

Annual Report on
2021 Public Finance Management Reform Action Plan

Table of Content

I - Budgeting

Improvement of Budget Management

1.1 Development of Law of Annual Budget Project	Error! Bookmark not defined.
1.2 Increasing efficiency of mid-term spending (MTEF)	Error! Bookmark not defined.
1.3 Improvement of the Program Budgeting on National and Local Municipalities level	6
1.4 Ensure the accordance of budgetary documentation with the financial management principles	8
1.5 Capital/Investment project management unified cycle development	8
1.6 Reporting on annual and quarterly budget performance, reinforcement of accountability to the supervising entity	9
1.7 Ensure the Transparency of the Budget Process	10
1.8 Improvement of finance management by municipalities	11
1.9 Support for the budget process by refinement of corresponding legislation.....	13

II- Accounting and reporting

1. Development of IPSAS standards related to the accrual concept

1.1 Refinement and improvement of accounting regulations in the public sector in order to comply with the requirements of IPSAS standards	8
1.2 Refinement and improvement of financial reporting forms to meet IPSAS requirements	8
1.3 Conducting workshops, seminars, trainings, etc. for public sector accountants.....	9
1.4 Maintaining accounting by local self-government units in accordance with the IPSAS standards introduced	9
1.5 Prepare government consolidated financial statements based on actionable IPSAS standards.....	9
1.6 Provide constant translation / updating of standards to facilitate the introduction of IPSAS standards	10
1.7 Additional introduction of IPSAS standards based on the accrual method in the public sector	10

1. Development of Integrated Public Financial Management Information System (PFMS)

2.1 Development of accrual-based treasury ledger functionalities and refinement / simplification of existing business processes in Integrated Public Financial Management Information System (PFMS)	10
2.2 Training of state budget and local government representatives on the use / changes of the electronic treasury system	11

III- Public Debt Management

1. Update the government's medium-term debt management strategy

2. Development of government securities market

2.1 Going through the next stage in the process of introducing the system of primary dealers	11
2.1.1 Development a methodology for evaluating primary dealers	11
2.1.2 Evaluation the pilot program of primary dealers	12

2.1.3 Expansion of the Primary Dealers pilot program	12
2.2 Improving communication with investors	12
2.3 Update the law on public debt.....	12

IV- Tax and Custom Issues

1. Improvement of Legislative Base

1.1 Harmonization of tax legislation with EU directives within the Framework of the Association Agreement	13
1.2 Further refinement of the tax code	13
1.3 Refinement of international tax policy	13

2. Strengthen the tax risk management process in the field of compliance with the law

2.1 Introduce compliance improvement programs	14
2.2 Introduce a program of auditing declarations in basic taxes	14
2.3 Develop an estimated accrual mechanism for key tax types.....	14
2.4 Introduction of electronic system of audit proceedings	15
2.5. Creating a data analysis and management system.....	15

3. Development of a customs risk management and advance information exchange system

3.1 Introduction of eTIR system	15
3.2 Integrate API PNR data into the customs risk management system	15

4 Support for the EU integration process

4.1 Development of relevant documents and systems for the implementation and interpretation of VAT legislation ..	16
4.2 Implementation of the second phase of the pilot project for automatic exchange of financial information	16

V- Macroeconomic Analysis and Fiscal Policy

1. Improving macroeconomic forecasting and analysis

1.1 Improving the analysis of macroeconomic forecasts and increase analytical information.....	16
1.2 Creation of analytic information about economic development tendencies of the country.....	17
1.3 Publication of macroeconomic research papers.....	17
1.4 Analysis of shocks impacting economic development, creation of scenarios and macroeconomic risk assessment.	17
1.5 Stress-Test analysis.....	17
1.6 Creation of medium-term fiscal policy and creation of recommendations.....	18
1.7 Participation in assessment of socioeconomic decisions and creation of strategies with the framework of macroeconomic forecasting	18
1.8 Coordinating strategy and cooperation with international rating companies to improve credit rating of the country.....	18

1.9 Processing and analyzing data to estimate tax expenditures, increasing the area of assessment18

2. Improve revenue forecasting and analysis

2.1 Creation of unified and state budget revenue forecast, improvement budget revenue forecast methodology and creation of alternative methodology19

2.2 Organizing state finance statistics work and data distribution based on statistical methodology and IMF and other international organization recommendations19

VI- Fiscal Risks

1. Reform of state-owned enterprises

1.1 Prepare a state-owned enterprise reform strategy and submit it to the Government of Georgia for approval ...19

1.2 Develop a comprehensive legal framework for state-owned enterprises20

1.3 Prepare a fiscal risk analysis document.....20

VII - Development of public internal financial control system

1. Public Internal Financial Control Reform

1.1 Planning, evaluating and raising awareness of public internal financial control reform20

1.2 Support of implementation and effective functioning of financial management and control system in public sector21

1.3 Development and support of internal audit activities in public sector21

VIII - Accounting, Reporting and Auditing Supervision

1. Effective functioning of Reporting Portal

1.1 Development of Reporting Portal.....21

2. Support of improvement of Audit service quality

2.1 Improving Audit service quality21

IX - Informational Technologies

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

1.1 eBudget - System development and addition of new features21

1.2 eTreasury- Improvement of the system and addition of new features22

1.3 eDMS- Improvement of the system and addition of new features22

1.4 eHRMS - Improvement of the system and addition of new features.....22

1.5 Ensure the sustainability of ICT infrastructure of Ministry of Finance22

I - Budgeting

1. Improvement of Budget Management

1.1 Development of law of Annual budget project

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

Performance indicator: 2022 state budget draft law is prepared and submitted to the Parliament of Georgia within the period prescribed by law

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

Period: January - December

Progress: In 2021, an amendment was made to the annual budget law (July 22, 2021; №810-V66-X03). Despite rather severe economic trends at the beginning of the year (economic decline in January - 11.5%, in February - 5.1%, in the first quarter, the overall economic decline was 4.5%), the economic parameters changed in April, the economic growth rate was 44.8%, high economic growth was maintained in May as well, and a total of 5 months of economic growth was recorded at 11.5%. The nominal amount of the calculated GDP was 57.2 billion GEL (planned figure - 53.4 billion GEL).

Accordingly, a draft amendment to the 2021 State Budget Law was prepared to reduce the deficit, facilitate economic recovery and manage COVID-19, and to mobilize additional funds to fund related health care measures. The unified state budget deficit relative to GDP fell from 7.7% to 6.9%, while the government's debt-to-GDP ratio fell to 54.6%.

Expenditures related to the management of COVID-19 (mobilization of medical institutions, treatment costs, testing and research, vaccination, etc.) increased (by GEL 446.0 million and amounted to GEL 846.0 million), as well as funding for programs to support the economy. The document is available on the website of the Ministry of Finance of Georgia - <https://www.mof.ge/5355>.

"Draft State Budget Law of Georgia for 2022" (first, second, third submission), a processed document of the main data and directions of the country for 2022-2025 and the attached materials of the draft budget law were submitted to the Government of Georgia within the timeframe established by law. The Parliament has approved the "Law on the State Budget of Georgia for 2022" and it is posted on the website of the Ministry of Finance of Georgia - <https://mof.ge/5477>.

During the year, taking into account the actual indicators and current trends, another change was made in the annual budget law (December 2, 2021; №1070-VI06-X03). In the second half of 2021, higher-than-expected economic growth rates were maintained, with real economic growth at 10.5% according to 10-month forecasts, the updated economic growth forecast for 2021 at 10.0%, and the GDP forecast at 8.0%. Due to the increase in the forecasts of economic parameters, the nominal GDP forecast was also increased and instead of the forecast of GEL 57.2 billion in July 2021, the GDP forecast for the updated macroeconomic scenario was set at GEL 58.5 billion. However, the increase in the share of payments (GEL 19,796.1 million, which increased by GEL 297.4 million compared to the approved plan) was mainly due to the increase in expenditures required to finance COVID-19-related healthcare expenditures. The document is available on the website of the Ministry of Finance of Georgia - <https://mof.ge/5355>.

1.2 Increasing efficiency of mid-term spending (MTEF)

Responsible bodies: Budgetary department, Department of macroeconomic analysis and fiscal policy planning (the parties involves: spending agencies, government of Georgia, the Georgian Parliament)

Performance indicator: Final draft of the country's basic data and directions document for the years of 2021-2024 has been developed and presented to the financial-budgetary committee of the Georgian Parliament.

Primary and reworked versions of the country's basic data and directions document for years of 2022-2025 have been developed and presented to the Government of Georgia and the Georgian Parliament, within the term prescribed by the law and is in compliance with the requirements of the legislation.

Forecasts for mid-term incomes and payables of the government has been developed for current policy and in case of change to policy and aforementioned information is reflected in the country's basic data and directions document for years of 2022-2025 for following directions: education, science, culture and sports, environmental protection and agriculture, internally displaces persons' issues, labor, healthcare and welfare.

