balance, which in turn facilitates Increase the accountability of budget organizations and prepare information for management to make decisions about the efficient spending of financial resources;
- Strengthen the interconnection between the various functionalities of the public financial management system and integrate all stages of the budget process into one space;
- To integrate the treasury into the electronic system in order to improve the accountability of public schools and kindergartens and to receive real-time information on their financial and budgetary activities;
- Refine, simplify and modernize the existing information system of current business processes;
- To train and raise the qualifications of representatives of budget organizations in order to acquire skills in working with electronic treasury system modules.

3.3 Cash Management Reform

Cash management reform is one of the most important directions of successful Public Financial Management reform to raise the effectiveness and efficiency of management of Treasury funds. According to paragraph 184 of Budget Code of Georgia: the State Treasury, for the purposes of deriving additional income, is authorized to place idle money in accordance with the relevant decree of the Government of Georgia. To accommodate these needs, the Cash Forecasting and Management Department was established within the structure of Treasury Service in 2015.

The Department is responsible for forecasting and managing Treasury funds. The activities that have been developed since its creation will be continued over the medium term such as the placing of Treasury's funds in commercial banks in domestic currency, as collateralized or uncollateralized deposits, through multiple price auction conducted at the Ministry of Finance. This will ensure continued efficient and effective management and forecasting of state monetary funds and mobilize additional revenues in the state treasury.

4. Tax and Customs issues

Taxation policy of the Georgian Government is aimed at ensuring the formation of a stable and attractive tax environment for private sector and investments, beneficial tax environment for start-ups and existing business. Its strategic goal is increasing effectiveness of tax policy by ensuring simplicity, clearness, fairness of tax system and optimal tax rates.

In the recent years, specific tax reforms were implemented:

- There was ongoing work to harmonize Georgian tax legislation with European tax legislation, identification of ambiguous provisions, and liberalization of sanctions and penalties for tax offences and further improvement of tax legislation
- The Statute of limitation was reduced from 6 years to 3 years in a phased way;
- Certain tax law offences were decriminalized (not subject to criminal law);
- Penalties for not using cash machines and for transportation of goods without waybills were reduced, also for submitting late tax returns;
- One year period of postponement of tax debts was increased to 3 years;
- Profit tax reform was implemented and enacted. Only distributed profit and specific expenses/payments are subject to corporate profit tax.
- In order to stimulate securities market, individuals and non-residents were awarded exemption from income and profit taxes on income derived from sale of debt and equity obligations and on income received as interest on debt obligations, if those securities are issued by resident companies in Georgia by public offering and those securities are listed on organized securities market recognized by the national bank of Georgia.
- A new version of the VAT law came into force on 1 January 2021, bringing the Georgian legislation in line with the VAT legislation of the Council of Europe on the common system of value added tax with Council Directive 2006/112 / EC of 28 November 2006.
- A resolution of the Government of Georgia on the status of an "international company" was adopted, within the framework of which companies can benefit from tax benefits.

Under the EU- Georgia Association Agreement Georgia has committed to harmonize its customs and tax legislation (indirect taxes part) with the EU legislation. As a result, Georgia

has introduced a number of amendments to its tax and customs laws, and improved significantly its customs rules and procedures. In the context of the Association Agreement, the Regulations of the authorized economic operator operating in the EU have been elaborated and reflected in Georgian legislation.

The draft of the customs code was elaborated, which is compliance with Council regulation (EC) №1186/2009 setting up a Community system of reliefs from custom duty. The new Customs Code came into force on September 1, 2019, which fully meets EU standards, which facilitates the integration of Georgian business in the EU market.

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

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

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

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

In order to introduce the minimum standard of the 5th measure of the BEPS project, the Forum on Harmful Tax Practices (FHTP OECD) in 2017 started to study the preferential tax regimes in Georgia (international financial company, free industrial zone, special trading company, virtual zone person). The assessment found that according to OECD standards, a free industrial zone and a special trading company are "outside the scope of the minimum standards", while two modes - an international financial company and a virtual zone person - are "potentially

harmful". But not really harmful. " Accordingly, in line with the OECD recommendation, the status of an international financial company was abolished in 2020.

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

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

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

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

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

For the successful implementation of the Multilateral Convention on the Implementation of Tax Arrangements for the Reduction of the Tax Base and the Transfer of Profits by 2021, in accordance with the OECD Recommendation, synthesized texts have been prepared with the following countries: Ireland, Netherlands, United Kingdom, Lithuania, Finland, Lithuania, Finland India, Serbia, Slovenia and Iceland.

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

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

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

Reforms planned and implemented by the Revenue Service in tax and customs fields cover:

- Promotion of voluntary tax compliance;
- Provision of need-oriented services to the stakeholders through innovative technologies;
- Early response on the results of failure to meet tax obligations and tax debt management;
- Detection of evasion of tax and border crossing obligations and appropriate response;
- Provision of functional needs through modern technologies;
- Taxpayers segmentation in database by different criteria and development of the system providing continuous control over data accuracy;
- Introduce modern approaches to the human resource management;
- Further development of information and communication technologies in order to support strategy implementation;
- Implementation of the customs obligations in accordance with Council Directives, Normative Acts similar to the regulations and International Conventions;
- Implementation of the obligations related to sanitary, phytosanitary and veterinary border control procedures, foreseen by Normative Acts similar to Regulations and Council Directives;
- Implementation of Council Directives, Normative Acts similar to Regulations related to tax procedures.

As a result of planed activities. VAT automatic refund program based on risk based approaches and debt management strategy will be approved and started to be implemented; taxpayer database, program modules will be improved; new approaches to human resource management will be introduced and actions envisaged under the Action Plan on Implementation of EU-Georgia Association Agreement will be implemented.

Objectives and goals

4.1 Fulfilment of obligations under the Association Agreement and further improvement tax legislation

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

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

It is also planned to make relevant changes to simplify the taxation mechanisms of entrepreneurs. Also, the introduction of a new model of profit tax for organizations. In addition, work is underway on a new version of the tax guide book for investors and will be published in the form of brochures.

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

4.2 Enhancement of customs legislation

The legislative act regulating the existing customs legislation and compliance with the provisions of the regulation 9/11/2013 of the European Parliament and the Council of 9 October 2013 and the custom regulation (EC) №1186/2009 setting up a Community system of reliefs from custom duty are to be implemented

Secondary legislative acts regulating customs legislation are to be adopted.

4.3 Base Erosion and Profit Shifting (BEPS) project

Georgia has implemented the standards set out in BEPS Measure 5 (Harmful Tax Practice) to meet its commitments under the Associated Membership of the Inclusive Platform for Tax Base Reduction and Transfer (BEPS). Also took appropriate measures to implement BEPS Measure 6 (prevention of misuse of tax agreements).

It is planned to prepare synthesized texts in accordance with the OECD Recommendation for better implementation of the multilateral convention "On the introduction of measures related to the reduction of the taxable base and the transfer of profits" in accordance with the OECD recommendation with the following countries: Belgium, Bulgaria, Turkey, Spain, Estonia, Japan, , Cyprus, Korea, Latvia, Liechtenstein, Malta, Norway, Poland, Portugal, Romania, San Marino, France, Greece, Slovakia, Hungary, Sweden, Czech Republic, China, Croatia. In addition, in order to introduce the minimum standard of the 13th BEPS project measure, by-laws related to the production of reporting by countries are being drafted and it is planned to issue an order on the mutual agreement procedure in order to introduce the minimum standard of the 14th BEPS project.

It is also planned to gradually implement the agreements reached on the first and second pillars (Pillar 1 and Pillar 2) developed by the OECD.

4.4 Global Forum on Transparency and Exchange of Information

Introduce and improve international tax standards within the framework of the Global Forum on Transparency and Information Exchange. At the same time, in accordance with the evaluation methodology of the new Phase 2 of the Global Forum, to implement the measures provided by law for the assessment of the jurisdiction of Georgia. In accordance with the new Phase 2 assessment methodology, the assessment of Georgian jurisdiction was scheduled for 2020 and postponed to 2022. It is also planned to prepare / adopt a draft of relevant legislative changes related to the Automatic Exchange of Financial Information (CRS).

4.5 Automatic VAT Refund System

In the framework of the Strategy of 2017-2020, the Revenue Service will work to improve the weaknesses identified in the TADAT assessment, including the creation of a VAT refund system. Within the framework of the project, the risk indicators required for the automatic refund system will be developed and the dedicated VAT return control division in the Audit Department will be created and staffed as well as the corresponding methodology documents; The VAT automatic refund system will be activated and VAT refunds will be available on VAT declarations from February 2019. From 2019, 90% of the VAT claims will be refunded automatically based on risk screening.

4.6 Introduction of structuralized approach of compliance risk management

Revenue Service is planning to introduce a structured approach to compliance risk management. This includes assessment, differentiation and quantitative determination of the risks related to compliance. The result will be a reduction of risks to the level of compliance based on compliance reduction plan and improved monitoring and evaluation of the proposed measures.

To achieve this goal, "Risk Management System System" methodology will be approved based on internationally recognized norms and methods, such as ISO 31000, IMF and OECD practical guidelines.

Risk Priority is determined by the Risk Management Board created in the Revenue Service, which includes the Head Quarters and Operations Department Heads.

4.7 Creation of taxpayers' registry

The tax registry provides for the creation of a comprehensive and accurate information registry of taxpayers and the use of information in different directions. To this end, it is planned to increase the reliability of the data of the registry to provide comprehensive analysis for tax administration decision-making.

In order to ensure the reliability and improvement of the information, data update systems are planned, through which the taxpayers will be obliged to submit any data modifications in the Revenue Service (e.g. taxpayer's activity, address, contact data, etc.) using the Revenue Service web portal.

This activity includes the creation of the data warehouse in the Revenue Service, where the data about the tax payer is integrated with the operational data of the Revenue Service and third party (other state institutions, e.g. public registry) data.

4.8 Creating a unified methodological base

Creating a unified methodological database means creating a unified approach-based electronic information database, which is an online data retrieval platform, where the information will be available to employees of various departments of the Revenue Service, as well as part of the information - will be available to taxpayers.

Various types of information will be placed in a unified methodological database and will be constantly updated, including:

- ✓ Legislative acts, international agreements, orders of the Minister of Finance, orders of the Head of the Revenue Service, government decrees, etc .;
- ✓ Internal regulatory instructions and methodological guidelines, preliminary decisions, procedural manuals, situational manuals, etc .;
- ✓ Guides and Q&A prepared on a specific topic; Positions observed by structural units on current topics, etc.

