

Annual Report on
2022 Public Finance Management Reform Action Plan

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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: 2023 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: Drafts of amendments to the Law of Georgia on the 2022 state budget of Georgia were prepared (first submission and second submission), in which macroeconomic forecasts were adjusted according to the existing challenge. In the conditions of high economic growth, revenues and payments have increased. The rate of borrowing in 2022 has decreased and the amount of government debt is 39,6% of GDP. The amount of the deficit of the combined budget decreases from 4.3% of GDP to 3.1% of GDP. The draft amendment to the Georgian Law on the 2022 State budget of Georgia (first and second submission) was submitted to the Parliament of Georgia to review. Approved law (October 5, 2022; 1859-IX⁰⁶-X⁰³) is posted in an editable format on the website of the Ministry of Finance of Georgia.¹

In order to prepare the “2023 Draft State Budget Law of Georgia”, the Ministry of Finance of Georgia reviewed the budget applications sent by the spending agencies and presented the main parameters of the draft state budget to the Government of Georgia to review. “2023 State budget law project of Georgia” (first, second and third submission), revised document of basic data and directions of the country for 2023-2026, attached materials of the budget law project and “2023 State budget law of Georgia” were submitted to the Government of Georgia within the terms established by law. A tax expenditure analysis document was prepared, which is an appendix to the draft state budget. The mentioned documents are posted in an editable format on the website of the Ministry of Finance of Georgia.²

In October-November of this year, during discussions with the IMF mission, medium-term forecasts were updated, including the forecast for 2022, accordingly, another change was made in the 2022 State Budget Law (December 15, 2022; 2382-IX⁰⁶-X⁰³). Revenues have increased and therefore the financing of some events planned for 2023 in a certain direction was included in the 2022 budget, accordingly the final version of the 2023 budget was adjusted.

Law of Georgia "On the State Budget of Georgia for 2023", approved by the Parliament of Georgia, is published on the website of the Ministry of Finance of Georgia.³

¹ <https://mof.ge/5477>

² <https://mof.ge/5593>

³ <https://mof.ge/5603>

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 2022-2025 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 2023-2026 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 2023-2026 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 2023 budget project, that will be presented to the Georgian Parliament.

Period: January - July

Progress: Information received from municipalities and autonomous republics was added to the document of the main data and directions of the country for 2022-2025, and the final version of the document was prepared, which was presented as information to the Finance and Budget Committee of the Parliament of Georgia. The document of the main data and directions of the country for the years 2022-2025 (final version) is posted on the website of the Ministry of Finance of Georgia.⁴

The draft of the resolution of the Government of Georgia "On the measures to be implemented in order to compile the document of basic data and directions of the country for the years 2023-2026 " was prepared and approved by Resolution No. 88 of February 25, 2022. According to the resolution, the forms of the appendixes have been developed, according to which spending institutions, in order to prepare the country's main data and directions document, will gradually submit information to the Ministry of Finance of Georgia. This resolution is available through the LEPL Legislative Herald.⁵

Information about the main macroeconomic forecasts and the main directions of the ministries of Georgia was prepared and presented to the Government of Georgia according to the rules established by the legislation (Article 34, Part 4 of the Budget Code of Georgia Part). The document has been placed on the website of the Ministry of Finance of Georgia⁶.

⁴ <https://www.mof.ge/5439>

⁵ <https://www.matsne.gov.ge/ka/document/view/5393449?publication=0>

⁶ https://mof.ge/images/File/2022/monacemebi_mimarTulebebi/02-06-2022/2023-2026%20%E1%83%A1%E1%83%90%E1%83%9B%E1%83%98%E1%83%9C%E1%83%98%E1%83%A1%E1%83%A2%E1%83%A0%E1%83%9D%E1%83%94%E1%83%91%E1%83%98%E1%83%A1%20%E1%83%AB%E1%83%98%E1%83%A0%E1%83%98%E1%83%97%E1%83%90%E1%83%93%E1%83%98%20%E1%83%9B%E1%83%98%E1%83%9B%E1%83%90%E1%83%A0%E1%83%97%E1%83%A3%E1%83%9A%E1%83%94%E1%83%91%E1%83%94%E1%83%91%E1%83%98.docx

Self-assessment documents of Public Expenditure and Financial Accountability (PEFA) and Public Finance Management (GRPFM) 2019-2021 were prepared and sent to the World Bank for validation.