Information on reasons for deviation from the previous period mid-term parameters has been developed and is attaches to the 2022 budget project, that will be presented to the Georgian Parliament.

A concept was developed for implementation of information drafted by the spending agencies during the process of development of the country's basic data and directions document, that will be included in the public financial management system (ePFMS).

Period: January - July

Progress: The information received from the municipalities and the Autonomous Republics was added to the document of the main data and directions of the country for 2021-2024 and the final version of the document was prepared, which was submitted in the form of information to the Finance and Budget Committee of the

Parliament of Georgia. The document of the main data and directions of the country for 2021-2024 (final version) is posted on the website of the Ministry of Finance of Georgia.¹

The draft resolution of the Government of Georgia “On the measures to be taken for the compilation of the document of the main data and directions of the country for 2022-2025” was prepared and approved by the resolution N77 of February 26, 2021. The resolution develops the forms of annexes, according to which the spending institutions, in order to prepare the document of the main data and directions of the country, gradually submit the information to the Ministry of Finance of Georgia. This resolution is available through the LEPL Legislative Herald.²

Prepared and provided with information to the Government of Georgia on the main macroeconomic forecasts and the main directions of the Ministries of Georgia in accordance with the rules established by the legislation (Part 4 of Article 34 of the Budget Code of Georgia). The document is posted on the website of the Ministry of Finance of Georgia - <https://www.mof.ge/images/File/2021-monacemebi-mimartulebebi/03-06-2021/saministroebis%20ziritadi%20mimartulebebi.docx>.

The directions of the new policy were reflected in the draft package of the state budget for 2022 (in the document of basic data and directions of the country), which was submitted to the Parliament of Georgia. Among them, the directions of the new policy planned at the beginning of the medium-term period envisaged by the country data of 2022-2025 and the direction document were maintained, and also the directions planned at the beginning of the medium-term period of 2023-2026 were separated. The total draft budget is accompanied by explanations of the following areas of the new policy:

- ✓ New direction of economic support policy against New Coronavirus (COVID-19) - support for the construction sector;
- ✓ The direction of a new policy to promote entrepreneurship;
- ✓ New direction of pension policy - indexation of pensions;
- ✓ New direction of social protection - improving the social situation of children and families with children; New directions of medical services for the population: co-financing of medical insurance, organ transplantation, spinal-muscular atrophy, continuous glucose monitoring;
- ✓ A new direction of labor safety policy;
- ✓ A new direction of employment policy;
- ✓ New directions of general education reform: teacher professional development and career advancement scheme and increase of remuneration, introduction of the "new school" model.

The revised version of the country basic data and directions document for 2022-2025 has been prepared and submitted to the Government and Parliament of Georgia within the timeframe established by law and complies with the requirements of the legislation. This document is available on the website of the Ministry of Finance of Georgia.³

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

¹ <https://www.mof.ge/5321>

² <https://matsne.gov.ge/ka/document/view/5111933?publication=0>

³ <https://mof.ge/5477>

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

Performance indicator: Conducted training and work meetings for Ministry and Municipality representatives, with help of donors.

Update of the program budget development methodology.

Period: January - December

Progress: Within the framework of cooperation between the Academy of the Ministry of Finance of Georgia and the Academy of the Ministry of Finance of the Kingdom of the Netherlands to promote the quality of program budgeting, In May of this year, for the representatives of the 27 municipalities with which the Memorandums of Understanding were signed in 2019, workshops were held in online format on aspects of the program budget methodology. Practical assignments were sent to participants in advance for review, as well as basic principles of results-oriented budgeting and international experience.

1.4 Ensure the accordance of budgetary documentation with the financial management principles

Responsible Body: Budgetary department (The parties involved: State budget spending agencies, Government of Georgia, Georgian parliament)

Performance indicator:

Reflection of detailed definitions of correspondence with the fiscal discipline within the performance information in the country's BDD document and budgetary documentation.

Period: January - December

Progress: According to the Organic Law of Georgia on Economic Freedom, due to the declaration of a state of emergency in the country in 2020, the Government of Georgia was given the opportunity to act beyond the fiscal parameters set by law in order to ensure the smooth financing of the above measures. Accordingly, the 2021 Budget Law was accompanied by an action plan to return to the established fiscal limits, which provides for a return to the fiscal limits from 2023. An updated document "Comparison of medium-term forecasts and forecast of return to the limits provided by the fiscal rules defined by the Organic Law of Georgia on Economic Freedom" was prepared, Which was attached to the 2022 state budget law and is available on the website of the Ministry of Finance of Georgia.⁴

1.5 Capital/Investment project management unified cycle development

⁴ <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/21.prognozebis%20shedareba%202022%20-3.docx>

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

Performance indicator: Evaluation of new investment projects submitted by spending agencies, by a working group set up in the Ministry of Finance of Georgia to implement measures to evaluate investment projects, in accordance with the investment project management guide and methodology, and submission to the Interagency Council for consideration.

Pre-selection and evaluation of at least 75% of the total cost of new investment / capital projects in accordance with the investment project guide and methodology.

Revision of investment project management methodology.

Conduct trainings for relevant staff of spending agencies and municipalities with the support of international partners.

LEPL - In cooperation with the Financial-Analytical Service, the work process is in an active phase to integrate the electronic portal of investment project management information into the electronic system of public financial management (ePFMS).

Period: January - December

Progress: In 2021, the pandemic of the new coronavirus (COVID 19) in the world and the related economic recession affected the forecasts of Georgia's economic parameters and budget revenues, both revenue and expenditure. A number of economic activities were restricted, and in addition to the costs of treating and diagnosing those infected with the virus, it became necessary to take a number of measures to promote social protection and business for the population.

Consequently, the implementation of existing investment projects was somewhat delayed, as well as the funds needed to finance new projects were limited. Nevertheless, 13 new investment / capital projects were evaluated. Among them, 9 projects were submitted by the Ministry of Education and Science of Georgia, 1 project by the Ministry of Regional Development and Infrastructure of Georgia, and 3 projects were considered in cooperation with donors. The economic analysis of the projects is based on the assumptions made by the initiating agency. Economic analysis of the mentioned 13 new investment projects, project register and summary information on the selection and evaluation of these projects are part of the package of the 2022 state budget law and are available on the website of the Ministry of Finance of Georgia.⁵

1.6 Reporting on annual and quarterly budget performance, reinforcement of accountability to the supervising entity

Responsible Body: Budget department (involved parties: spending agencies, State Audit Service, Georgian Parliament)

Performance indicator: Annual report on the 2020 state budget performance has been developed and presented to the Government of Georgia and the Georgian Parliament, within the prescribed terms. Performance report

⁵ <https://mof.ge/5477>

encompasses definitions on fiscal rules, planned and achieved goals and elaborations on any discrepancies. Along with the performance on the annual budget, information was prepared on previous year's performance, on keeping in line with the State Audit Service's recommendations and on performance on the action plan approved by the resolution of the Government of Georgia.

Quarterly reports on 2021 state budget have been presented to the Georgian Parliament within the prescribed terms and is in accordance with the Georgian Legislation's requirements;

Along with the 6 month performance report, information was drafted on intermediate performance review and presented to the Georgian Parliament.

Action plan for keeping in line with the State Audit Service's recommendations for the state budget performance report was developed. Retrospective review and recommendation analysis based on this action plan.

Period: January - December

Progress: Within the timeframe set by the legislation, the annual report on the implementation of the 2020 state budget was prepared. The performance report includes information on fiscal rules, results planned and achieved by spending agencies, and indicators and explanations of differences. Along with the annual budget execution report, information on the spread of the new coronavirus COVID-19 in Georgia and the fiscal response to it was prepared and added as an appendix to the performance report, which was submitted to the Government of Georgia and the Parliament of Georgia. The annual report on the implementation of the state budget for 2020 in an editable format (includes both word and excel files) is published on the website of the Ministry of Finance.⁶ Quarterly (3, 6 and 9 months) reports on the implementation of the 2021 state budget were prepared and submitted to the Government of Georgia and the Parliament of Georgia within the timeframe established by the legislation, which are published on the website of the Ministry of Finance of Georgia- <https://mof.ge/5429>.

1.7 Ensure the Transparency of the Budget Process

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

Performance indicators:

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

Citizens Guide for 2022 state budget is published on the website; BDD document and Performance report guides are created and are available on the Ministry of Finance's website.

⁶ <https://www.mof.ge/5411>

The platform to engage citizens in budget development process (eBTPS.mof.ge) is functioning on the Ministry of Finance's website, which will allow the citizens to take part in the planning of 2022 state budget.

Sharing in international experience and cooperation with the international partners on issues of budget transparency and citizen engagement.