4.9 Tax Debt Management Reform

The goal of the tax debt management reform is to improve the timely payment of the tax debt and reduce the amount of accumulated tax debt. Using modern and effective tax debt management mechanisms, the Revenue Service ensures the creation of the most favourable environment for voluntary compliance, which in turn helps to mobilize government revenue.

The reform will introduce a more flexible and efficient debt management model based on the principle of cooperation with taxpayers, which is one of the most important preconditions for improving the voluntary compliance rate. This model ensures timely informing of taxpayers about their rights, obligations, expected measures, as well as taking appropriate measures to ensure payment based on relevant indicators and analysis.

4.10 Introducing new approaches to managing large taxpayers

Given that large taxpayers make a significant contribution to the formation of the country's budget, in terms of their administration, new approaches are being introduced in the Revenue Service, aimed at increasing voluntary compliance through close, open and transparent cooperation with the taxpayer. As part of the reform, it is planned to create a systemic risk management mechanism that will identify the risks of large taxpayers and manage them in real time.

The purpose of establishing a large taxpayer office is:

- Mobilize budget revenues by providing fair and transparent tax administration and high quality services to large taxpayers;

- Creating the most favourable environment for large taxpayers to encourage voluntary compliance;
- Rapid and effective detection, response and prevention of law violations, tax evasion or aggressive tax planning;
- Take timely and proportionate measures to protect tax revenues.

5. Macroeconomic Analysis and Fiscal Policy

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

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

Macroeconomic analysis and forecasting is positively assessed according to various international standards. It is graded at A in the 2018 PEFA report. According to the International Monetary Fund's Fiscal Transparency Assessment Mission, evaluation and disclosure of macroeconomic risks is given the highest assessment, along with “good” evaluation of macroeconomic forecasting. Relatively high inaccuracy is assessed as relatively weak. However, the transparency assessment document emphasizes that inaccuracy is partially explained by the high volatility of the Georgian economy. In addition, the fact that the deviation of forecasts has decreased significantly during the last period was emphasised. The macroeconomic forecasting methodology is in the process of constant improvement and in the future, it is one of the most important directions to increase its accuracy, which will facilitate further development of modelling techniques for prediction and policy analysis.

The absence of comparisons of projections was considered as a weak side by the Fiscal Transparency Assessment. The Ministry of Finance has already started working in this direction. Analysis of macroeconomic forecasts was already implemented in 2017 according to the Fiscal Transparency Action Plan. It was discussed in detail how the average-term forecasts changed compared to previous year, with the explanation of the relevant causes. The document was included in the 2018 budget. The Action Plan considers further development of forecasts comparisons. By the end of 2018, the reconciliation will be improved to explain possible changes in forecasts because of the identification of macroeconomic factors and fiscal policy and other changes. After developing of fiscal policy analysis model, it will be possible to analyse the factors that led to the deviation from the prediction. It will also be possible to define the contribution of specific shocks to the forecasting error.

Apart from forecasting, the macroeconomic analysis has also been significantly improved. "Current Economic Trends" and quarterly Publication - "Economic Trends quarterly Review" are published monthly, which is a thorough review of the development of the Georgian economy. The publications cover all the important sectors and allow familiarity with the latest information about the macroeconomic processes and risks in Georgia.

Objectives and goals

5.1 Macroeconomic Analysis and Forecasting

Although the assessment of current situation is good, work will be undertaken to eliminate weaknesses and at the same time maintain strengths. Processes will be refined in order to improve analysis of possible result as an input to decision making.

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

- In order to plan better the medium-term fiscal framework, a dynamic stochastic model of the overall equilibrium is developed, developed in collaboration with an IMF panel of experts. The model is used to assess shock impacts according to different scenarios and update forecasts and is also subject to continuous improvement. The model methodology document is being worked on, as well as working on a research paper with the International Monetary Fund is ongoing, which will reflect the model methodology and an example of its application to the Georgian economy.
- It is planned to develop new econometric models and to improve the current ones for short-term forecasts so as to review and compare alternative scenarios in the analysis and planning process.
- Priority is to be given to increase the qualification of analysts. Together with support from the International Monetary Fund and the Academy of the Ministry of Finance, regular training is provided for Macroeconomic Analysis Division as well as for other employees of the Ministry of Finance to make them highly qualified experts on the Georgian economy.

- For the purpose of improvement macroeconomic analysis, a thorough analyses and assessment of vulnerability of external macroeconomic risks that impact on Georgian economy is planned. The staff of the department have been acquainted with international methodology for assessing external vulnerability within the training course organized by the International Monetary Fund. The analysis will be periodic and permanent monitoring of new revealing risks will be implemented.

5.2 Improvement of public finance statistics

Amendments in budget classification to move to GFSM 2014 are ongoing in conjunction with the IMF. With the aim of improving public finances data and full government transactions, only those LEPLs and NNLPs will be reflected in budget statistics that meet the criteria of the government in accordance with international standards. The rule is set out to determine the criteria for classification of LEPLs and NNLPs that will be in compliance with GFSM 2014 and other internationally recognized methodologies.

5.3 Quantitative assessment of lost revenues caused by tax exemptions

By the end of 2019, the quantitative assessment ("tax expenditures") of tax revenues as well as tax disbursements is planned. This will allow the assessment of indirect subsidization by the government.

This task is planned within the framework of the "Good Governance Initiative" (GGI) project funded by the USAID. The International Monetary Fund's technical assistance mission will also be involved in the project. It is planned that a consultant will be engaged to apply the methodology of quantitative evaluation of lost revenues caused by tax exemptions (ineligible income from VAT and income / profit taxes) and develop it for application in Georgia. The assessment of tax expenditures will be carried out independently in the following years using the methodology. It is planned to submit the report together with the draft budget as an appendix.

6. Fiscal Risks

Georgia launched a fiscal risk assessment and management system in 2014 to identify, study and disclose fiscal risks. Following the recommendations of the International Monetary Fund, the Ministry of Finance of Georgia has established a Fiscal Risk Management Department to identify specific fiscal risks facing the budget and to develop recommendations for their reduction and management. Various measures were taken within the framework of the mentioned. The Ministry of Finance annually prepares a fiscal risk analysis document, the coverage area of which increases and improves in terms of content from year to year. A logical continuation of the progress made in this direction is the development of mechanisms needed to move directly from fiscal risk analysis to fiscal risk management, the need for which has been further emphasized since the outbreak of the pandemic in 2020. During this period, the sector of state-owned enterprises was implemented, which laid the groundwork for consultations on the reform of state-owned corporations; A Methodological-Practical Guide to Public-Private Partnership was approved, which provided additional clarity for each stage of PPP project development; Due to the urgency of the issue, work has begun on assessing climate change and fiscal risks arising from natural disasters. The Ministry of Finance is supported by partner organizations: International Monetary Fund, World Bank, Asian Development Bank,

USAID Democratic Governance Program in Georgia (GGI) in the implemented, ongoing and planned reforms / activities in fiscal risk identification, analysis and management.

Objectives and goals

For the next 5 years, the following activities are planned for the improvement of fiscal risk assessment and effective management:

6.1 Define the scale of impact of economic shocks on state enterprises

The purpose of the Sensitivity Analysis is to present the fiscal assessment of the fiscal risks faced by the Government of Georgia for the "top level" for the next five years that come from several large state enterprises. The main issue with which the analysis is directed is to answer "what will be the financial impact of the state enterprises and their owner (the state), in case of the severe economic shocks. Modeled shocks include GDP growth, exchange rate and interest rates.

6.2 Increasing the Coverage in Fiscal Risk Analysis Document of Enterprises under the Central Government

Elaboration of criteria for identification of public enterprises as public interest entities (PIE) is planned. Identification of PIEs will set additional requirements for improvement of quality and transparency of reports that will facilitate timely identification of fiscal risks and minimize *negative consequences resulting from risk avoidance / risk realization*.

6.3 Increasing the Coverage Index in Fiscal Risk Analysis Document of Enterprises under Local Self-Government

In contrast to central government enterprises, the Fiscal Risk Analysis Document is weak in quantitative measurement of local self-government enterprises. As noted, it is planned to elaborate the criteria for identifying public enterprises of public interest, which is expected to improve the process and quality of reporting of enterprises under local self-governments. This will facilitate timely identification of fiscal risks and minimize negative consequences resulting from risk avoidance / risk realization.

6.4 Maintaining existing practice of recording obligations from contingent liabilities, including public and private cooperation / PPA projects

The Fiscal Risk Analysis Document covers information on the contingent liabilities of enterprises. It also reflects the risks associated with Public Partnership Agreement projects. In addition, the Ministry of Finance of Georgia annually updates the registry of enterprise liabilities. The expansion coverage of the contingent liabilities for the future reporting period is not planned but the work will continue to improve the accounting practices of contingent liabilities.

Successful Fiscal Risk Management Reform will minimize negative impact on budgetary indicators steaming from the negative and unexpected factors affecting economic development of the country. Further improvement of fiscal risk analysis and ensuring publicity will positively affect the country's credit ratings and will strengthen investors confidence in Georgia's economy.

6.5 Development and further improvement fiscal risk analysis and management mechanisms

Following the success of fiscal risk identification and analysis, it is important to focus on direct fiscal risk management.

- The Ministry of Finance, with the support of partner organizations, has developed a strategy for the reform of state-owned enterprises and a code for corporate governance of state-owned enterprises, which should increase the role of the Ministry of Finance as a fiscal supervisor and / or centralized shareholder of state-owned enterprises;
- The conclusion of Guaranteed Purchase Agreements (PPAs) was limited, thus stopping the further accumulation of contingent liabilities and reducing fiscal risks arising from the energy sector. The PPA has been replaced by a more transparent and sound scheme of support, the so-called "Green Tariff" (FIP).

7. Public internal financial control

2014-2017 was a turning point in strengthening the state internal financial control system. During the mentioned period the status and functions of Central Harmonization Unit have been developed. The public internal financial control system's strategy and three years action plan were approved by Georgian government. The strategy and action plan were based on analyses of the situation at that time and developed according to the best international practice by central harmonization unite. This system applies to both central and autonomous and local authorities. This is due to the fact that the internal audit function has been established in almost all executive authorities, as well as legal entities under public law and local self-government units, while the financial management and control system is being introduced in the central ministries.