On December 20 of this year, with the support of the World Bank and the European Union, as well as with the involvement of the Ministry of Finance of Georgia, a presentation on the main findings and challenges of the Public Expenditure and Financial Accountability (PEFA) and Public Finance Management (GRPFM) evaluation report will be held. According to the 2022 Public Expenditure and Financial Accountability (PEFA) Global Report, Georgia continues to maintain its status as the number one with continuous improvement in public finance management compared to 59 countries evaluated by the 2016 PEFA methodology. According to the results of the Public Expenditure and Financial Accountability (PEFA) assessment, 27 of the 31 indicators presented were improved or maintained compared to the 2018 assessment. Significant progress was made in terms of medium-term budget planning and program budgeting; The government's debt management strategy was developed and approved; Significant changes were made in the direction of investment project management; The law on state procurement was updated.

2023-2026 country's basic data and directions document primary and The revised options have been prepared and submitted to the Government and Parliament of Georgia within the time limit established by the legislation and are in accordance with the requirements of the legislation. This document is available on the website of the Ministry of Finance of Georgia.⁷

Information on the causes of deviations from the medium-term parameters of the previous period has been prepared and is attached to the 2023 budget project, which will be submitted to the Parliament of Georgia. The mentioned document is available on the website of the Ministry of Finance of Georgia.⁸

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

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

Performance indicator: 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 the technical assistance of the World Bank and the European Union, the expert of the World Bank actively cooperates with the Ministry of Internally Displaced Persons from the occupied territories, Labor, Health and Social Affairs of Georgia, the Ministry of Environmental Protection and Agriculture of Georgia, and the Ministry of Education and Science of Georgia and helps them to improve their medium-term action plans and program budget. Among them, on July 26-27, trainings were held with the relevant ministries on the above-mentioned issues.

⁷ <https://mof.ge/5539>

⁸ <https://mof.ge/images/File/2022-biujeti/30-09-2022/2023/Danarti/22.prognozebis%20shedareba%202023.docx>

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: An updated document "Comparison of medium-term forecasts and compliance with the fiscal rules defined by the Organic Law of Georgia on "Economic Freedom" was prepared, which was attached to the 2023 state budget project. This document is available on the website of the Ministry of Finance of Georgia.⁹

1.5 Capital/Investment project management unified cycle development

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.

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 the direction of improving the implementation of the investment project management (PIM) reform, with the involvement of experts invited by the European Union and the World Bank, work is underway with the working group created for the assessment of investment projects and the implementation of relevant measures. Within the framework of this reform, with the involvement of experts invited by the European Union and the World Bank, a cycle of investment project management (PIM) trainings was held, in which representatives of both ministries and municipalities participated. About 45 employees from different agencies were trained in this direction.

In order to consistently implement the investment project management reform, at the request of the Ministry of Finance of Georgia, in 2018, the Public Investment Management Assessment Report (PIMA) was prepared within the framework of the technical assistance mission of the International Monetary Fund (IMF). In 2022,

⁹ <https://mof.ge/images/File/2022-biujeti/30-09-2022/2023/Danarti/22.prognozebis%20shedareba%202023.docx>

the IMF mission undertook an update of the Project Investment Management Assessment (PIMA) and the preparation of the Climate Change Investment Project Management Assessment (C-PIMA).

According to the 2022 assessment of Public Expenditure and Financial Accountability (PEFA), which covers the period up to and including 2021, the investment project management indicator was rated "A" (according to the 2018 assessment of Public Expenditure and Financial Accountability (PEFA), the indicator was rated "D").

Information about 32 new investment/capital projects is posted on the website of the Ministry of Finance of Georgia.¹⁰

Active work is being done in cooperation with the World Bank and the Financial and Analytical Service of the Public Financial Analysis Service on the creation of an electronic portal for the management of investment projects in the electronic public finance management system (ePFMS).

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 2021 state budget performance has been developed and presented to the Government of Georgia and the Georgian Parliament, within the prescribed terms. Performance report 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 2022 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: The annual report on the performance of the state budget for 2021 was prepared within the deadlines set by the legislation. The performance report includes information on fiscal policies, results planned and achieved by spending institutions, and indicators and explanations of differences. Along with the annual budget performance report, information on the spread of the 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

¹⁰ <https://mof.ge/5615>

of Georgia and the Parliament of Georgia. The annual performance report of the state budget for the year 2021 in editable format (includes both word and excel files) is posted on the website of the Ministry of Finance.¹¹

Quarterly (3, 6, and 9 months) implementation reports of the 2022 state budget were prepared within the deadlines set by the legislation. The mentioned documents in editable format (includes both word and excel files) are posted on the website of the Ministry of Finance of Georgia.¹²

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 2023 state budget is published on the website; BDD document and Performance report guides are created and are available on the Ministry of Finance's website.