Period: January - December

Progress: Budget documentation related to the budget prepared during the reporting period, including all major budget documents according to the Open Budget Survey, is available on the website of the Ministry of Finance of Georgia (www.mof.ge) within the timeframe set by law.

The Ministry of Finance of Georgia reviewed the Open Budget Survey Questionnaire and observed different assessments and / or comments on certain questions in order to correct the assessment. The rating covers 2019-2020, although despite the delays caused by the COVID-19 pandemic during 2020, the rating is expected to remain the same.

There is a platform for citizen involvement in the budget preparation process (eBTPS.mof.ge) on the website of the Ministry of Finance of Georgia, through which citizens have the opportunity to participate in the budget planning process - <https://ebtps.mof.ge/>.

The 2022 State Budget Citizen Guide has been prepared and published on the website. A budget brochure, brief guidelines for key country and direction documents and performance reports have been prepared, which is also available on the website of the Ministry of Finance of Georgia - https://mof.ge/mokalakis_gzamkvlevi

1.8 Improvement of finance management by municipalities

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

Performance indicator: Municipalities are supported by the Ministry of Finance of Georgia and the municipalities within the framework of the Public Financial Management Reform Strategy 2018-2021 to support the implementation of the 2021 International Partnership Memorandum of Understanding to be implemented by the Municipality under the Memorandum of Understanding on Promoting Financial Management Improvement. Compliance with these conditions is monitored. Memorandums of Understanding signed with at least 10 municipalities.

Analysis of research into the Public Expenditure and Financial Accountability Assessment at sub-national level (PEFA) in at least 5 additional municipalities.

Period: January - December

Progress: Memorandums of Understanding were signed with additional 12 municipalities (Gori, Zugdidi, Kobuleti, Ozurgeti, Telavi, Bolnisi, Aspindza, Chiatura, Akhaltsikhe, Sachkhere, Kvareli, Mestia), which were assessed using PEFA indicators and with USAID support. The memoranda include targets for 2021-2023. Memorandums of Understanding have been signed with 39 municipalities in 2019-2021.

Based on the implementation of the target indicators defined in the Memoranda in 2021, the capital grant was allocated to 34 municipalities from the respective allocations provided in the 2021-2022 budget in the amount of GEL 12.0 million. Including GEL 5.0 million from the 2021 budget, including:

N	Name of the municipality	Amount of capital grant (thousand GEL)
1	Rustavi Municipality	800,0
2	Gardabani Municipality	550,0
3	Marneuli Municipality	550,0
4	Zestaponi Municipality	550,0
5	Zugdidi Municipality	500,0
6	Telavi Municipality	400,0
7	Oni Municipality	400,0
8	Kobuleti Municipality	400,0
9	Dusheti Municipality	300,0
10	Ozurgeti Municipality	300,0
11	Gori Municipality	250,0
	Total	5 000,0

Additional 23 municipalities were allocated a capital grant of GEL 7.0 million from the amount provided in the 2022 budget, based on the implementation of the 2021 target indicators, which was distributed as follows:

N	Name of the municipality	Amount of capital grant (thousand GEL)
1	Kutaisi Municipality	750,0
2	Dedoplistskaro Municipality	500,0
3	Tskaltubo Municipality	450,0
4	Khashuri Municipality	400,0
5	Gurjaani Municipality	400,0
6	Sagarejo Municipality	400,0
7	Lagodekhi Municipality	400,0
8	Senaki Municipality	350,0
9	Poti Municipality	350,0
10	Samtredia Municipality	350,0
11	Mtskheta Municipality	300,0
12	Sachkhere Municipality	300,0
13	Borjomi Municipality	300,0
14	Bolnisi Municipality	250,0
15	Kareli Municipality	200,0
16	Kvareli Municipality	200,0
17	Terjola Municipality	200,0
18	Martvili Municipality	200,0
19	Akhaltikhe Municipality	200,0
20	Signagi Municipality	200,0
21	Chiatura Municipality	100,0
22	Kazbegi Municipality	100,0
23	Lanchkhuti Municipality	100,0
	Total	7 000,0

With the support of GIZ and USAID, additional 10 municipalities were evaluated this year (Vani, Tsalenjikha, Khulo, Keda, Baghdati, Kharagauli, Ambrolauri, Tetrtskaro, Chkhorotsku, Akhmeta) using PEFA indicators. A total of 51 municipalities have been assessed public finances since 2017 using PEFA indicators.

1.9 Support for the budget process by refinement of corresponding legislation

Responsible body: Budget department, Legal department (participating parties: State budget spending agencies, the Government of Georgia, the Georgian parliament)

Performance indicator: Planned measures within the public finance management reform were supported by corresponding legislative and by-laws.

Period: January - December

Progress:

II- Accounting and reporting

1. Development of IPSAS standards related to the accrual concept

1.1 Refinement and improvement of accounting regulations in the public sector in order to comply with the requirements of IPSAS standards

Responsible bodies: State Treasury Service

Performance indicator:

Period: January - December

Performance indicator: In order to comply with the accounting methodology requirements of the IPSAS standards introduced in action, an analysis has been carried out; Relevant changes have been made in the normative acts regulating accounting

Progress: In order to comply with the accounting methodology requirements of the IPSAS standards introduced in action and to refine and improve the regulatory accounting regulations in the public sector in general, the relevant regulatory acts were analyzed. As a result of the analysis, the following normative acts were prepared and approved: "Inventory of assets and liabilities by budget organizations and Order N364 of the Minister of Finance of Georgia of 31 December 2021 on the Approval of the Instruction on Accounting Reporting on the Basis of International Public Sector Accounting Standards (IPSASs); Amendments to the Order N° 24 of the Minister of Finance of Georgia of February 4, 2021 on the Instruction on the Rules for Preparation and Submission of Financial Statements of Budget Organizations; Amendment to the Order N° 289 of the Minister of Finance of Georgia of December 2, 2020 on the Instruction on Accounting for Depreciation / Amortization by Budget Organizations.

Note: Completed.

1.2 Refinement and improvement of financial reporting forms to meet IPSAS requirements

Responsible bodies: State Treasury Service

Performance indicators: Financial reporting forms have been refined/improved and are in correspondence with IPSAS standard requirements.

Period: January - December

Progress: In accordance with the requirements of the IPSAS standards introduced for action, the Instruction "On the Procedure for Preparation and Submission of Financial Statements of Budget Organizations" was approved by the order of the Minister of Finance of Georgia №24 of February 4, 2021, With financial reporting and explanatory notes forms. According to these forms, the financial statements for 2020 were prepared by the organizations financed by the state budget and submitted to the Treasury Service. Municipalities and Autonomous Republics will prepare consolidated financial statements for the year 2021 and beyond in accordance with the above methodology, which will be submitted to the Treasury by April 1, 2022.

Note: Completed

1.3 Conducting workshops, seminars, trainings, etc. for public sector accountants

Responsible bodies: State Treasury Service, LEPL – The Academy of the Ministry of Finance

Performance indicator: Accountants for public sector are introduced and apply the knowledge received during work meetings, seminars, trainings, etc. on IPSAS standard requirements.

Period: January - December

Progress: In cooperation with the Academy of the Ministry of Finance, trainings are being provided for public school accountants on teaching IPSAS standards. GIZ also provides training to accountants for local budget-funded N(N)LE s, including training on accounting and reporting methodologies developed under the International Public Sector Accounting Standards (IPSAS) to apply IPSAS in practice.

Note: Completed

1.4 Maintaining accounting by local self-government units in accordance with the IPSAS standards introduced

Responsible bodies: State Treasury Service

Performance indicator: Normative acts are amended in relation to the maintenance of accounting by local self-government units on the basis of IPSAS standards introduced into action.

Period: January - December

Progress: As a result of amendments to the Accounting and Reporting Regulations, from 1 January 2021, local government and autonomous republic-funded organizations maintain accounting records in accordance with International Public Sector Accounting Standards (IPSAS).

Note: Completed

1.5 Prepare government consolidated financial statements based on actionable IPSAS standards

Responsible bodies: State Treasury Service

Performance indicator: Consolidated Government Financial Reporting Based on IPSAS Standards Implemented for Action and Published for Transparency on Treasury Service Website

Period: January - July

Progress: The consolidated financial statements of the state budget organizations have been prepared on the basis of the IPSAS standards introduced for action, which also includes the financial information of the local budgets in the form of appendices. These consolidated financial statements for the purposes of accountability and transparency are published on the website of the Treasury Service - www.treasury.ge

Note: Completed

1.6 Provide constant translation / updating of standards to facilitate the introduction of IPSAS standards

Responsible bodies: State Treasury Service

Performance indicator: Under the Memorandum of Understanding with the International Federation of Accountants (IFAC), IPSAS standards have been translated / updated and published on the Treasury Service website to ensure accessibility.