In 2015 changes were made in the Law of Georgia on Public Internal Financial Control to support the proper development of the reform:

- The status and functions of Central Harmonization Unit were specified and its institutional strengthening was achieved. The functions of Central Harmonization Unit are carried out by the public internal control department of the Georgian ministry of finance. It is organised to be consistent with the European Union's concept of internal control and best international practice.
- The eventual separation of inspection and internal audit activities;
- Production of an annual reports on public internal financial control system by the Central Harmonization Unit which is presented to the Government of Georgia.

Objectives and goals

7.1 Financial management and control system

The development of the financial management and control system has been carried out step by step. As a result of the shortcomings found in implementation processes of the financial management and control system, a financial management and control manual is being

continuously developed. Awareness of high level managers, as well as the heads of the institution about internal control system will be increased. Engagement at international level will increase as well. Self-assessment of the internal control systems of the institutions will be implemented and action plans will be elaborated for the establishment of the relevant financial management and control system.

7.2 Internal audit

Implementation of legal acts have supported internal auditors to carry out activities in accordance with internal standards. As a result, as well as the traditional compliance and financial audit, efficiency and systematic audits have been included in the annual audit plan. For further development of the internal audit system, an Internal Audit Quality Assurance Program will be developed.

7.3 Development of internal control systems of local self-governing units

The core resource of the Central Harmonization Unit for 2018-2022 will be directed towards the strengthening of self-governing units, including municipalities. At the initial stage, the internal audit entities will be made compatible with international standards in terms of the quality of audit inspection and structural arrangements. Quality external assessment will be implemented by the Central Harmonization Unit whose assessment criteria are mainly adapted to international best practices. The development of internal audit entities for local self-governing bodies will be developed that will improve the quality of audit inspections and ultimately establish the internal audit unit oriented towards the internal control system. The objective for the next years is to conduct international assessments.

8. Supervision of Accounting, Reporting and Auditing

In order to support small and medium enterprises in implementing international financial reporting standards, in 2017-2018, the Accounting, Reporting and Auditing Supervision Service (SARAS) translated and published self-study guide and presentation slides for small and medium-sized enterprises to increase the level of knowledge of enterprises about the (IAS Price Standard). The English version of the study material was prepared and published by the Price Foundation on its official website and is available free of charge; The development of a financial reporting standard for micro-enterprises, which will prepare financial statements for about 60 thousand enterprises registered in Georgia, has also been completed. In order to collect and administer these reports, a reporting publication portal (Reportal.ge) has been created, on which financial and non-financial reports submitted by all enterprises registered in Georgia in the period 2017-2021 will be posted.

Submitted and publicized reports will assist both public and private sector representatives in making effective economic decisions. Including the Revenue Service, in optimizing tax risk management, which will increase the effectiveness of tax audit planning and reduce the labor and financial resources expended in the process of auditing low-tax bearers. Among the representatives of the private sector is the credit bureau regulated by the National Bank, Credit Info Georgia, which plans to use this information to develop credit ratings for companies across the country, which will greatly facilitate business relations with the financial sector and increase access to finance.

Objectives and goals

8.1 Effective functioning of reporting portal

In order to increase trust between enterprises and investors / creditors, to facilitate relations and to make effective economic decisions, the reporting portal, Reportal.ge, has been developed and is functioning, where financial and governance reports are prepared in accordance with the standards required by law are published. Pursuant to the Law of Georgia on Accounting and Auditing, SDP, first, second and third category enterprises are obliged to prepare and submit to the service reports prepared in accordance with International Financial Reporting Standards (IFRS, IFRS for SMEs). The fourth category of enterprises will benefit from the local, simplified financial reporting standard and self-study guide, developed with the support of international donor organizations, with the involvement of representatives of the service, public / private sector and profession, in accordance with the requirements of European directives and international practice.

8.2. Promoting the of audit service quality

The credibility of the reports posted on the reporting portal should be enhanced by the audit findings. In addition to the reports, the auditor is required by law to submit a report to the public interest (SDP), the first and second category enterprises. According to the Law of Georgia on Accounting, Reporting and Auditing, one of the main functions of the Accounting, Reporting and Auditing Supervision Service is to monitor the quality control system of auditors / audit firms. From 2017, monitoring will be carried out by the Service based on both a planned and a risk-based approach. The purpose of monitoring is to assess the compliance of auditor services performed by auditors and audit firms with international standards and requirements set by law. The decisions made by the Service (Auditor Evaluation Category) will be proportionate to the risk and will serve to improve the quality of audit and professional services and to promote fair practice. The Service publishes an annual report on the state of audit quality annually.

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

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

8.3. Detailed overview of reports

In order to increase the quality of preparation of reports submitted on the reporting portal and to ensure the enterprises compliance with international financial reporting standards / law requirements; Pursuant to Article 9, Paragraph 3, and Article 20, Paragraph 3, Subparagraph “n” of the Law of Georgia on Accounting, Accounting and Auditing, the Service reviews the reports in terms of compliance with the standards and further communicates with the entities to clarify the position on the identified violations. On November 26, 2020, the Service published on its website a guideline document "Priorities for Reviewing the Reporting for 2019-2020", Which provided information on the selection criteria for submitted and / or disclosed reports and the detection and correction of discrepancies in the submitted and / or disclosed reports. This document provides information on the priorities and approaches to which the Service will pay particular attention when reviewing the 2019 and 2020 reports. The publication of a similar type of document is planned for further reporting periods as well. In addition, the Service has issued a summary document reviewing the financial statements for the reporting period 2018 and 2019, “Discrepancies identified as a result of the review of financial statements,” which outlines the key discrepancies identified by the Service in reviewing its financial statements. In the view of the Service, the disclosure of this information will help to improve the quality of compliance with the price standards of reports submitted to the Service. The Service plans to publish this document at regular intervals, with a preliminary estimate of at least twice a year. In order to improve and refine the reporting process, it is planned to develop a manual, which will be further guided by the staff of the Service.

Following the implementation of the measures to be taken, it is expected that the quality of reporting and compliance with the standard will increase.

ANNEX 1. MINISTRY OF FINANCE: PFM STRATEGY RESULTS MATRIX AND ACTIVITY COSTING

Table 1A. Ministry of Finance: Results Matrix of PFM 2018-2022 strategy

	Strategy directions and objectives	Goal for 2021	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1	Budgeting							
1.1	Increasing efficiency of medium-term planning	The medium-term framework is an effective instrument of planning	SDG (Sustainable Development Aims of UN) 16.6 indicator; PEFA OBI – Open Budget Index; FTE - fiscal transparency evaluation (IMF, 2017) ; EU directive (2011/85/EU) IMF - strengthening the fiscal discipline framework (2017)	PI-5 - B PI-15.1 – D PI-16 – B+ (PEFA 2017 Assessment); OBI - based on the result of the open budget investigation, Georgia is on the fifth place with 82 points among 115 countries and is among completely transparent countries;	PI-15.1 – C improvement of not less than one point - C (2021); PI-16 – A; OBI - retaining the index of open budget;	Basic Data and Directions document of the country describes information about the fiscal impact of the new policy of pilot ministries, which may not involve 90 % of payments and fail to impact the PI-15.1 dimension; PEFA assessment methodology change OBI - Open budget investigation methodology possible change;	2023-2026 Basic Data and Directions document of the country (BDD); PEFA assessment report - 2021 (www.pefa.org); OBS - Open budget survey 2021 (www.internationalbudget.org/open-budget-survey/)	

1.2	Fiscal discipline enhancement	Fiscal policy is based on reasonable physical rules defined in advance	SDG (UN Sustainable development plans) 16.6. indicator; PEFA OBI – Open budget index; FTE – Fiscal transparency assessment (IMF, 2017) ; EU Directive (2011/85/EU) IMF - Fiscal discipline framework enhancement (2017)	PEFA PI-15.3 – D PEFA PI-11 – C	PEFA PI-15.3 - A PEFA PI-11 – B	PEFA assessment methodology change Political and Economic processes in the region	2021 state budget compliance annual report which is submitted to the parliament of Georgia (https://mof.ge/4564/); 2023-2026 basic data and directions document of the country (BDD); PEFA assessment report - 2021 (www.pefa.org);	
1.3	Creation of unified cycle for Investment/Capital Projects Management	At every stage of managing investment/capital projects decisions are made on projects management on the basis of the systems approach based on the respective analysis	SDG (UN sustainable development goals) 16.6 indicator; PEFA ; OBI; World Bank (WB) - Investment Projects Management Assessment (PIMA)	PEFA PI-11 – C The document of assessing investment projects management (PIMA) was prepared in 2017 together with the action plan	PEFA PI-11 – B World Bank (WB) - Carrying out activities envisaged by the action plan of investment projects management assessment (PIMA)	PEFA assessment methodology change Reform scale and difficulty; insufficient amount of qualified staff in respective agencies	Basic Data and Directions document of the country for years 2023-2026 (BDD); PEFA assessment report - 2021 (www.pefa.org);	

1.4	Enhancing efficiency of results-based planning	Planning of expenditure is carried out according to expected results	SDG (UN sustainable development goals) 16.6 indicator; PEFA OBS; FTE - Fiscal Transparency Assessment in Georgia (IMF); EU Directive (2011/85/EU)	PEFA : PI-2 – A PI-5 – B PI-8 - A	PEFA : PI-2 – A PI-5 – A PI-8 - A	PEFA assessment methodology change Inadequate qualification of staff in respective line ministries and agencies	PEFA assessment report - 2021 (www.pefa.org); 2023-2026 program budget appendix. 2021 state budget execution annual report which is submitted to the parliament of Georgia (https://mof.ge/4564);	
1.5	Introducing the high standard of accountability and transparency	At every stage of public finance management information is available and public in accordance with internationally accepted practice	SDG (UN sustainable development aims) Indicator 16.6; PEFA OBS; FTE - Fiscal Transparency Assessment in Georgia (IMF); EU Directive (2011/85/EU)	PEFA : PI-5 – B PI-9 – A OBI - Open budget investigation results of 2017 Georgia holds the fifth place with 82 points among 1115 countries and falls within the group of completely transparent countries;	PEFA : PI-5 – A PI-9 – A OBI - Open budget index retaining	PEFA Assessment methodology change OBI - Open budget investigation methodology possible change;	PEFA assessment report - 2021 (www.pefa.org); OBS - Open Budget Investigation 2021 (www.internationalbudget.org/open-budget-survey/) budget documentation is placed on the website of the Ministry of Finance (www.mof.ge) 2021 state budget execution annual report which is submitted to the parliament of Georgia https://mof.ge/4564 ;	
1.6	Enhancing municipal PFM	Finances are better planned at the local level in the medium-term period	PEFA	PEFA HLG1 – medium assessment D+ PI-8 PI-17	PEFA HLG1 – B (in case of 50 % of municipalities) PI-8 - not less than 1 point improvement in case of 50 % of municipalities) PI-17 - not less than 1-	Inadequate qualification of staff in municipalities PEFA Assessment methodology change	PEFA Assessment report - 2021 (www.pefa.org);	