The platform to engage citizens in budget development process (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: As a result of the reforms According to the results of the Open Budget Survey 2021 published by the International Budget Partnership, Georgia ranked first among 120 countries in the world.¹³

The 2022 budget calendar of the republican and local self-governing units of both the state and autonomous republics was prepared,¹⁴ which is available to everyone through the website of the Ministry of Finance of Georgia.

A citizen's guide has been prepared for the first presentation of the 2023 state budget project and the budget law, which is published on the website. In addition, short guides on budget execution reports have been prepared, which are available on the website of the Ministry of Finance of Georgia.¹⁵

1.8 Improvement of finance management by municipalities

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

¹¹ <https://www.mof.ge/5521>

¹² <https://mof.ge/5529>

¹³ <https://internationalbudget.org/open-budget-survey/rankings>

¹⁴ https://mof.ge/sabiujeto_kalendari

¹⁵ https://mof.ge/mokalakis_gzamkvlevi

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 2022 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.

Period: January - December

Progress: “Within the framework of the 2018-2022 strategy of public finance management reform, regarding the measures to be implemented by some municipalities in order to promote the improvement of financial management” of the Government of Georgia dated December 30, 2019 No. 2735, an amendment was made (December 26, 2022, N2431) with the addition of the memorandum of cooperation of 23 municipalities. The mentioned memorandum have been signed with 62 municipalities.

"Within the framework of the 2018-2022 strategy of the reform of public finance management, in order to promote the improvement of financial management by some municipalities, based on the implementation of the specified measures in 2021, on the allocation of capital grants to some municipalities" according to the Decree of the Government of Georgia N2374 of December 27, 2021, municipalities were allocated 7,000.0 thousand GEL During the period, money was allocated to 23 municipalities in the form of capital transfer).

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: “The draft law of Georgia on the State Budget of Georgia for 2023” was prepared with “**The draft law of Georgia on Amendments to the Budget Code of Georgia**” and **Draft law of Georgia on Amendments to the Law of Georgia “On Remuneration of Labor in Public Institutions”**. Changed include:

- ✓ introducing the term of state enterprises belonging to the government sector and reflecting their financial operations in the unified budget of the state, as well as their gradual transition to the services of the state treasury.
- ✓ It becomes compulsory to be included in the medium-term budget Evaluating new large investment/capital projects in accordance with the investment project management methodology and reflecting the main indicators of these evaluations in the accompanying budget documentation. In addition, according to the project, it becomes mandatory to attach information about tax expenditures to the budget;
- ✓ The amendment reflects the basic principles of how to determine the basic official salary in the following years. In particular, it is provided that until 2026, the basic official salary should increase by at least half of the percentage by which the average salary of employees in the private sector will increase in the last 4 quarters, and by 2026 by no less than this percentage. In addition, the draft stipulates that the ratio of

the average salary of employees in the public sector to the average salary in the private sector should be taken into account when determining the basic official salary, namely from 2026 it should not be less than 80% and more than 90%.

Law of Georgia "On the 2023 State Budget of Georgia" along with accompanying materials is published on the website of the Ministry of Finance of Georgia.¹⁶

1.10 Strengthening the Link Between the Policy Documents and Budget

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

Performance indicators: Mechanism of linking the Strategic/sectoral Policy Documents and budget envisaged programs exists in the electronic system of Budget Management.

Period: January - December

Progress: With the joint work of the Budgetary Department and LEPL - Financial and Analytical Service, in the electronic budget management system (ebudget), a policy classifier field has been added to the program budget section, through which spending institutions will be able to identify strategic/sectoral policy directions (SDG, gender, climate change, human capital goals, etc.) and link programs provided in the budget. The mentioned information is reflected in the program budget appendix of the 2023 state budget project.¹⁷

II- Public Debt Management

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

Responsible bodies: Department of Public Debt Management

Performance indicators: Update of the government's medium-term debt management strategy

Period: January - December

Progress: The government's medium-term debt management strategy was updated and published on the website of the Ministry of Finance of Georgia at the end of December 2022. After public discussions, the strategy will be submitted to the government and its final version will be published.

¹⁶ <https://mof.ge/5603>

¹⁷ <https://mof.ge/images/File/2023-Biujeti/23-12-2022/danartebi/18.PROGRAMULI%2029.11.22.doc>

1. 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: In accordance with the recommendations received from the International Monetary Fund and the World Bank, the work on the evaluation methodology of primary dealers has been completed. The mentioned methodology is planned to be implemented in the first half of 2023.