Period: January - December

Progress:

Note: Not started

1.7 Additional introduction of IPSAS standards based on the accrual method in the public sector

Responsible bodies: State Treasury Service

Performance indicator: Additionally, IPSAS standards based on accrual method have been introduced and relevant changes in accounting methodology have been prepared.

Period: January - December

Progress:

Note: Not started

2. Development of Integrated Public Financial Management Information System (PFMS)

2.1 Development of accrual-based treasury ledger functionalities and refinement / simplification of existing business processes in Integrated Public Financial Management Information System (PFMS)

Responsible bodies: State Treasury Service, Financial Analytical Service

Performance indicator: Relevant business process analysis is conducted; Appropriate software has been developed; Business processes are sophisticated / streamlined and functioning smoothly

Period: January - December

Progress: In order to improve the efficiency of fiscal decisions, by 2021, the Integrated Public Financial Management Information System (PFMS) was constantly refined, business processes simplified and the existing information system was modernized.

Note: Partially Completed

2.2 Training of state budget and local government representatives on the use / changes of the electronic treasury system

Responsible bodies: State Treasury Service, LEPL- Academy of Ministry of Finance

Performance indicator: Representatives of the state budget and local self-government units are trained on the use / changes of the electronic treasury system

Period: January - December

Progress:

Note: Not started

III- Public Debt Management

1.Update the government's medium-term debt management strategy

Responsible bodies: Department of Public Debt Management

Performance indicators: Develop a medium-term government debt management strategy for 2021-2023. Also, introduce an annual update of the government's medium-term debt management strategy by amending the relevant legislation.

Period: January - December

Progress: The Ministry of Finance of Georgia has developed a Government Debt Management Strategy for 2022-2025, which has been approved by the Government of Georgia. The strategy focuses on 5 strategic directions, sets targeted indicators in each direction and outlines a plan to achieve them:

1. Reducing the ratio of government net debt to GDP;
2. Increase in the share of GEL denominated debt in the government debt portfolio;
3. Increasing the focus on the development of foreign loans;
4. Optimizing government debt portfolio spending and risk;
5. Development of the government securities market.

The strategy document is published on the website of the Ministry of Finance of Georgia

2. Development of government securities market

2.1 Going through the next stage in the process of introducing the system of primary dealers

2.1.1 Develop a methodology for evaluating primary dealers

Responsible bodies: Department of Public Debt Management

Performance indicators: Develop a primary dealer valuation methodology in consultation with the World Bank and the International Monetary Fund, taking into account international practice.

Period: January - December

Progress: The first phase of work on the primary dealer evaluation methodology has been completed; The methodology was discussed with representatives of the National Bank and primary dealers.

2.1.2 Evaluateion the pilot program of primary dealers

Responsible bodies: Department of Public Debt Management

Performance indicators: Evaluation of primary dealers using the developed valuation methodology.

Period: January - December

Progress: The process of making relevant changes and improvements in the evaluation methodology of primary dealers is underway, after which it will be approved by the Minister of Finance and published on the website of the Ministry of Finance. An initial dealer evaluation is planned for next year.

2.1.3 Expansion of Primary Dealers Pilot Progra

Responsible bodies: Department of Public Debt Management

Performance indicators: Based on the evaluation results, it is possible to extend the pilot program of primary dealers by joining the new maturity treasury bond program or to move to a comprehensive system of primary dealers.

Period: May - December

Progress: The need to expand the pilot program of primary dealers will be identified after the evaluation of the pilot program.

2.2 Improving communication with investors

Responsible Body: Public Debt Department

Performance indicators: Develop an investor relationship strategy to improve communication with investors.

Period: January - December

Progress: A draft investor relations strategy has been developed in accordance with international practice and is being developed; It is planned to complete the strategy for next year and publish it on the site; From next year, in order to improve communication with investors, it is planned to post several additional reports on the site and update it regularly.

2.3 Update the law on public debt

Responsible Body: Public Debt Department

Performance indicators: Update the Law of Georgia on Public Debt and bring it closer to international standards.

Period: January - December

Progress: In the second quarter of this year, with the assistance of the World Bank mission, the need to amend the law on public debt was identified; Intensive work is planned for next year to amend the public debt law, together with representatives of the World Bank.

IV- Tax and Custom Issues

1. Improvement of Legislative Base

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

Responsible Body: Tax and Customs Policy Department

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

Period: January - December

Progress: The working version of the draft amendments to the Tax Code of Georgia has been prepared.

1.2 Further refinement of the tax code

Responsible Body: Tax and Customs Policy Department

Performance indicator: Continued work on refining the legislation regulating Georgian customs field, in order to achieve maximum harmonization with the EU customs legislation and implement normative act projects.

Period: January – December

Progress: A working group has been set up, within the framework of which the work process related to the implementation of the 10th book of the Customs Code is actively underway. A package of changes has been developed and work continues in this direction.

The order of the Minister of Finance of Georgia was adopted, according to which the encumbrance of the real estate owned by a person was defined as one of the obligatory guarantees to be submitted during the inward processing of goods.

The order of the Minister of Finance of Georgia was adopted, according to which it was possible to complete the registration procedures for the pre-declared goods at the customs checkpoint.

The draft resolution of the Government of Georgia “On Amending the Resolution №213 of July 28, 2010 on Determining the Amount of Road Use Fees and the Procedures and Conditions Related to its Payment” was drafted, according to which the Resolution is in line with the Law of Georgia on Roads. In particular, a unified approach is being developed regarding the administration of fees at different checkpoints.

The Agreement between the Government of Georgia and the Government of the Republic of Azerbaijan on the border crossing points between Georgia and the Republic of Azerbaijan was signed.

A questionnaire was prepared as part of the annual notification of the World Trade Organization (WTO) regarding the measures that affect imports.

The final stage is the signing of an agreement between the Government of Georgia and the Government of Canada on mutual administrative assistance in the field of customs.

At the accepted stage is the agreement between the Government of Georgia and the Government of Canada on the import of goods by a diplomatic official from a diplomatic mission or consular post abroad in accordance with Article 199 (d) of the Tax Code of Georgia.

Agreement between the Government of Georgia and the Government of the Republic of Tajikistan on Customs Cooperation and Administrative Assistance was signed.

Work was underway on a draft agreement between the Government of Georgia, the Government of the Republic of Turkey and the Government of the Republic of Azerbaijan on the exchange of preliminary data for the facilitation of customs transit procedures within the framework of the Baku-Tbilisi-Kars railway project.

The draft agreement on cooperation and mutual assistance in the field of customs between Georgia and the United Arab Emirates was renewed and the report of the Ministry of Finance was prepared.

1.3 Refinement of international tax policy

Responsible bodies: Tax and Customs Policy Department

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

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

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

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

Period: July – September

Progress: On July 1, 2021, the Agreement between the Special Administrative Region of Georgia and the Hong Kong Special Administrative Region of the People's Republic of China on the Avoidance of Double Taxation

and the Avoidance of Taxes and the Avoidance of Taxes entered into force. On the avoidance of double taxation and the avoidance of non-payment of taxes”.

On July 7, 2021, the Agreement between the Republic of Georgia and the Republic of Poland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes was signed between Georgia and Poland.

In the framework of the 15th phase of the BEPS Action Plan of the Organization for Economic Co-operation and Development and the G 20 (OECD / G20) developed "Introduction of Tax Arrangement Measures to Reduce Tax Base and Prevent Transfer of Profit" synthesized texts were prepared in accordance with the Multilateral Convention with Lithuania, the Kingdom of the Netherlands, and Singapore.

On July 1, 2021, Georgia joined the Organization for Economic Co-operation and Development (OECD) in announcing 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.

2. Strengthen the tax risk management process in the field of compliance with the law

2.1 Introduce compliance improvement programs

Responsible Institution: Revenue Service

Performance Indicator:

1. A program for identifying unregistered persons has been introduced;
2. Data quality control program is introduced;
3. A program for determining the status of qualified VAT payers has been introduced;
4. A program for validation of information presented in the context of the declaration has been introduced;
5. Authentication risk module for automatic refund of overpaid amounts calculated to be reduced by VAT declaration is introduced;
6. Inventory management program is introduced;
7. A taxable document management program has been introduced;
8. A program for controlling the register of employees has been introduced.

Period: January - December

Progress: In 2021, new compliance risk management programs were fully implemented in the Revenue Service, which involves informing them of possible inconsistencies related to the taxpayer's activities at an early stage and making effective use of ongoing control measures. The following programs were introduced during the event:

- Identification of unregistered persons, which aims to ensure the completeness of the registration database, including identification of unregistered persons and tax registration;
- Determining the status of qualified VAT payers, the purpose of which is to respond to risks in a timely manner and to reduce the number of non-targeted registrations as VAT payers in the dynamics;
- Control of the Register of Employees, which aims to control the accuracy of information about employees provided by employers;
- Validation of information submitted in the form of a declaration, the purpose of which is to validate the register of taxpayers according to taxes and ensure timely declaration;
- Automatic VAT refund validation risk module, which aims to reduce errors made by taxpayers in the VAT declaration process;
- Management of taxable tax documents, which aims to reduce the growth rate of the number of issued and tax-free documents;
- Data quality control, which aims to ensure the accuracy and completeness of data on taxpayers in the database of the Revenue Service;
- Inventory management, which aims to reduce the number of taxpayers at risk of undeclared inventories.