					point improvement in case of 50 % of municipalities)			
1.7	Strengthen the link between the budget and strategic / sectoral policy documents	Electronic budget management system (ebudget) has a mechanism for linking strategic / sectoral policy documents and budgeted programs	GRPFM Methodology Approaches to Budgeting and Gender Aspects	In the electronic budget management system (ebudget) a classifier has been added to the software budget section to integrate strategic / sectoral policy documents	In the case of at least one ministry in the program budget for 2023-2026, the programs / sub-programs are linked to the relevant classifier of strategic / sectoral policy	The complexity and inadequacy of the issue of linking programs to the relevant policy classifier due to the novelty of the issue	Annex to the Program Budget for 2023-2026, which will be submitted to the Parliament together with the draft state budget for 2023 and published on the website of the Ministry of Finance of Georgia.	
2	General Government Debt Management							
2.1	General Government debt management based on Debt Management Strategy	Developing and publishing of general government debt management strategy (providing support to local governments in debt management)	PEFA	PI 13.3 - D	PI 13.3 - A	PEFA Assessment methodology change	Strategy adopted by the Government and published on the MoF web-page (www.mof.ge)	
2.2	Developing the government securities market	On the basis of sharing best international Practice 1. Diversified investor base and increased market	Developing Government Bond Markets - A Handbook of the World Bank and	Limited volume of government securities market; non-diversified market (non-resident + non-banking investors	Increase of the government securities market; diversification of the investor base (non-resident + non-banking	Possible instable environment in the region; insufficient efficiency of the system of primary dealers;	PEFA assessment report; changes made to the law; statistical indicators.	

		liquidity; 2. Introducing new instruments within the scope of management operations obligations; 3. Introducing the system of primary dealers.	International Monetary Fund	share in the government securities portfolio as of end of 2018 was 2.61 %); low level of secondary market development.	investors share increase by up to 20 %); implementing the operations of managing obligations; primary dealers system implementation.			
3	Management, Accounting and Reporting of public funds							
3.1	Accounting and reporting reform in the public sector	Publishing the General Government Consolidated Financial Statements	PEFA FTE - fiscal transparency assessment (IMF, 2017) EU directive (2011/85/EU)SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-12.1 – B PI-12.2 – C PEFA PI-22 – C+ PEFA PI-29 – D+	PEFA PI-12.1 – A PI-12.2 - B PEFA PI-22 - A PEFA PI-29 - A	PEFA Assessment methodology change. Treasury General Ledger development timing extended by more than planned; adaptation to the annually published standards by International Federation of Accountants (IFAC)	PEFA Assessment report - 2021 Published General Government Consolidated Financial Statements	
3.2	Development of the electronic system of the treasury (e-Treasury)	Fully functioning accrual based General Government Ledger	PEFA FTE - Fiscal Transparency Assessment (IMF, 2017) EU directive (2011/85/EU)SDG (UN Sustainable Development Goals). Indicator 16.6;	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – D+	PEFA PI-20 – A PEFA PI-23 – A PEFA PI-25 – A PEFA PI-27 – A PEFA PI-29 – A	PEFA assessments methodology change Lack of qualified staff; Lack of qualified staff working in the treasury electronic system (e-Treasury)	PEFA Assessment report - 2021 Reports prepared on the basis of the Treasury General Ledger	

3.3	Cash management reform	Monetary instruments and mechanisms are used for cash management	PEFA	PEFA PI-21 - A	PEFA PI-21 - A	PEFA assessment methodology change	PEFA Assessment report - 2021	
4 Tax and Customs issues								
4.1	Complying with the obligations taken under Georgia/EU AA and further improvement tax legislation	Tax legislation complying with the EU directive	Association Agreement signed between Georgia and EU; EU directive (2006/112/EC); (2003/96/EC)	Analysis of correspondence of the legislation of Georgia with EU directives was carried out and the action plan was developed for implementing the changes	Making changes to the tax code of Georgia with the view of harmonizing the legislation of Georgia with the directives 2006/112/EC and 2003/96/EC and ensuring correspondence between with the above-mentioned directives	lack of personnel and experts of respective level	Draft of prepared changes, changed carried out in the law	
4.2	Improvement of customs legislation	Georgian customs legislation brought to correspondence with EU customs legislation	Association Agreement signed between EU and Georgia; Regulation of the European parliament and EC of October 9, 2013 (EU) № 952/2013 and the regulation N1186/2009 of EU of November 16, 2009 on establishing the	Customs legislation which is not approximated to the EU customs legislation	Adopting the customs legislation approximated to the EU customs legislation as much as possible	lack of personnel and experts of respective level	The State Customs Code of Georgia adopted by the parliament	

			system of EU exempting from customs duty					
4.3	Base erosion and profit shifting (BEPS) project	Introducing standards in the tax sphere developed within the scope of the BEPS project	Responsibility taken on by associate membership of BEPS inclusive platform	Measure 5 - the international financial company and the virtual zone person was assessed as "potentially harmful but actually not harmful" in 2017 as a results of assessing the legislation whereas the free industrial zone and the special trade company was regarded as non-harmful (out of scope of FTHP); Measure 6 - agreements signed	Implementing and monitoring minimum standard of BEPS fifth (harmful tax practices elimination), sixth (improper tax settlements use elimination), 14th (improving dispute resolution efficiency)	lack of personnel and experts of respective level	Assessment report	

				by the government of Georgia do not include the minimal standard of BEPS Measure 6; Measure 14 - insufficient regulations of implementing the procedures of agreement (MAP)				
4.4	Global forum on taxation transparency and information exchange	Existence of practice and legislation commensurate with the transparency and information exchange global forum in the tax sphere	Obligations taken on by membership of the global forum on transparency and information exchange in the tax sphere		Assessing Georgian jurisdiction in accordance with the new 2016 methodology of global forum and retaining the status of assessment of 2013-16 (largely compliant)	Impending/prolonging implementation of legislative changes of respective staff	Assessment report of Georgian jurisdiction and assessment rating	
4.5	Introduction of automatic VAT refund system	Activating the automatic VAT refund system	TADAT P8-24; Adequacy of processing application for tax refund	Automatic refunding of VAT has started - 10% TADAT – D	VAT automatic refund - 90 % index TADAT - B	Using excess refunds dishonestly	Statistical data	
4.6	Introduction of risk based structured approach of compliance	There is a strategy of compliance as well as the methodology in respect of taxpayers segment and the tax types	TADAT POA 2-3 identification, assessment, differentiation and determination of risk compliance. POA 2-4 Reduction of	TADAT – C	In assessments - POA 2-3 POA 2-4 POA 2-5 TADAT - B	Staff qualification		

			risks based on compliance reduction plan. POA 2-5 Monitoring and evaluation of risks reduction for compliance					
4.7	Creating the taxpayers registry	Data about tax payers' in registry are accurate and proves the possibility to fully analyse information for tax administration purposes	TADAT; POA 1-1-1 Exact and accurate information ADAT; POA 1-1-2 Possessing information about the potential tax base	TADAT – D TADAT - C	TADAT - B	Losing position in international rating		
4.8.	Creating a unified methodological base	Launch of an online data retrieval platform	TADAT: P 3-8 Information volume, updates and availability; P 3-9 Time required to provide the requested information					
4.9.	Tax Debt Management Reform	Moving to a new debt management system	1.TADAT: P 5-18 Tax Debt Volume and Growth Dynamics					

4.10.	Introducing new approaches to managing large taxpayers	Systematic maintenance of large taxpayers' service and implementation of activities provided by the statute	Commitment to the International Monetary Fund (Tax Administration Reform RMTF FAD_GEO_2018_01) 2. Short-term experts' reports of the International Monetary Fund.					
5 Macro-economic analysis and forecasting								
5.1	Improving macro-fiscal forecasting	Planning the medium-term fiscal framework on the basis of the DSGE model	FTE - fiscal transparency evaluation PEFA – Public Finance Management Assessment in Georgia	2.1.2 – Good practice (FTE, 2017 Assessment); PI-14.2 – B (PEFA, 2017 assessment)	2.1.2 – respective best practice requirements will be met (Advanced practice) PI-14.2 – improving by one point - A (2021)	FTE assessment methodology change PEFA assessment methodology change	PEFA assessment report - 2021 (www.pefa.org);	
5.2	Improvement of government finance statistics	Development of the methodology data revision to ensure compatibility of current and historical data	FTE - Fiscal transparency evaluation	1.3.3 – Not met (FTE, 2017 Assessment);	1.3.3 – met- Basic (2021)	FTE assessment methodology change	The rule of reviewing the historical data of public finance statistics published on the web-site of the Ministry of Finance (www.mof.ge)	
5.3	Calculation of tax expenditure	Improving reporting	FTE - FTE - Assessing fiscal transparency	PI-1.1.4 – Not met (FTE, 2017 Assessment); PEFA PI-5 - B	PI-1.1.4 – improvement by minimum one point - Basic (2021) PEFA PI-5 - A	FTE assessment methodology change		
6 Fiscal Risk management								

6.1	Assessment of economic shocks of SOEs'	Sensitivity analysis and stress tests of SOEs'	FTE; Fiscal Rule IMF TA; IMF Program; WB	No sensitivity analysis is done as of end-2017	Sensitivity analysis and stress tests are performed for 7-10 major SOEs'	Late submission of required information by SOEs'. Submission of incomplete or low quality information by SOEs'.	Fiscal Risk Analysis, attachment to the State Budget	
6.2	Improvement of reporting quality and increase of transparency of central government SOEs	Additional norms/regulations are introduced to assess and monitor SOE performance	PEFA FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.1 - B	PEFA PI 10.1 - A	Impediments to identify SOE as Public Interest Entities. Delays or non submission of audited financial reports.	Fiscal Risk Analysis, attachment to the State Budget	