1.2 Evaluation 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: Primary dealers are evaluated for 6 month periods. Since the initial dealer pilot program was launched, there have been four full initial dealer evaluation periods. Accordingly, primary dealers were evaluated for the first four periods. It is planned to introduce the results of the evaluation to the primary dealers.

1.3 Expansion of Primary Dealers Pilot Program

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: January - December

Progress: On September 28 of this year, a meeting of the working group of primary dealers was held, which was attended by representatives of both primary dealers, the Ministry of Finance of Georgia and the National Bank. At the mentioned meeting, a decision was made to expand the pilot program of primary dealers. In particular, from November 1 of this year, the pilot system of primary dealers will be extended to active 2-year benchmark obligations, and from January 1, 2023, 10-year benchmark obligations issued in 2018 will be added to the system. The mentioned minutes and the updated memorandum of understanding signed with the first dealers are published on the website of the Ministry of Finance (www.mof.ge).

1.4 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: Considering the international practice and in accordance with the recommendations received from the International Monetary Fund and the World Bank, the project of the strategy of relations with investors has been developed. The strategy is planned to be published this year. Also, in order to improve communication with investors, since July of this year, the Debt Management Department of the Ministry of Finance of Georgia has started producing a monthly report of the debt management portfolio, which is published both on the website of the Ministry of Finance (www.mof.ge) and sent to investors every month.

1.5 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 first quarter of this year, within the framework of the World Bank's mission, a draft of the new law on public debt was developed. During the year, work was carried out to develop the mentioned project. The project is currently being reviewed/processed within the department. At the next stage, it is planned to discuss the project with various departments of the Ministry of Finance and develop the final version. The final version of the project will be submitted to the Government of Georgia for consideration.

III- 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: 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

Period: January - December

Progress: In order to improve the compliance of the accounting-reporting methodology with the requirements of the IPSAS standards introduced into action, and in general, to refine and improve the normative acts regulating accounting-reporting in the public sector, an analysis of the relevant normative acts was carried out. As a result of the analysis, draft of relevant normative acts were prepared, which were put into effect in August of this year.

Note: Completed.

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

Responsible bodies: State Treasury Service

Performance indicator: In the accounting and reporting methodology, relevant changes have been made regarding the accounting and reporting of categories administered by budgetary organizations on behalf of the state; budgetary organizations in their accounting and reporting reflect the assets owned by the state, commitments made, incomes earned and expenses incurred.

Period: January - December

Progress: In order to reflect the accounting and reporting of assets owned on behalf of the state, liabilities assumed, incomes received and expenses incurred, the analysis of the relevant normative acts was carried out. As a result of the analysis, drafts of relevant normative acts were prepared, which were approved by the orders of the Minister of Finance.

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 trained and put in to practice the knowledge received during work meetings, seminars, trainings, etc. on IPSAS standard requirements.

Period: January - December

Progress: In corporation with the Academy of the Ministry of Finance, trainings has been provided for public school accountants on teaching IPSAS standards. Also, with the help of GIZ, trainings were held for accountants for local budget-funded N(N)LE s, which meant learning accounting and reporting methodology developed based on 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: Organizations funded by local governments and autonomous republics conduct accounted by the accounting and reporting methodology developed based on the International Public Sector Accounting Standards (IPSAS) introduced into the action. The municipalities and autonomous republics prepared the consolidated financial statements of 2021 in accordance with the mentioned methodology, and for accountability and transparency, they were presented to the Treasury Service. The mentioned statements are published on the website of the Treasury Service www.treasury.ge

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: Based on IPSAS standards introduced into operation, the consolidated financial statements of the government for 2021 were prepared by the Treasury Service, and for accountability and transparency, they were placed on the website of the Treasury Service at 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

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

Performance indicators: Development of the functions of the treasury's main book and improvement/simplification of the existing business processes were carried out.

Development of the functions of the treasury's main book and improvement/simplification of the existing business processes were carried out.

Note: Ongoing Process

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

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: Completion of work on the draft amendments to the Tax Code of Georgia with the Council Directive 2003/96/EC of October 27, 2003 on restructuring the framework of taxation of energy products and electricity within the European Union to harmonize the tax legislation of Georgia.

Period: January - December

Progress: Work in progress

1.2 Further refinement of the tax code

Responsible Body: Tax and Customs Policy Department

Performance indicator: Preparing draft amendments to the Tax Code of Georgia, considering the best international practices.

Period: January – December

Progress: Legislative initiatives were prepared to amend the Tax Code of Georgia.