2.2 Introduce a program of auditing declarations in basic taxes

Responsible Institution: Revenue Service

Performance Indicator: The declaration audit program is implemented in profit, excise, property and monthly income taxes.

Period: January- December

Progress: A new declaration audit program is being introduced to strengthen the tax risk management process.

Within the framework of the monthly profit tax return and tax control programs at the source of payment, the information required for the automatic operation of the tax risk module is being integrated into the database and case management logic software is being developed. In parallel, within the working group, the procedures are being introduced in the test mode and the practical results are being analyzed. Procedural manuals have been prepared for approval.

The compliance of the graphs of the different historical versions of the excise declaration is being analyzed and the validation conditions used are being assessed. Based on the individual analysis of the graphs of the declarations submitted in the past period, the operating logics for the counting graphs were developed. Deficiencies have also been identified and additional logical validations have been developed to ensure the correctness of the excise tax deduction graphs.

Property tax - a detailed analysis of individuals paying property tax was carried out. The analysis identified property tax payers according to the income they received during the reporting period and the property they

owned, and a reminder information campaign was launched by 2021 to ensure the declaration of expected liabilities.

Updated and posted an informational video for property taxpayers on the Revenue Service website. A register of land taxpayers has been developed and control measures have been taken against high-risk taxpayers.

2.3 Develop an estimated accrual mechanism for key tax types

Responsible Institution: Revenue Service

Performance Indicator:

1. Small and large tax categories are subject to accrual on VAT tax returns not submitted by taxpayers;
2. Estimated accrual of income, income and excise VAT returns is underway;
3. The share of the number of registered employees in the selected sample is less than 30%.

Period: January- December

Progress: The estimated accrual mechanism was introduced in 2021 for VAT returns not submitted by taxpayers of all size categories (except individuals). On average, an estimated monthly accrual is made against three thousand taxpayers. A monthly statistical analysis was carried out within the project, according to which a draft summary report and presentation were prepared. The internal instruction on the estimated accrual has been corrected. Legislative changes were made in December 2021, according to which the estimated accrual from the reporting period of February 2022 is also planned for the monthly tax return of all taxpayers (except individuals) registered as VAT payers and the return of tax returns and tax returns.

2.4 Introduction of electronic system of audit proceedings

Responsible Institution: Revenue Service

Performance Indicator:

1. All employees of the Audit Department are trained;
2. All employees of the Audit Department use the Audit Case Management Program in managing the tax audit process;
3. New inspections are initiated in the Audit Case Management Program.

Period: January- May

Progress: In 2021, the electronic system of real-time audit proceedings was launched in the Revenue Service. The goal of the new system - Microsoft Dynamics CRM - is to electronically and effectively manage tax audit processes, which will allow the entire tax audit process to be electronically overseen.

The program will programmatically cover all stages of the tax audit (from planning to completion) and employees will have electronic access to all documents (legislation, dispute resolution, audit report, etc.) required during the ongoing tax audit.

2.5 Creating a data analysis and management system

Responsible Institution: Revenue Service

Performance Indicator:

1. At least 100 users are trained and use the data analysis and management system;
2. Automated dynamic reports are prepared for at least 100 key processes.

Period: January- December

Progress: In 2021, the Revenue Service introduced a data processing and analysis system that provides for the collection and analysis of data available to the Office and available from third parties, which will help strengthen the analytical capabilities of the Service and make strategic and operational decisions based on reliable information. It will also improve operational access to information and the effective implementation of the day-to-day operations of the Service.

This system transforms the information in the data warehouse from different sources in such a way as to exclude or minimize the shortcomings. The system integrates information received from various government agencies, which simplifies the service to detect cases of tax evasion.

At the same time, as of 2021, the Memorandum of Understanding on Receipt / Exchange of Information has been signed with more than ten state agencies, within the framework of which information is received / exchanged on a systematic basis.

3. Development of a customs risk management and advance information exchange system

3.1 Introduction of eTIR system

Responsible Institution: Revenue Service

Performance Indicator:

1. Relevant legislative changes have been implemented;
2. Software is implemented;

Period: January- December

Progress: In May 2021, with the support of the United Nations Economic Commission for Europe (UNECE TIR), Annex 11 to the TIR Convention was adopted, which provides for the digitization of the TIR system. Within the framework of this initiative, the Revenue Service was involved in the implementation of the eTIR project, which involves the electronic exchange of TIR information between Georgia and the United Nations Server. Prepared by the so-called software "Development" version, which provides information exchange between Georgia, the eTIR Secretariat and the International Road Transport Union (IRU). It is planned that this platform will exchange TIR information between all customs administrations of the Convention.

3.2 Integrateion API PNR data into the customs risk management system

Responsible Institution: Revenue Service

Performance Indicator:

1. PIU group was created;
2. The program is launched in test mode.

Period: January- December

Progress: The joint program of the Customs Authority, the State Security Service and the Ministry of Internal Affairs has been launched in test mode. Negotiations are underway with the airlines to provide preliminary information about passengers in test mode.

4. Support for the EU integration process

4.1 Development of relevant documents and systems for the implementation and interpretation of VAT legislation

Responsible Institution: Revenue Service

Performance Indicator:

1. Guidelines / examples have been developed for the implementation / interpretation of VAT legislation, including taking into account the case law of EU countries and the case law of the European Court of Justice;
2. An appropriate system and platform has been set up and activated for the administration of electronically VAT services for services provided to a person from a foreign country.

Period: January- December

Progress:

1. In order to approximate the tax legislation with the EU VAT Directive, changes were made to the Tax Code and VAT regulations were amended. VAT reform based on international best practice improves the investment climate, reduces disputes and simplifies tax obligations.
2. In connection with the harmonization of VAT legislation, on October 1, 2021, an amendment to the Order N996 of the Minister of Finance of Georgia dated December 31, 2010 entered into force and the rule of calculating VAT, paying it to the budget and informing it without registration as a VAT payer by a foreign taxable person has been introduced. In particular, a foreign taxable person who is not established or does not normally reside in Georgia, or who does not have a fixed establishment in Georgia and who provides digital services to individuals on the territory of Georgia, is required to report and pay VAT for digital services. To this end, a special platform has been developed by the Revenue Service, through which foreign taxable persons will undergo simplified registration and VAT calculation and payment to the budget.- <https://nr.rs.ge/>.

4.2 Implementation of the second phase of the pilot project for automatic exchange of financial information**Responsible Institution:** Revenue Service**Performance Indicator:**

1. The action plan of the second phase of the automated information exchange project has been agreed and approved with the donors;
2. The project implementer is identified and roles are distributed among the parties involved;
3. The implementation of the measures envisaged by the action plan has started.

Period: January- December

Progress: With the support of the German Federal Ministry of Finance and the Global Forum for the Exchange of Information and Transparency for Taxation, a pilot project for the automatic exchange of financial information continues. The aim of the pilot project is to successfully introduce the Automatic Information Exchange Standard (AEOI), also known as the Common Reporting Standard (CRS), in Georgia.

Under the project, the Revenue Service agreed with the German Ministry of Finance and the Global Forum on a plan of activities to be implemented under the project in 2021, according to which activities and responsibilities were defined and agreed upon for the parties involved in the project.

A package of amendments to the legislation has been prepared, which has undergone legal examination by experts from the Global Forum and the German Ministry of Finance. Also, a Multilateral Agreement of Competent Agencies (MCAA) was prepared in Georgian, which was sent to the Ministry of Finance together with the package of amendments to the legislative acts.

In accordance with Georgia's formal commitment to the International Partnership and the G 20 (G20), from September 1, 2024, Georgia will start automatically exchanging information on financial statements with the competent authorities of a foreign country.

1.1 Improving macroeconomic forecast analysis and analytical information

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Improvement of analytical products for economic activity, improved forecasting, introduction of the results gained by the macroeconomic analysis, centralized system of data analysis

Time Period: January - December

Progress: A centralized data processing system has been developed, which is implemented through MATLAB software and facilitates information retrieval and processing efficiency. The analysis of the turnover of VAT-paying enterprises by sector continues. And also continues to analyze customs operational data to assess foreign trade trends.

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

Responsible Body: Department of Macroeconomic Analysis and Fiscal Policy Projection

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

Time Period: January - December

Progress: Monthly publications as well as quarterly reviews are published on the Ministry's website. The analysis of monthly economic trends has been improved and refined. Periodically, analytical information is prepared, which is tailored to specific interest groups, including credit rating agencies, investors, etc. The process of refining national accounts, current accounts and foreign debt analysis using various analytical or visual indicators continues.