6.3	Improvement of reporting quality and increase of transparency of municipal SOEs	Additional norms/regulations are introduced to assess and monitor SOE performance	PEFA FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.2 - C	PEFA PI 10.2 - B	Impediments to identify SOE as Public Interest Entities. Delays or non submission of audited financial reports. Lack of qualified personnel in municipal SOEs'. Lack of institutional memory in municipal SOEs' or their supervising bodies	Fiscal Risk Analysis, attachment to the State Budget	
6.4	Accounting for contingent liabilities, including those that are based on PPP/PPA	Accounting for contingent liabilities, including those that are based on PPP/PPA	PEFA FTE; Fiscal Rule IMF TA; IMF Program; WB	PEFA PI 10.3 - B	PEFA PI 10.3 - B (keep the score)	Non realistic (underestimation) evaluation of contingent liabilities of some SOEs involved in PPP/PPA. Special emphasis on risk assessment and assessment methodology of PPP/PPA projects	Fiscal Risk Analysis, attachment to the State Budget	
6.5	Development and further improvement fiscal risk analysis and management mechanisms							
7	Public Internal Financial Control							

7.1	Introducing the system of financial management and control focusing on the principle of managerial accountability	The guide of financial management and control system introduction is developed for the ministries of Georgia.	Association Agreement (Article 279) between EU and European Atomic Energy Union and their member states and Georgia; Georgia-EU agenda; Internal financial control conception (PIFC) developed for the aspirant countries upon the EU initiative	Approved instruction on the establishment of the rule and procedures of financial management and control system; The financial management and control manual is developed.	Instructions for the implementation of the second stage of the financial management and control system have been developed; In at least 50% of the central ministries, the goals and indicators of the institution are being developed on a pilot basis, as well as the establishment of a risk management system.	Decreasing or ceasing donor financial support; Lack of qualification in the target entity; Structural changes in the central authorities	Documented goals and indicators; Risk registers.	
7.2	Development of the subjects of internal audit at three governmental levels	The quality assurance program is established	PEFA (PI-26); International Professional Practice Framework (IPPF).	External assessment instruction and questionnaire have been developed by the harmonization centre.	External assessment is implemented by the harmonization centre for the subjects of internal audit - 3 ministries, 10 self-governing units, 3 legal entity of public law and 3 internal audit subject of the ministry of the autonomous republic	Lack of qualification in the target entity; Structural changes in the local government.	External evaluation report	
7.3	Strengthening Local Self-Governing Units	Improved Internal Audit assessment component in	PEFA (PI-26); International	Activities of internal audit subjects in self-	In 15 self-governing units where assessment	Lack of qualification in target objects;	Report of public expenditure and financial reporting.	

	with support of Internal Audit Function	public finances and financial reporting	Professional Practice Framework (IPPF).	governing units mostly does not correspond with international standards and local legislative requirements; PEFA assessments vary from D to B+.	was lower than B, assessment improved by minimum 1 point, according to PEFA- 6 PI-26th indicator.	Change in the PEFA assessment methodology		
8 Supervision of accounting, reporting and audit								
8.1	Effective functioning of reporting portal	Creation of financial platform for use by investors, banking sector, analysts, regulators, other interested parties for investment, credit or other decision making or research.	Directives 2013/34/EU, 2014/56/EU and regulation N 1606/2002 envisaged by the association agreement	Regulation 2013/34/EU, 2014/56/EU and regulation N 1606/2002 envisaged by the association agreement are partially reflected in the Georgian legislation. 6556 reports are published on the service portal (www.reportal.ge) through the reporting system.	Directives 2013/34/EU, 2014/56/EU envisaged by the association agreement and regulation N 1606/2002 are fully reflected in the Georgian legislation; On SARAS reporting portal (www.reportal.ge) SDP, 95% submission of reports / disclosure by first, second and third category entities, and 50% submission rate for fourth category enterprises.)	The submitted information was not received and processed efficiently due to untimely solving of the program provision; A major part of subjects failed to comply with the obligation defined by law and did not submit financial and non-financial information (reporting).	Reporting portal (www.reportal.ge); Annual report of accounting, reporting and audit supervision.	
8.2	Supporting the quality enhancement of audit service	Supporting quality enhancement of audit service by means of	Regulation No 952/2013 and Directive 2006/43/EC	Monitoring of 17 audit firms was carried out in 2017. In 2018, 5 quality	In total up to 120 audit firms have undergone monitoring of their	Scarcity of human resources of the service of accounting,	Public register of auditors and audit firms which is available on the official website of accounting,	

		<p>monitoring the system of quality control of the audit firms. It is planned to carry out quality control system monitoring of average 30 audit companies annually. End goal is to carry out quality control system monitoring of up to 120 audit companies by 2022.</p>	<p>envisaged by the association agreement</p>	<p>control systems were monitored.</p> <p>In 2019, 30 quality control systems were monitored.</p> <p>In 2020, 30 quality control systems were monitored. 20 were completed in 2021 and 14 quality control systems are being monitored. Finally, the monitoring of the 111 quality control system is completed at this stage.</p> <p>As of now, the Service has completed a detailed review of the reporting of 25 enterprises by the third quarter and reflected the results in written communication.</p> <p>I quarter - 6 II quarter -12 III quarter -7;</p>	<p>quality control system</p>	<p>reporting and audit supervision;</p> <p>Personnel qualification and inexperience;</p> <p>Impeding the implementation of the audit course book purchased by donors.</p>	<p>reporting and audit supervision: https://www.saras.gov.ge</p> <p>Annual report of the supervision service of accounting, reporting and audit</p>	
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8.3	Detailed overview of reports	Increase the degree of compliance of financial statements with international financial reporting standards through a risk-based approach to auditing accounts. A detailed review of an average of 35 reports is planned.	Regulation No. 952/2013 provided for in the Association Agreement and Directive 2006/43 / EC	Written communication: I. I quarter - 4 II quarter -8 III quarter -7	A detailed review of the reporting of 25 enterprises was carried out. A detailed overview of the reporting of several entities is current status in the fourth quarter.	<p>Delay in communication by the subject, refusal to cooperate;</p> <p>Staff qualifications and inexperience;</p> <p>Delaying the participation of donor-involved expert processes;</p> <p>Delay the process of preparing a guide for detailed reporting on donor engagement.</p>	<p>Reporting Portal (www.reportal.ge);</p> <p>Annual report of the Accounting, Reporting and Auditing Service.</p>	
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Table 1B. Ministry of Finance: indicative pricing of the PFM 2018-2022 strategy

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
	Total sum³	102,417.7	17,021.4	19,272.1	22,065.6	22,248.6	21,810.0			
1	Budgeting	19,107.0	2,847.0	3,400.0	3,610.0	4,250.0	5,000.0	State budget		Program code 23 01 - "Public Finance Management " program 23 01 01 Sub-program
1	Increasing efficiency of medium-term planning	5,667.0	937.0	1,030.0	1,050.0	1,150.0	1,500.0			
2	Fiscal discipline enhancement	1,011.0	140.0	161.0	160.0	250.0	300.0		IMF	
3	Creation of unified cycle for Investment/Capital Projects Management	2,671.0	351.0	470.0	450.0	600.0	800.0		WB, EU, USAID	

³ The 2018-2021 years include the costing of individual strategies, while the 2022 costing does not include the evaluation of individual strategies as it considers donor funding.

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
4	Enhancing efficiency of results-based planning	3,515.0	550.0	615.0	750.0	800.0	800.0		GIZ, EU	
5	Introducing the high standard of accountability and transparency	3,318.0	624.0	694.0	700.0	800.0	500.0		USAID, GIZ	
6	Enhancing municipal PFM	2,625.0	245.0	430.0	500.0	650.0	800.0		GIZ, USAID, WB	
7	Strengthen the link between the budget and strategic / sectoral policy documents	300.0					300.0			
2	General government debt management	5,809.5	971.5	1,107.4	1,120.0	1,300.0	1,310.6			Program Code 23 01 - "Public Finance Management " Program 23 01 01 Sub-program
1	General government debt management based on Debt Management Strategy	3,070.6	620.0	620.0	620.0	700.0	510.6		World Bank, International	

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
									Monetary Fund - IMF	
2	Developing the government securities market	2,738.9	351.5	487.4	500.0	600.0	800.0		World Bank, International Monetary Fund - IMF	
3	State means management, registering and reporting	13,620.0	2,467.0	2,600.0	2,750.0	3,100.0	2,703.0			Program Code 23 01 - "Public Finance Management" Program 23 01 01 Sub-program
1	Accounting and reporting reform in the public sector	2,907.0	407.0	450.0	500.0	600.0	950.0			
2	Development of the electronic system of the treasury (e-Treasury)	7,612.0	1,459.0	1,500.0	1,550.0	1,650.0	1,453.0			

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
3	Cash management reform	3,301.0	601.0	650.0	700.0	850.0	300.0			
4	Tax and Customs issues	44,719.6	7,843.8	8,418.5	10,653.9	8,850.0	8,953.4			
1	Complying with the obligations taken under Georgia/EU AA	2,641.8	445.8	447.5	448.5	500.0	800.0			Program Code 23 01 - "Public Finance Management" Program 23 01 01 Sub-program
2	Improvement of customs legislation	1,405.8	217.0	218.4	220.4	250.0	500.0			Program Code 23 01 - "Public Finance Management" Program

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
										23 01 01 Sub-program
3	Base erosion and profit shifting (BEPS) project	1,173.9	189.7	191.1	193.1	200.0	400.0			Program Code 23 01 - "Public Finance Management " Program 23 01 01 Sub-program
4	Global forum on taxation transparency and information exchange	5,798.1	1,081.3	1,081.5	1,081.9	1,100.0	1,453.4			Program Code 23 01 - "Public Finance Management " Program 23 01 01 Sub-program
5	Introduction of automatic refund for excess VAT	5,802.0	1,233.0	1,113.0	1,856.0	1,600.0				Program Code 23 02 - "Revenue Mobilization

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
										and Improving Taxpayers' Service"
6	Introduction of risk based structured approach of law abiding	13,616.0	2,190.0	2,569.0	3,257.0	2,600.0	3,000.0			Program Code 23 02 - "Revenue Mobilization and Improving Taxpayers' Service"
7	Creating the taxpayers register	11,482.0	2,487.0	2,798.0	3,597.0	2,600.0				Program Code 23 02 - "Revenue Mobilization and Improving Taxpayers' Service"
8	Creating a unified methodological base	1,500.0					1,500.0			
9	Tax Debt Management Reform	700.0					700.0			