1.3 Publication of macroeconomic research papers

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Research papers available on the official website of the Ministry of Finance

Period: January - December

Prpgress: No research paper has been published on the official website of the Ministry during the current period. At the same time, work continues on the process of publishing a DSGE model description and a specific scenario analysis.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

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

Period: January - December

Progress: The Ministry of Finance uses the DSGE model to assess fiscal policy and various shock development scenarios, which also simulates the economic situation caused by political reforms. The DSGE model simulates the effects of the COVID-19 pandemic based on different assumptions.

In connection with the assessment of macroeconomic risks, the Ministry of Finance annually prepares a document on fiscal risks and analysis of macroeconomic scenarios. These documents include the analysis of macroeconomic risks and the results of their implementation and policy responses, as well as risks arising from state-owned enterprises and public-private partnership agreements. These documents were prepared for the draft state budget law of 2022, along with optimistic and pessimistic scenarios, which eventually led to the final version of the draft budget.

1.5 Stress-Test analysis

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: DSGE model usage for different stress-tests

Period: January - December

Progress: During the current period, a stress test was performed to analyze the expected external shocks and to see possible results. Based on the analysis of various risks, three scenarios of economic development were developed, which formed the basis for the submission of the draft budget law for 2022.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Document of medium term fiscal policy

Period: January - December

Progress: In the current period, the Country basic Data and Directions Document 2022-2025 (BDD) was published, which is a medium-term budget framework and was prepared together with the draft budget law and published on the website of the Ministry of Finance.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

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

Period: January - December

Progress: This activity has not been implemented in the current period.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Final version of strategy

Period: January - December

Progress: Active communication with international rating companies such as Fitch, Moody's and S&P. Virtual meetings with all three rating companies and updating of ratings were carried out. By the end of 2021, Georgia's sovereign ratings are as follows: Fitch: BB stable S&P: BB negative; Moody's: Ba2 stable. In addition to virtual meetings, there is an active communication with the representatives of the agencies by e-mail and telephone, during which they are informed about the main economic trends of the country or the issues that are relevant to them. In addition, there was constant communication with international rating agencies during the issuance of Eurobonds. The credit rating improvement strategy has been updated and work is underway to improve and refine it.

1.9 Processing and analyzing data to estimate tax expenditures, increasing the area of assessment

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Prepare tax expenditures assessment analysis

Period: January - December

Progress: The final version of the draft budget for 2021 was accompanied by an analysis of tax expenditures, which estimates the value added tax expenditures both quantitatively and in terms of the social effects of its

distribution. In 2021, a virtual mission was conducted by the International Monetary Fund and assessed both the tax expenditures on income and profit taxes, as well as the renewed tax expenditures on VAT.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Improved prognosis, alternative methodology

Period: January - December

Progress: Assessment of the elasticity ratios of both total tax revenues and individual taxes (including VAT, excise, customs, income, profit and property taxes) for GDP, both for the short and long term is continuing. The forecasting process developed during the submission of the draft budget for 2022 took into account the external shocks realized in 2020-2021.

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

Responsible Institution: Department of Macroeconomic Analysis and Fiscal Policy Projection

Performance Indicator: Published reports

Period: January - December

Progress: Public finance accounting is refined and adjusted to international standards every year. This information is published on the website of the Ministry of Finance of Georgia on an annual basis, as well as on a quarterly and monthly basis. In addition, the Ministry of Finance prepares analytical data on economic and financial indicators, which are published together with draft state budget laws / laws.

VI - Fiscal Risks

1. Reform of state-owned enterprises

1.1 Prepare a state-owned enterprise reform strategy and submit it to the Government of Georgia for approval

Responsible Institution: Department of Fiscal Risk Management

Performance Indicator: State-owned enterprise reform strategy, which envisages the introduction of international best practices in corporate governance of state-owned enterprises. The document is approved by partner international organizations. The Ministry will submit the document to the Government through the State Enterprise Reform Council, if approved by the Council.

Period: January - March

Progress: A draft State Enterprise Reform Strategy was developed with the support of the International Monetary Fund's Technical Assistance Mission. The strategy is based on the corporate governance guidelines set by the OECD for state-owned enterprises. The Ministry of Finance attached the strategy to a fiscal risk analysis document in the 4th quarter of 2021.

1.2 Develop a comprehensive legal framework for state-owned enterprises

Responsible Institution: Department of Fiscal Risk Management

Performance Indicator: The Ministry of Finance of Georgia, with the support of partner international organizations, will develop a draft law on state-owned enterprises (state-owned enterprises) and related bylaws in accordance with the State Enterprise Reform Strategy, which will be submitted to the State Enterprise Reform Council to ensure maximum stakeholder involvement. The mentioned legislative initiative will be submitted to the Parliament of Georgia in the first quarter of 2022.

Period: January - December

Progress: Along with the strategy, a draft corporate governance code for state-owned corporations was prepared, which is also based on the OECD guidelines. The document clearly defines the principles of corporate governance of state corporations and their subsidiaries, for example the basic criteria for selecting members of the supervisory board, the role of the board in the management of the corporation. The document was approved by Decree N1618 of September 8, 2021.

1.3 Prepare a fiscal risk analysis document

Responsible Institution: Department of Fiscal Risk Management

Performance Indicator: The Ministry of Finance of Georgia will attach the fiscal risk analysis document to the first, second and third submissions of the 2022 draft state budget. The standard for the third submission of the draft state budget for 2021 will be maintained for most of the document.

Period: July - December

Progress: The Ministry of Finance starts working on a fiscal risk document from July of each year. The document was prepared and attached to the first, second and third submissions of the 2022 draft state budget. Unlike previous years, the document was accompanied by an assessment of fiscal risks and fiscal risks from natural disasters. In addition, the document was accompanied by an individual evaluation of energy projects of high public interest, which further increased the transparency of ongoing processes in this direction.

VII- Development of Public Internal Control System

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

Responsible Institution: Central Harmonization Unit

Performance Indicator: 1. Workshops have been held with senior and middle managers of 4 Ministries regarding the state internal financial control system. 2. A conference on financial management and control system was held with the participation of managers of public institutions. 3. The consolidated annual report on the development of the state internal financial control reform for 2020 is presented at the sitting of the Government of Georgia.

Period: January - December

Progress: Meetings are being regularly held with managers of the pilot ministries (Ministry of Education and Science of Georgia; Ministry of Environment and Agriculture of Georgia; Ministry of Finance of Georgia; Ministry of Internal Affairs of Georgia; Ministry of Refugees, Labor, Health and Social Affairs of the Occupied Territories; Ministry of Culture, Sports and Youth of Georgia) and with employees as part of the pilot implementation of public internal financial control reform. At the same time, need-oriented workshops are being actively held with the involvement of representatives of these ministries; The Consolidated Annual Report on the Development of Public Internal Financial Control Reform 2020 was approved by the Government of Georgia.

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

Responsible Institution: Central Harmonization Unit

Performance Indicator: 1. Clear goals and activity indicators are set in the profile departments of 4 ministries. 2. A risk register is established at least at the level of profile departments of the Ministry and a practice register is used; 3. An agreement has been signed between the Ministry and a legal entity of public law within its system within the framework of at least 5 budget programs.

Period: January - December

Progress: Within the framework of the pilot implementation of the financial management and control system, it has been launched in pilot ministries (Ministry of Education and Science of Georgia; Ministry of Environment and Agriculture of Georgia; Ministry of Finance of Georgia; Ministry of Internal Affairs of Georgia; Ministry of Refugees, Labor, Health and Social Affairs of Georgia; Ministry of Culture, Sports and Youth) Workshops with the involvement of international experts with representatives of profile / sectoral departments. Within the framework of the project, the goals and indicators will be improved in the above-mentioned ministries. The Ministry of Education and Science of Georgia, the Ministry of Environment Protection and Agriculture of Georgia, the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs and the Ministry of Culture, Sports and Youth of Georgia have established risk registers at the level of practice; Work in this direction continues with other pilot ministries (Ministry of Finance of Georgia, Ministry of Internal Affairs of Georgia). An agreement was signed on the provision of services within the framework of 2 budget programs in the system of the Ministry of Education and Science of Georgia, in particular with the LEPL - National Center for Teacher Professional Development and LEPL - Education Management Information System. In this regard, including the development of agreements to be concluded in 2022, work continues actively in all pilot ministries.

1.3 Development and support of internal audit activities in public sector

Responsible Institution: Central Harmonization Unit

Performance Indicator: 1. Institutionally strengthened the internal audit service of at least 5 municipalities; 2. External evaluation of the quality of the activity of the internal audit entity of at least 15 municipalities has been carried out; 3. A pilot project of at least 3 efficiency audits, 3 system audits and 1 information technology (IT) audit has been implemented.

Period: January - December

Progress: Coordinated by the Harmonization Center and with the active involvement successfully completed external evaluation of the quality of the internal audit activity of 18 municipalities (Tskaltubo, Gurjaani, Zugdidi, Telavi, Mtskheta, Rustavi, Tbilisi, Samtredia, Baghdati, Lagodekhi, Kvareli, Dusheti, Chokhatauri, Kazbegi, Sagheti, Kebagi, Shida) External evaluation of the quality of activities; active work is ongoing on institutional strengthening of internal audit entities and pilot projects, in this direction the internal audit services of the following municipalities were supported: Zestaponi, Sagarejo, Samtredia, Terjola, Khobi, Dedoplistskaro, Sachkhere; Pilot projects of efficiency audits were implemented in Rustavi and Tskaltubo

municipalities. An agreement has been reached with the World Bank on information technology (IT) audit methodology and pilot projects. Work in this direction will continue in 2022.

VIII - Accounting, Reporting and Auditing Supervision

1. Effective functioning of Reporting Portal

1.1 Development of Reporting Portal

Responsible Institution: Service for Accounting, Reporting and Auditing Supervision

Performance Indicator:

- 1.10 presentations to raise awareness about financial reporting international standards and legal changes are conducted to enterprises;
2. IFRS standards are translated and published on service's webpage;
3. IFRS for SMEs trainings are conducted to target audience with support of donors and sponsors;
4. By reporting presentation (Reportal.ge/SARAS), minimum 3500 enterprises 2019-year reporting is published on the service portal (Reportal.ge);
5. Administration of the reporting process by the fourth category of enterprises (up to 65,000 enterprises - the risk of non-submission is high due to the initial submission of reports)

Period: January-December

Progress: 8 Awareness-raising presentations for enterprises on reform and financial reporting standards:

May 27 - An event was held for the fourth category of enterprises to present the "Reporting Submission System". The remote event served as a demonstration of a reporting system for Category IV enterprises;

June 07 - The Service held a remote event for the fourth category of enterprises, which was conducted in an interactive mode. The event was dedicated to reviewing issues important to the audience;

June 29 - "Presentation of the reporting system for Category III enterprises", the representatives of the third category enterprises got acquainted with the reporting system once again at the event;

July 08 - The service held a training for the trainers of the financial reporting standard of the fourth category of enterprises. During the training, the audience got acquainted with the training material of the fourth category of enterprises financial reporting standard and the changes made in the standard.

September 17 - Presentation of the Reporting System - The Service held another meeting on important issues related to the reporting system. The remote event served as a demonstration of a reporting system for Category III and IV enterprises.

September 24 - Representatives of the Service participated in an event for Category III and IV enterprises. The event was dedicated to reviewing important issues for the audience

November 17 - The International Financial Reporting Standards Board (IFRS Foundation), in support of the EU-World Bank Joint Financial Involvement and Accountability Project, launches a fifth remote event on IFRS Standards and Governance Reporting - Important News. The event was intended for representatives of SDPs, I - II category enterprises and their service auditors. It was attended by about 200 people.

Translated and implemented price standards

International Financial Reporting Standards were translated and implemented in Georgian in the second quarter of 2021 (posted on the Service website);

Report disclosure rate

Through the Reporting Submission Tab (Reportal.ge | SARAS) During 2021, 6,297 reports of SDP, I, II, III category enterprises / groups on the Service Portal (Reportal.ge) were published on the Service Portal;

The process of submitting reports by the fourth category of enterprises

Through the Reporting Submission Tab (Reportal.ge | SARAS) During 2021, 62,901 Category IV reports were submitted to the Service Portal (Reportal.ge);

In 2021, a total of 69,198 reports were made public through the Reporting Submission tab.

2. Support of improvement of Audit service quality

2.1 Improving Audit service quality

Responsible Institution: Service for Accounting, Reporting and Auditing Supervision

Performance Indicator: Quality control system monitoring is conducted for 30 audit companies.

Time Period: January-December

Progress: Monitoring has been held for 32 audit firms.

IX - Informational Technologies

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

1.1 eBudget – System development and addition of new features

Responsible Institution: LEPL Financial-Analytical Service

Performance Indicator: Run a module copied on the new configuration technology in a real environment; Copying the performance system of LEPLs and N(N)LEs to new technology; Develop a mechanism for checking balance sheets and automatically balancing balances when approving annual and quarterly budgets; Expansion of organizational structure change functionality; Expand the functionality of dynamic reporting documents; Upgrade or add new system functionality and related modules as part of your current tasks.

Time Period: January - December

Progress: The working environment for 2021 has been configured for the budget management system of LEPLs and N(N)LEs; A large portion of the users on the budget management system of LEPLs and N(N)LEs have switched to new technology and been tested. New templates of organizational codes have been created in the dynamic reporting documents for the period 2020-2021. Preparations for the amendment to the budget law were carried out. A new policy union classifier was added to the system and put into the real system. Necessary works were carried out for the planning of 2022 budgets. 68 corrections were made in the system and 38 defects were eliminated.

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

Responsible Institution: LEPL Financial-Analytical Service

Performance Indicator: For the second phase of the transition from the accounting method to the cash register method to the accrual method - revenue analysis and technical assignment, change of invoice and payroll logic in accordance with the new chart of accounts (municipal payments), optimization of the treasury ledger; Automatic import of multi-year contracts in the new working period, functionality of blocking unregistered multi-year contracts; Upgrade or add new system functionality and related modules as part of your current tasks.

Period: January - December

Progress: The process of automatic collection processing in the systems of the Enforcement Bureau, the Treasury and the National Bank has been launched. The back office and spending side of the portal have been added to

the tabs of the collection sheets and process reports. Added the function of automatic counting of the initial balances of the target grant, the panel for launching the procedures for counting CPV codes, business attachments and package certificates, new validations in the primary documents, liabilities, transaction management modules, external treasury accounting service. At the request of the Revenue Service, it became automatic to transfer information about foreign currency transfers and amounts returned to the treasury by the payer. Changed the procedure for blocking the payments of the organizations, the grant article and the type of income validation scheme, for example, the logic of displaying data in the form of determination, the procedure for calculating the emergency functionality reports of the Treasury Administration module, the spending reports of the portal. The annual migration procedure has been optimized, which has included the counting of bank deposit initial balances, the calculation of initial balances of targeted grant agreements, and the automatic attachment of own funds and targeted grant plans to the cache accounts. The processes of resource counting, liabilities, requirements, forms and package processing were also optimized. Changes have been made to the Procurement Agency, Revenue Service, budget system synchronization services and the data processing processes received through these services.

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

Responsible Institution: LEPL Financial-Analytical Service

Performance Indicator: Creation of new foreign debt service reporting documents; Expand and improve the functionality of clarifying planned information of budget support projects; Expansion of project write-off functionality - setting up services with the treasury system to generate actual revenues from the treasury system; Analysis of tasks related to foreign debt credit agreements; Upgrade or add new system functionality and related modules as part of current tasks.

Period: January – December

Progress: Disbursements for 17 projects were imported on the part of foreign debts. Preparations for the amendment to the budget law were carried out. Changes have been made to project write-off functionality and validations. The necessary works for the planning of the 2022 state budget were carried out in the foreign debt investment and budget support projects. 33 fixes were made to the system and 13 deficiencies were eliminated.

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

Responsible Institution: LEPL Financial-Analytical Service

Performance Indicator: New modules added to the system: technical support module for evaluation module, professional development module, report constructor and self-service portal and refinement / development / modernization according to new requirements; Ensuring integration processes with external systems in accordance with a protocol already defined and developed (export and import of data into the eHRMS system

from other HR systems); Realization of new requirements in the system and constant customer support; Continue the process of introducing the system in public organizations.

Period: January - December

Progress: The functionality of the evaluation module has been updated in the system, in particular an updated method of evaluation has been added. A detailed employee appraisal report, dynamic report options, administrator and business trip tabs, as well as an absence record, an employee self-service portal, and employee professional development functionality have been updated. Integration service for the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs has been renewed. Working time accounting functionality has been added to the system. Identification of new requirements / cases in the eHRMS system and their technical solution works. Also, intensive introduction of new organizations, customer training and support is ongoing.

1.5 Ensure the sustainability of ICT infrastructure of Ministry of Finance

Responsible Institution: LEPL Financial-Analytical Service

Performance Indicator: Improvement of infrastructural and system sustainability of public finance management electronic system; providing ITIL accordance for business processes, implementation of ISO27001 standards and improvement of IT security level; optimization of databases (document processing, treasury data, division of databases by years and switching older data to low level storage systems); implementation of new hyperconvergent system server and database systems and its broader use; improvement of virtual infrastructure (Vcenter ESX) to 7.0 version and migration of virtual servers to new system;renewal of backup systems; modernization of server infrastructure constant feed and cooling system. Introduction of Web Application Firewall (WAF) and Balancer

Period: January - December

Progress: An additional 14 servers have been installed and commissioned in the VXRAIL computing, hyper-convergent software hardware complex. New connections were made to the network infrastructure for additional nodes. Virtual machines migrated to new servers.