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
10	Introducing new approaches to managing large taxpayers	600.0					600.0			
5	Macro-economic analysis and forecasting	5,851.0	891.0	1,000.0	1,160.0	1,400.0	1,400.0			Program Code 23 02 - "Revenue Mobilization and Improving Taxpayers' Service"
1	Improving macro-fiscal forecasting	4,341.0	891.0	800.0	850.0	900.0	900.0			
2	Improvement of government finance statistics	610.0	0.0	100.0	110.0	200.0	200.0			
3	Calculation of tax expenditure	900.0	0.0	100.0	200.0	300.0	300.0			
6	Fiscal Risk management	2,000.4	320.4	340.0	340.0	500.0	500.0			Program Code 23 01 - "Public Finance Management " Program

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
										23 01 01 Sub-program
1	Assessment of economic shocks of SOEs'	863.2	173.2	195.0	195.0	200.0	100.0			
2	Improvement of reporting quality and increase of transparency of central government SOEs	376.0	86.0	70.0	70.0	100.0	50.0			
3	Improvement of reporting quality and increase of transparency of municipal SOEs	253.0	23.0	40.0	40.0	100.0	50.0			
4	Accounting for contingent liabilities, including those that are based on PPP/PPA	308.2	38.2	35.0	35.0	100.0	100.0			
5	Development and further improvement fiscal risk analysis and management mechanisms	200.0					200.0			
7	Public Internal Financial Control	4,947.0	872.0	872.0	910.0	1,250.0	1,043.0			Program Code 23 01 - "Public

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
										Finance Management " Program 23 01 01 Sub-program
1	Introducing the system of financial management and control focusing on the principle of managerial accountability	2,734.0	480.0	504.0	500.0	650.0	600.0			
2	Development of the subjects of internal audit at three governmental levels	1,443.0	280.0	250.0	260.0	350.0	303.0			
3	Strengthening Local Self-Governing Units with support of Internal Audit Function	770.0	112.0	118.0	150.0	250.0	140.0			
8	Supervision of accounting, reporting and audit	3,394.0	224.0	735.0	735.0	800.0	900.0			Program Code 23 06 - "Accounting , Reporting and Audit Supervision"

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is implemen ted
		Total	2018	2019	2020	2021	2022			
1	Effective functioning of reporting portal	1,175.0	55.0	260.0	260.0	300.0	300.0			
2	Supporting the quality enhancement of audit service	2,119.0	169.0	475.0	475.0	500.0	500.0			
3	Detailed overview of reports	100.0					100.0			

INFORMATION ANNEX 2. INDIVIDUAL STRATEGIES

1 Parliament

1.1 Parliament Budget and Finance Committee

Rules and procedures have already been developed and new Audit Group has been established in Parliament. The main activities to implement the goals and objectives will be through capacity building.

Objectives and goals

1. Supporting in-depth involvement and role of Finance and Budget Committee in the budget formulation process.
2. Supporting involvement and coordination role of Finance and Budget Committee in the budget execution and monitoring process.
3. Increase of effectiveness of cooperation and accountability to the Finance and Budget Committee
4. Supporting coordination role of Finance and Budget Committee in legislative activities

1.2 Parliament Budget Office

Objectives and goals

1. Macro-fiscal forecasting capacity building of Parliament Budget Office
2. Supporting research activities of Parliament Budget Office

2. State Audit Office

Objectives and goals

The main activities to implement the goals and objectives will be through capacity building.

Enhancing Impact through High Quality Audit

1. Strengthening recommendation monitoring and follow-up system
2. Timely submission of the financial audit reports to the Parliament
3. Improvement of audit coverage of municipalities
4. Strengthening performance audit
5. Introduction of revenue audit mandate

3. State Procurement Agency

Expected result:

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

Objectives and goals

Public procurement efficiency is increased.

1. Amendment into the law introducing independent complaints review administrative body

2. Develop and approve new regulations, procedures, rules and other supporting methodological materials
3. Modernization of the unified electronic system of public procurement and development of new electronic services
4. Development of human resources interested in public procurement

Table 2A. Individual Entities: Results Matrix of PFM 2018-2022 strategy

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
1	Parliament Finance and Budget Committee and Parliament Budget Office							
1	Supporting in-depth involvement and role of Finance and Budget Committee in the budget formulation process.	Alignment with SDG is ensured/attached to the draft state budget. Supporting report on draft budget. Development of policy documents and manuals on citizens' participation in the budgeting (based on OBS and GIFT recommendations) . Supporting Finance and Budget Committee to review reports on budget transparency and citizens' participation issues	SDG 16, alignment with OGP principles	PEFA : PI-5 – B PI-9 – A	PEFA : PI-5 – A PI-9 - A	Decrease or cease of donors financial support. Lack of staff qualification. Structural changes in the government	2022-2025 BDD; OBS 2021; PEFA2021 report; Parliament Finance and Budget Committee action plan for 2018-2020 - actions 1.1; 1.3; 1.5	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
2	Supporting involvement and coordination role of Finance and Budget Committee in the budget execution and monitoring process.	Budget execution annual reports are submitted timely, provision of required information for Committee hearing on audit report, participation in the hearings. Submission budget execution quarterly reports for hearing and supporting on preparation of assessment	PEFA (PI-31);	PEFA : PI-31.1 - C PI-31.2 - C PI-31.3 - C PI-31.4 – A	PEFA : PI-31.1 - B PI-31.2 - B PI-31.3 - B PI-31.4 - A	Decrease or cease of donors financial support. Lack of staff qualification. Structural changes in the government	PEFA2021 report; Parliament Finance and Budget Committee action plan for 2018-2020 - actions 1.1; 1.3; 1.5	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
3	Increase of effectiveness of cooperation and accountability to the Finance and Budget Committee	Collecting relevant information from SAO, MOF tax and customs departments	SDG 16 SDG 17 SDG 18	PEFA : PI-31.1 - C PI-31.2 - C PI-31.3 - C PI-31.4 – A	PEFA : PI-31.1 - B PI-31.2 - B PI-31.3 - B PI-31.4 - A	Decrease or cease of donors financial support. Lack of staff qualification. Structural changes in the government	PEFA2021 report; Parliament Finance and Budget Committee action plan for 2018-2020 - actions 1.1; 1.2; 1.3; 1.5; 2.1; 2.3	
4	Supporting coordination role of Finance and Budget Committee in legislative activities.	Participation in high priority legislation drafting working group based on legislation gap analysis. Provision of information on current finance and budget issues discussed and the	SDG 16	SDG 2017 report	SDG 2019 report	Decrease or cease of donors financial support. Lack of staff qualification. Structural changes in the government	Parliament Finance and Budget Committee action plan for 2018-2020 - actions 2.1; 2.3; 3.1; 3.4	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		Committee with participation of SAO, PBO and civil society institutions						
5	Macro-fiscal forecasting capacity building of Parliament Budget Office	Development alternative macro-fiscal forecasting capacity in Parliament Budget Office	FTE (IMF) 2.4.1 principle to have alternative evaluation: government macro and fiscal forecasts are challenged by alternative estimates	PBO challenges government macro and fiscal forecasts and prepares alternative forecast that is available for public	PBO challenges government macro and fiscal forecasts and prepares alternative forecast, including forecasts for key budget programs. Forecasts are available for public	Lack of qualification for budget program forecasting. Difficulties to get required information	Parliament Budget Office Web site www.pbo.parliament.ge	
6	Supporting research activities of Parliament Budget Office	Improvement of research activities of PBO to enhance PFM supervision	-	PBO papers regarding PFM	Number of PBO papers regarding PFM is increased	Lack of human resources. Difficulties to get required information. Dynamics of legislative initiatives	Parliament Budget Office Web site www.pbo.parliament.ge	
2	Increasing Impact Through High Quality Audit							
1	Strengthening recommendation monitoring and follow-up system	The SAO will facilitate the implementation of an electronic monitoring system for the implementation of the	PEFA (PI-30)	In 2018 the number of un-responded recommendations is 12%.	The number of un-responded recommendations reduced to 8%.	Lack of use of the developed system by auditees Change in PEFA methodology	SAO Annual Activity Report https://sao.ge/	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		recommendations made during the audit, with the aim of simplifying the further control and monitoring process and reducing the number of recommendations left un-responded.						
2	Timely submission of the financial audit reports to the Parliament	SAO shall complete and submit to the parliament financial audit reports envisaged in its annual audit plan no later than 9 months after the end of the fiscal year.	PEFA (PI-30)	In 2018 some financial audit reports were completed and submitted to the parliament in July- August.	Financial audits are completed and reports are submitted to the parliament no later than 9 months after the end of the fiscal year.	Late submission of financial statements by public agencies subject to audit Belated communication by the auditees	Financial audit reports submitted to the parliament	
3	Improvement of audit coverage of municipalities	SAO shall audit all municipalities within three-year period.	PEFA Local (PI-30)	In 2016-2018 the SAO audited 80% of municipalities.	Within the three years all municipalities are audited by the SAO.	SAO's limited available human resource Belated communication by the auditees	Municipality audit reports published on the SAO's web-page https://sao.ge/ Audit reports submitted to the relevant local councils.	
4	Strengthening performance audit	The State Audit Office aims to strengthen the audit direction and increase the share		In 2018, performance audits accounted for 14% of total audit activity	The share of performance audits in the total audit activity is 20%.	SAO's limited available human resource	Performance audit reports are published on the website of the State Audit Office: https://sao.ge/	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
		of efficiency audits in the overall audit activity						
5	Introduction of revenue audit mandate	SAO shall develop institutional capacity to audit state revenues.	TADAT (P9-26) SAI PMF (SAI 2)	SAO's limited mandate to audit revenues.	1. Submission of draft legal amendments to the parliament; 2. Revenue audit methodology; 3. Capacity building of auditors in revenue audit.	Lack of readiness by executive branch Belated adoption of legal amendments by the legislature	Draft legal amendments submitted to the parliament Revenue audit methodology	
3	State Procurement Agency							
1	Public procurement efficiency is increased	Independent and impartial complaints mechanism is enforced. New legal framework and institutional set up is enacted.	PEFA	PI 24.4 - D	PI 24.4 - A	Amendment into the Public Procurement law is not confirmed by the EC in time. Amendment into the Public Procurement law is not adopted by the GoG session in time. Amendment into the Public Procurement law is not adopted by the Parliament in time. Secondary legislation is not drafted and adopted by the SPA and	PEFA PI 24	

	Strategy directions and objectives	Goal for 2022	Documents from international practice	Performance baseline	Target indicator	Possible risks	Source of verification	Comment
						GCA in time. Recruitment of review body's and staff members is not done in time.		