Additional WIFI access points located in the Ministry of Finance have been upgraded to an operating system, and they have also been added to the Domain Authorization feature.

The emails of up to 6,500 users of the Ministry of Finance, mailboxes, data stored since 2011 were archived and migrated to the virtual system of archiving and logging e-mail. Reduction and optimization of mail server databases was carried out. Personal firewalls have been introduced in users' computers at regional offices and the ability to read and write USB flash drives has also been blocked. Security certifications and versions of the Solarwinds Monitoring System and VPN Access System (ISE) have been updated.

802.1x network access authentication and authorization protocol has been introduced in the central building of the Ministry of Finance. The Unified Authentication and Authentication Management System (ISE) as well as

the network access rules for network devices and domain computers (Radius) were configured and authentication was provided to AD users. Change the video recorder (NVR) configuration and change the IP addresses on existing video cameras.

Implementation of IDS system and configuration of virtual environment on related physical servers, upgrade and integration of incident management, change management and update management server versions with each other, Hyperconvergence system Dell EMCVxRail software and Dell EMC data server.

Introduced two additional blocks (Dell EMC XtremIO-2 All Flash) to extend the existing Active-Active extension cluster of the Revenue Service core Oracle RAC database. All Flash storage system was configured and integrated with the existing Dell EMC VPLEX Metro distributed virtualizer for data replication, as well as migration of existing data (19TB database) online to the new All-Flash storage system without shutting down the system;

Anti-Spam filtering software for the new e-mail security system of the Ministry of Finance has been introduced, which automatically blocks and / or sends messages containing advertisements and harmful viral content.

A new generation of NG Firewall 2 (pieces) was introduced, a new optimized configuration was added to the new brand mowers, the devices were integrated with Active Directory (AD), and Internet traffic and content filtering were configured through a new generation of brand mappers.

Annex: Estimates for public finance management reform 2021 action plan events

Annex

Estimates for public finance management reform 2021 action plan events

#	Field/Event	Full Funding/Funding Source (GEL)
	I - Budgeting	23 01 – Public finance management
		2,350,000
1	Improvement of Budget Management	2,350,000
1.1	Development of law of Annual budget project	290,000
1.2	Increasing efficiency of mid-term spending (MTEF)	260,000
1.3	Improvement of the Program Budgeting on National and Local Municipalities level	400,000

1.4	Ensure the accordance of budgetary documentation with the financial management principles	250,000
1.5	Capital/Investment project management unified cycle development	400,000
1.6	Reporting on annual and quarterly budget performance, reinforcement of accountability to the supervising entity	200,000
1.7	Ensure the Transparency of the Budget Process	180,000
1.8	Improvement of finance management by municipalities	350,000
1.9	Support for the budget process by refinement of corresponding legislation	20,000
III - Public Debt Management		23 01 – Public finance management
		800,000
1	Update the government's medium-term debt management strategy	200,000
2.	Development of government securities market	600,000
2.1	Going through the next stage in the process of introducing the system of primary dealers	200,000
2.2	Improving communication with investors	200,000
2.3	Update the law on public debt	200,000
II - Accounting and reporting		23 01 – Public finance management
		1,700,000
1	Development of IPSAS standards related to the accrual concept	1,000 ,000
1.1	Refinement and improvement of accounting regulations in the public sector in order to comply with the requirements of IPSAS standards	50,000
1.2	Refinement and improvement of financial reporting forms to meet IPSAS requirements	50,000
1.3	Conducting workshops, seminars, trainings, etc. for public sector accountants	600,000

1.4	Maintaining accounting by local self-government units in accordance with the IPSAS standards introduced *	-
1.5	Prepare government consolidated financial statements based on actionable IPSAS standards	150,000
1.6	6 Provide constant translation / updating of standards to facilitate the introduction of IPSAS standards	50,000
1.7	Additional introduction of IPSAS standards based on the accrual method in the public sector	100,000
2	Development of Integrated Public Financial Management Information System (PFMS)	700,000
2.1	Development of accrual-based treasury ledger functionalities and refinement / simplification of existing business processes in Integrated Public Financial Management Information System (PFMS)	300,000
2.2	Training of state budget and local government representatives on the use / changes of the electronic treasury system	400,000
IV - Tax and Custom Issues		
		23 01 - Public finance management 23 02 - Mobilizing income and improving taxpayer service
		8,058,208
1	Improvement of Legislative Base	1,300,000
1.1	Harmonization of tax legislation with EU directives within the Framework of the Association Agreement	300,000
1.2	Further refinement of the tax code	200,000
1.3	Refinement of international tax policy	800,000
2	Strengthen the tax risk management process in the field of compliance with the law	5,636,853
2.1	Introduce compliance improvement programs (Program for identification of unregistered persons; program for ensuring quality control of data; program for determining the status of qualified VAT payers; program for validation of information submitted in the form of a declaration; Automatic refund risk modulation of overpaid amounts calculated to be reduced by VAT declaration; Inventory Management Program; Taxable Document Management Program; Employee Registry Control Program)	4,506,784
2.2	Introduce a program of auditing declarations in basic taxes	636,208
2.3	Develop an estimated accrual mechanism for key tax types	131,239

2.4	Introduction of electronic system of audit proceedings	199,873
2.5	Creating a data analysis and management system	162,750
3	Development of a customs risk management and advance information exchange system	498,380
3.1	Introduction of eTIR system	124,595
3.2	Integrate API PNR data into the customs risk management system	373,785
4	Support for the EU integration process	622,975
4.1	Development of relevant documents and systems for the implementation and interpretation of VAT legislation	74,757
4.2	Implementation of the second phase of the pilot project for automatic exchange of financial information	548,218
	v - Macroeconomic Analysis and Fiscal Policy	23 01 - Public finance management
		1,400,000
1	Improving macroeconomic forecasting and analysis	1,100,000
1.1	Improving the analysis of macroeconomic forecasts and increase analytical information	150,000
1.2	Creation of analytic information about economic development tendencies of the country	140,000
1.3	Publication of macroeconomic research papers	60,000
1.4	1.4 Analysis of shocks impacting economic development, creation of scenarios and macroeconomic risk assessment	160,000
1.5	Stress-Test analysis	70,000
1.6	Creation of medium-term fiscal policy and creation of recommendations	110,000
1.7	Participation in assessment of socioeconomic decisions and creation of strategies with the framework of macroeconomic forecasting	90,000
1.8	Coordinating strategy and cooperation with international rating companies to improve credit rating of the country	150,000
1.9	Processing and analyzing data to estimate tax expenditures, increasing the area of assessment	170,000
2	Improve revenue forecasting and analysis	300,000
2.1	Creation of unified and state budget revenue forecast, improvement budget revenue forecast methodology and creation of alternative methodology	150,000

2.2	Organizing state finance statistics work and data distribution based on statistical methodology and IMF and other international organization recommendations	150,000
VI - Fiscal Risks		
		23 01 - Public finance management
		500,000
1	Reform of state-owned enterprises	500,000
1.1	Prepare a state-owned enterprise reform strategy and submit it to the Government of Georgia for approval	160,000
1.2	Develop a comprehensive legal framework for state-owned enterprises	130,000
1.3	Prepare a fiscal risk analysis document	210,000
VII - Development of public internal financial control system		
		23 01 - Public finance management
		925,700
1	Public Internal Financial Control Reform	925,700
1.1	Planning, evaluating and raising awareness of public internal financial control reform	125,200
1.2	Support of implementation and effective functioning of financial management and control system in public sector	465,000
1.3	Development and support of internal audit activities in public sector	335,500
VIII - Accounting, Reporting and Auditing Supervision		
		23 06 - Supervision of accounting, reporting and audit
		800,000
1	Effective functioning of Reporting Portal	300,000

1.1	Development of Reporting Portal	300,000
2	Support of improvement of Audit service quality	500,000
2.1	Improving Audit service quality	500,000
IX - - Informational Technologies		
		23 04 - Electronic and analytical support of financial management
		3,259,850
1	Development and Support of the Public Finance Management Integrated Information System	3,359,850
1.1	eBudget - System development and addition of new features	513,350
1.2	eTreasury- Improvement of the system and addition of new features	996,000
1.3	eDMS - Improvement of the system and addition of new features	204,750
1.4	eHRMS - Improvement of the system and addition of new features	440,000
1.5	Ensure the sustainability of ICT infrastructure of Ministry of Finance	1,105,750

*The activity will be funded by a donor