Table 2B: Individual Entities: indicative pricing of the PFM 2018-2022 strategy

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is impleme d
		Total	2018	2019	2020	2021	2022			
1	Parliament Finance and Budget Committee and Parliament Budget Office	2,789.2	584.7	719.2	736.7	748.6	Funding of donor organizations	donor organizations		
1	Supporting in depth involvement and role of Finance and Budget Committee in the budget formulation process.	329.5	73.1	80.8	86.0	89.6				
2	Supporting involvement and coordination role of Finance and Budget Committee in the budget execution and monitoring process.	307.6	68.3	75.4	80.3	83.6				
3	Increase of effectiveness of cooperation and accountability to the Finance and Budget Committee	219.6	48.8	53.8	57.3	59.7				
4	Supporting coordination role of Finance and Budget	241.7	53.7	59.2	63.1	65.7				

#	Direction	Total volume of funding (Thousand lari)						Source of Funding	Partner organization	Program code and program name within which this direction is impleme d
		Total	2018	2019	2020	2021	2022			
	Committee in legislative activities.									
5	Macro fiscal forecasting capacity building of Parliament Budget Office	373.2	60.8	60.8	125.8	125.8				
6	Supporting research activities of Parliament Budget Office	1,317.6	280.0	389.2	324.2	324.2				
2	Increasing Impact Through High Quality Audit	180.0	0.0	80.0	50.0	50.0	Administrative Costs	State Budget		Programme Code 05 01
1	Strengthening recommendation monitoring and follow-up system	60.0	0.0	40.0	0.0	20.0			USAID	05 01
2	Timely submission of the financial audit reports to the Parliament	0	0.0	0.0	0.0	0.0				05 01
3	Improvement of audit coverage of municipalities	0	0.0	0.0	0.0	0.0				05 01
4	Strengthening performance audit	60.0	0.0	20.0	20.0	20.0			GIZ, USAID	05 01
5	Introduction of revenue audit mandate	70.0	0.0	20.0	30.0	20.0			GIZ	05 01
3	State Procurement Agency									
1	Public procurement efficiency is increased	NA	NA	NA	NA	NA				

INFORMATION ANNEX 3. ANALYSIS OF THE 2018 PEFA ASSESSMENTS

The presentation of the results of the PEFA assessments is by the 7 PEFA pillars and the indicators and their dimensions. Under each Pillar there is a table that presents the scores from the Central Government PEFA and the 3 PEFAs that were undertaken for the municipality of Martvili and the cities of Tbilisi and Batumi. All of these PEFAs were conducted under the PEFA Check procedures and the final scores are presented in this report. Each of the reports is published and available⁴. The inclusion of Martvili in the subnational sample was important as it is a small rural municipality with a population of some 4,000 and is more representative of many of Georgian municipalities than Tbilisi or Batumi⁵. As the Pillar tables indicate, Martvili scores lower in many dimensions than Tbilisi and Batumi.

Each of the Pillars is now taken in turn.

Pillar I Budget Reliability

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

Scores in Pillar I, are the result of the performance of indicators in other Pillars. For Central Government, scores in PI-1 to PI-3 are good. For municipalities, HLG-1 transfers from a higher-level of government (HLG) are an important determinant of budget reliability.⁶ While HLG-1.1 Outturn of transfers from higher-level government and HLG-1.3 both score A for all municipalities, there is an asymmetrical scoring methodology⁷ in comparison to other revenue (PI-3 Aggregate revenue outturn) and indeed PI-1 and PI-2 relating to expenditure. The performance of transfers from a higher level of government may well influence the scoring in PI-1 Aggregate expenditure outturn and PI-2 Expenditure composition outturn and certainly can impact on PI-2.1.4 Significance of in-year budget adjustments. HLG-1.2 Timeliness of transfers from higher-level government scores D for all three municipalities reflecting that these are earmarked grants (including capital grants) as the information on them is not timely with respect to the budget preparation timetable.

⁴ The Central Government PEFA Reports and the PEFA Reports for Tbilisi, Martvili and Batumi are available at <https://pefa.org/>. There is also a Subnational Synthesis PEFA Report which also presents the mean, mode and median scores for the municipalities.

⁵ The Subnational Synthesis Report also presents scores from 12 municipality PEFAs. These are independent of the PEFA Check and many of the scores are not comparable with those in the Pillar Tables. Of the 15 municipalities 8 has a population fewer than 9,000, 2 fewer than 26,000, 1 fewer than 50,000, 3 between 125,000 and 163,000 (Batumi) and Tbilisi with 1.15 million.

⁶ In a CG PEFA these are assessed in PI-7 Transfers to subnational governments.

⁷ The scoring on HLG-1.1 (A :Transfers have been at least 95 percent of the original budget estimate in two of the last three years) is more in tune with the 2005 PEFA methodology for 3.1 Revenue which was changed in 2011 to make over estimation a reason for a lower score (and continued in 2016 methodology). If grants and other revenue in SN scoring (HLG-1.1 and 3.1) are not treated the same there is an anomaly for budget credibility as it suggests that it is acceptable to overestimate grants but not other revenue. If the scoring criteria for PI-3.1 was used for HLG-1.1, the A scores in the 3 municipalities would have been D for Martvili, C for Batumi and B for Tbilisi.

Table Pillar I Budget Reliability Georgia 2018 PEFA scores					
	Central Government	Subnational			
Transfers from a higher-level government					
		Tbilisi	Batumi	Martvili	Mean
Indicator/Dimension					
HLG-1. Transfers from a higher-level government	NA	D+	D+	D+	D+
HLG-1.1. Outturn of transfers from higher-level government	NA	A	A	A	A
HLG-1.2. Earmarked grants outturn	NA	D	D	D	D
HLG-1.3. Timeliness of transfers from higher-level government	NA	A	A	A	A
Budget Reliability					
PI-1 Aggregate expenditure outturn	A	A	B	D	B
1.1 Aggregate expenditure outturn	A	A	B	D	B
PI-2 Expenditure composition outturn	A	B+	B+	D+	C+
2.1 Expenditure composition outturn by function	A	B	B	D	C
2.2 Expenditure composition outturn by economic type	A	B	B	D	C
2.3 Expenditure from contingency reserves	A	A	A	A	A
PI-3 Revenue outturn	B+	C+	D+	D	C
3.1 Aggregate revenue outturn	A	B	C	D	C
3.2 Revenue composition outturn	B	C	D	D	C

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

- The Central Government advances the time table for information on grants (conditional and capital) to municipalities so that ceilings are included earlier in the budget preparation calendar.
- The Central Government provides a greater degree of certainty as to their size so that the need for supplementary budgets to accommodate additional grants is reduced.
- Municipalities become more proactive and prepare forecasts of revenue including grants as part of the budget circular that allows at least 4 weeks for the budget to be prepared based on ceilings (Score B)⁸⁹.

Pillar II Transparency of public finances

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

⁸ An A score would require 6 weeks which is unlikely to be necessary for most municipalities.

⁹ Batumi does this and a budget circular is issued with ceilings that provide 5 weeks for the budget process to be completed.

Table Pillar II Transparency of public finances Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
Transparency of public finances					
PI-4 Budget classification	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A
PI-5 Budget documentation	B	A	B	B	B
5.1 Budget documentation	B	A	B	B	B
PI-6 Central government operations outside financial reports	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	A	NA	NA	NA	NA
7.1 Systems for allocating transfers	A	NA	NA	NA	NA
7.2 Timeliness of information on transfers	A	NA	NA	NA	NA
PI-8 Performance information for service delivery	A	B+	B	D+	C+
8.1 Performance plans for service delivery	A	B	B	D	C
8.2 Performance achieved for service delivery	A	B	B	D	C
8.3 Resources received by service delivery units	A	A	A	A	A
8.4 Performance evaluation for service delivery	A	B	D	D	C
PI-9 Public access to fiscal information	A	B	B	B	B
9.1 Public access to fiscal information	A	B	B	B	B

For Central Government the main area to be improved is in budget documentation. Information on financial assets is lacking as well as explanation of new policy initiatives as quantification of tax expenditures. By addressing weaknesses in PI-12.1 Financial assets monitoring, PI-29.1 Financial Reports and PI-29.4 Accounting Standards information on financial assets will be improved and included as a part of budget information. With respect to explanation of new policy initiatives and tax expenditures these will be generated by addressing weaknesses in PI-15.1 Fiscal Impact of policy proposals.

For the municipalities, not all the categories included in budget documentation is relevant¹⁰. Each municipality needs to ascertain what is missing and action is certainly linked to weaknesses in another indicator as demonstrated in the example of Central Government above.

A main area of Pillar II weakness in municipalities is related to PI-8 Performance information for service delivery. To a certain extent this may be related to the size of the municipality and the budget preparation process and its coverage in the municipality's Basic Data and Direction document (PI-16 Medium term perspective in expenditure budgeting). The smaller municipality's budget focus is on the budget year only and does not have service delivery indicators (outputs and measurable outcomes). This latter

¹⁰ Such as macroeconomic assumptions and tax expenditures

element is a weakness in the larger municipalities as the norm is to provide targets for either outputs or measurable outcomes but not both for the service delivery programs. Independent monitoring of service delivery targets is an area that should be addressed. This could be done by expanding the work of municipality Internal Audit Units beyond the current financial compliance focus (PI-26.1 Coverage of internal audit) and the State Audit Office (PI-30.1 Audit coverage and standards). Notably, the work of the Tbilisi Sakrebulo Audit Commission which conducts efficiency audits that could be adopted by the equivalent commission in other municipalities.

With respect to public access to fiscal information, one element is not applicable (macro-economic forecasts). The main area of weakness is centered on the timeliness of publishing audited financial statements and other external audit reports (PI-30 External Audit). Two out of the three municipalities (the two cities) have produced a budget summary (Citizen's Guide).

Pillar III Management of assets and liabilities

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

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

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

Table Pillar III Management of assets and liabilities Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
PI-10 Fiscal risk management	B	C	D	NA	C
10.1 Monitoring of public corporations	B	C	D	NA	C
10.2 Monitoring of subnational government	C	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	B	NA	NA	NA	NA
PI-11 Public investment management	C	C+	B+	C	C+
11.1 Economic analysis of investment proposals	C	D	A	D	C
11.2 Investment project selection	C	C	C	C	C
11.3 Investment project costing	C	B	B	C	C
11.4 Investment project monitoring	C	B	A	B	B
PI-12 Public asset management	C+	B	B	B	B
12.1 Financial asset monitoring	B	C	B	B	B
12.2 Non-financial asset monitoring	C	C	C	D	C
12.3 Transparency of asset disposal	C	A	A	A	A
PI-13 Debt management	B	C+	B	C+	C+
13.1 Recording and reporting of debt and guarantees	A	C	B	C	C
13.2 Approval of debt and guarantees	A	A	A	A	A
13.3 Debt management strategy	D	D	D	D	D

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

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

While decrees No 191 and 165 have been enacted the evidence of the PEFA suggests that there is work still to be done to implement them fully. There is one positive set of observations from the assessments of Batumi and Martvili with respect to the out-sourcing of investment project monitoring to specialized companies reporting to the department in the municipality responsible for investment. Extending such a scheme to all municipalities and the Central Government could be explored. In addition, the way Batumi has worked with KfW in appraising its investment portfolio may provide a template for other municipalities and Central Government. Project selection appears to be commensurate with need, but the inclusion of standard project selection would improve the overall scoring.

The development of project costing to ensure that ensuing recurrent costs are factored into the budget year and outer years can be carried out in the context of PI-16 Medium-term perspective in expenditure budgeting particularly PI-16.1 medium-term expenditure estimates. This could be better achieved by including recurrent costs associated by individual projects in each program rather than aggregating them by program on a roll-over medium term budget.

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

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

At the time of the PEFA Assessment the Central Government had prepared a Debt Management Strategy (DMS) (PI-13.3) but it had yet to be approved. Once this is approved and implemented, the necessary actions to improve the score to an A will have taken place. Municipalities who have borrowing should use this CG DMS as a template to develop an appropriate DMS. Recording and reporting of debt (PI-13.1) at the municipality level reflects the requirements relating to the repayment of interest and principle and what information management needs to be aware of relating to the current status. Should terms and conditions change to more frequent payments then the recording and reporting should move accordingly.

Pillar IV Policy-based fiscal strategy and budgeting

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

With respect to the municipalities based on the evidence of Martvili (for smaller municipalities) moving from an annual budget to a multi-year approach by rolling over the future expenditure consequences of existing policies, capital investment and associated current costs would provide an indication of what revenue will be required (mainly from Central Government grants). Both of these elements would then provide an indication of what scope there is for new policies or indeed ending unsuccessful ones. Extending the BDD at all levels to incorporate the fiscal impact of policy proposals (PI-15.1) and examination of the consistency of budgets with previous years estimates (PI-16.4) would ensure the consistency of the multi-year budget methodology. Once these steps have been taken, extending the ceiling structure to the budget and outer years could be contemplated although this would require that transfers' from Central Government may need to move to a three-year annual settlement.

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

Table Pillar IV Policy-based fiscal strategy and budgeting Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
PI-14 Macroeconomic and fiscal forecasting	A	NA	NA	NA	NA
14.1 Macroeconomic forecasts	A	NA	NA	NA	NA
14.2 Fiscal forecasts	B	NA	NA	NA	NA
14.3 Macro-fiscal sensitivity analysis	A	NA	NA	NA	NA
PI-15 Fiscal strategy	D+	B	B	D+	C+
15.1 Fiscal impact of policy proposals	D	D	D	D	D
15.2 Fiscal strategy adoption	B	A	A	C	B
15.3. Reporting on fiscal outcomes	D	A	A	C	B
PI-16 Medium term perspective in expenditure budgeting	B+	C+	C+	D	D+
16.1 Medium-term expenditure estimates	A	A	A	D	B
16.2 Medium-term expenditure ceilings	A	D	D	D	D
16.3 Alignment of strategic plans and medium-term budgets	A	B	B	D	C
16.4 Consistency of budgets with previous year estimates	D	D	D	D	D
PI-17 Budget preparation process	A	B	B	D+	C+
17.1 Budget calendar	A	C	B	C	C
17.2 Guidance on budget preparation	A	A	A	D	B
17.3 Budget submission to the legislature	A	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	A	B+	A
18.1 Scope of budget scrutiny	A	A	A	B	A
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A

Pillar V Predictability and control in budget execution

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

Revenue Administration (PI-19) in Georgia is carried out by Georgia Revenue Services and covers both the Central Government and municipality. All dimensions, save PI-19.4 Revenue arrears monitoring, have A scores under PEFA. In 2016 there was a drill down revenue Tax Administration Diagnostic Assessment Tool (TADAT)¹¹ which provides its own recommendations that can improve the quality of the PEFA A scores.

In terms of the PEFA assessment PI-19.4 Revenue arrears monitoring the continued arrears write-off of uncollectable arrears would clean up tax arrears and make them current. This action would ensure the principle of equal treatment of taxpayers and remove the incentive not to pay taxes.

¹¹ Georgia: Tax Administration Diagnostic Assessment tool (TADAT) Performance Assessment Report. TADAT Georgia

Table Pillar V Predictability and control in budget execution Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
PI-19 Revenue administration	B+	NA	NA	NA	NA
19.1 Rights and obligations for revenue measures	A	NA	NA	NA	NA
19.2 Revenue risk management	A	NA	NA	NA	NA
19.3 Revenue audit and investigation	A	NA	NA	NA	NA
19.4 Revenue arrears monitoring	D	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A
20.2 Transfer of revenue collections	A	NA	NA	NA	NA
20.3 Revenue accounts reconciliation	A	NA	NA	NA	NA
PI-21 Predictability of in-year resource allocation	A	B+	B+	B+	B+
21.1 Consolidation of cash balances	A	A	A	A	A
21.2 Cash forecasting and monitoring	A	B	B	B	B
21.3 Information on commitment ceilings	A	A	A	A	A
21.4 Significance of in-year budget adjustments	A	C	C	C	C
PI-22 Expenditure arrears	C+	A	A	A	A
22.1 Stock of expenditure arrears	A	A	A	A	A
22.2 Expenditure arrears monitoring	C	NA	NA	NA	NA
PI-23 Payroll controls	A	B+	B+	B+	B+
23.1 Integration of payroll and personnel records	A	A	A	A	A
23.2 Management of payroll changes	A	A	A	A	A
23.3 Internal control of payroll	A	A	A	A	A
23.4 Payroll audit	A	B	B	B	B
PI-24 Procurement management	B+	B	B	B	B
24.1 Procurement monitoring	A	NA	NA	NA	NA
24.2 Procurement methods	A	B	A	A	A
24.3 Public access to procurement information	A	A	A	A	A
24.4 Procurement complaints management	D	D	D	D	D
PI-25 Internal controls on non-salary expenditure	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A
PI-26 Internal audit	B+	B+	B+	B+	B+
26.1 Coverage of internal audit	A	A	A	A	A
26.2 Nature of audits and standards applied	B	B	B	B	B
26.3 Implementation of internal audits and reporting	A	A	A	A	A
26.4 Response to internal audits	A	A	A	A	A

Pillar V scores are, in general, a reflection of the observation in the PEFA assessment reports that, “an overriding feature of PFM in the Republic of Georgia has been the development and good use of Information Technology in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. The application of IT has been developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The integration of IT, internet and personnel has resulted in PFM’s positive effectiveness and efficiency.” Some scores may well be appropriate at the municipality level even though there are not at an A such as PI-23.4 Payroll audit. Nevertheless, there are areas where some dimension scores could be improved over time: for example, Significance of in-year budget adjustments (PI-21.4 (municipality level)). As mentioned in Pillar I HLG-1 Outturn of transfers from higher-level government reducing the number of in-year budget adjustments will be a result of improving the forecasts of transfers and the timing of their release. Improving the coverage of internal audit (P-26.1) to include value for money and efficiency audits would have an impact of the scores in PI-8.4 Performance evaluation for service delivery.

The main divergence from PEFA methodology lies in PI-24.1 Procurement complaints management. The issue in the context of Georgia is what is most appropriate given the evolution of the procurement system?

Pillar VI Accounting and reporting

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

Table Pillar VI Accounting and reporting Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
PI-27 Financial data integrity	A	A	A	A	A
27.1 Bank account reconciliation	A	A	A	A	A
27.2 Suspense accounts	A	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A
PI-28 In-year budget reports	B+	B+	B+	B+	B+
28.1 Coverage and comparability of reports	A	A	A	A	A
28.2 Timing of in-year budget reports	B	A	A	A	A
28.3 Accuracy of in-year budget reports	A	B	B	B	B
PI-29 Annual financial reports	D+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	B	C	C	C	C
29.2 Submission of reports for external audit	D	D	D	D	D
29.3 Accounting standards	C	C	C	C	C

The main consideration relating to Pillar VI is PI-29 Annual financial reports. The weaknesses that have been identified in the PEFA assessment have been recognized and a plan of action is already in place with respect to PI-29.1 Completeness of annual financial reports and PI-29.3 Accounting standards. These actions will impact on both the Central Government and municipalities. PI-29.2 Submission of reports for external audit will also improve for Central Government as there will be a

consolidated financial statement. With respect to municipalities, currently there is no requirement for annual audit of financial statements. As discussed in PI-10.2 Monitoring of subnational governments, the capacity constraint relating to the SAO being able to carry out the number of annual audits could be met by the largest municipalities being audited by licensed private auditors and the SAO periodically.

Scores in other indicators and dimensions appear appropriate to need. One municipality reported that in the past it included commitments in its in-year reports (PI-28.3 Accuracy of in-year budget reports) but discontinued the process as the recipients of the reports found their inclusion confusing and unnecessary.

Pillar VII External scrutiny and audit

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

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

Under the present procedures, all audit reports are to be submitted to Parliament. In the municipality context, this should be to the Sakrebulo to comply with good practice and such a change will improve low scores in PI-31 Legislative scrutiny of audit reports at both the municipality and Central Government level. Currently the Budget and Finance Committee of Parliament scrutinizes one audit a report a month, but three of these are municipality audit reports. Their removal will free up space for the scrutiny of additional Central Government audit reports.

Table Pillar VII External scrutiny and audit Georgia 2018 PEFA scores					
	Central Government	Subnational			
		Tbilisi	Batumi	Martvili	Mean
PI-30 External audit	B+	D+	D+	D+	D+
30.1 Audit coverage and standards	A	C	C	D	C
30.2 Submission of audit reports to the legislature	A	D	D	D	D
30.3 External audit follow-up	B	NA	B	C	B
30.4 Supreme Audit Institution (SAI) independence	A	A	A	A	A
PI-31 Legislative scrutiny of audit reports	C+	D	D	D	D
31.1 Timing of audit report scrutiny	C	D	D	D	D
31.2 Hearings on audit findings	C	D	D	D	D
31.3 Recommendations on audit by the legislature	C	D	D	D	D
31.4 Transparency of legislative scrutiny of audit reports	A	D	D	D	D