The first meeting of the working group created to develop the new tax code was held, at which the main principles of the new tax code were discussed, and further steps were planned. The working edition of the draft of the new tax code was prepared, and the general part, administration issues, parts of income and profit taxes, excise and property tax were processed.

A tax expenditure report was prepared within the competence.

In addition, draft public decisions have been prepared to ensure uniform taxation practices. A review group for public decisions was created, the members of which are representatives of the Ministry of Finance of Georgia, the Revenue Service and business representatives. Public decision projects selected for this stage were presented to group members. The submitted projects were reworked, considering the comments and opinions expressed by the group members. At the group's last meeting, positions were agreed on two draft public decisions that are ready for publication. Work is underway in the direction of further improvement of existing projects and development of new projects.

1.3 Further perfection of the customs legislation

Responsible Body: Tax and Customs Policy Department

Performance indicator: Implementation of appropriate measures for the performance of Book X of the Customs Code. Also, to further improve the customs code, the preparation of the draft of the relevant legislative amendments and the preparation of the draft of the regulation of the customs tariff.

Period: January – December

Progress: Work is underway with the implementation of Book X of the Customs Code. In connection with this, a working meeting was held on February 22-24 of this year under TAIEX (technical assistance and information exchange tool). In September, a meeting was held with the Revenue Service, and the problems related to the implementation of Book X were discussed.

A draft of the amendment of the Customs Code has been prepared, which, taking into account the existing challenges, ensures the increase of the efficiency of customs supervision, customs control and customs formalities, as well as the creation of a legal basis for flexible administration and the prevention of violations of customs legislation.

Work was underway to refine the draft amendments to the Customs Code of Georgia.

1.4. Refinement of international tax policy

Responsible bodies: Tax and Customs Policy Department

Performance indicators: Implementation of relevant procedures defined by law to conclude agreements/update existing agreements on "avoidance of double taxation on income and capital and prevention of non-payment of taxes and tax evasion."

Implementation of relevant measures within the framework of the 2nd round of assessment of the performance of international tax standards developed within the framework of the Global Forum on Transparency and Exchange of Information for Tax Purposes and the exchange of information on request in accordance with the new 2016 methodology, as well as preparation/adoption of the project of relevant legislative changes regarding the automatic exchange of financial information (CRS).

Implementation of appropriate measures for the implementation/subsequent monitoring of the 4 minimum standards developed within the framework of the Tax Base Reduction and Profit Shifting (BEPS) Action Plan of the Organization for Economic Co-operation and Development and the Big Group (OECD /G 20).

By the recommendation of the OECD, the multilateral convention "On the introduction of measures related to tax treaties to reduce the taxable base and prevent profit shifting" was prepared within the framework of the 15th measure of the BEPS action plan of the Organization for Economic Cooperation and Development and the Grand Squad (OECD /G 20). In order to successfully implement the Convention, synthesized texts were prepared and published together with the respective countries.

Implementation of relevant measures for the step-by-step implementation of the agreements on the first and second pillars (Pillar 1 and Pillar 2) developed by the OECD regarding the taxation of the digital economy.

Period: July – September

Progress: To conclude an agreement between Georgia and Malaysia on "preventing double taxation on income and capital and prevention of non-payment of taxes and tax evasion," a decree of the Prime Minister of Georgia was issued granting the authority to hold negotiations to Marine Khurtsidze. The relevant documentation was sent to the Ministry of Foreign Affairs of Georgia. The first round of negotiations was scheduled for May 2023.

In order to implement the relevant procedures defined by the law, the Ministry of Foreign Affairs was sent the processed texts of the agreements "On avoidance of double taxation on income and capital and prevention of non-payment of taxes and tax evasion" with the following countries: Montenegro, Albania, Tajikistan.

In order to conclude an agreement between Georgia and Montenegro, Georgia and Albania, Georgia and the Republic of Tajikistan "On Avoiding Double Taxation on Income and Capital and Prevention of Non-Payment of Taxes and Tax Evasion", a decree of the Prime Minister of Georgia was issued on granting the authority to hold negotiations to Marine Khurtsidze and diplomatic Through the note, the parties are notified of the negotiation period.

Appropriate technical work was carried out in connection with the 2nd round of evaluation of the implementation of the international tax standards developed within the framework of the Global Forum on Transparency and Exchange of Information for Tax Purposes and the new 2016 methodology for the exchange of request information.

In order to implement the automatic exchange of information on financial reports (CRS), the "Multilateral Agreement of Competent Agencies on Automatic Exchange of Information on Financial Reports" was signed. The legislative amendments prepared for the implementation of the mentioned agreement were approved by the Parliament of Georgia: In the "Tax code of Georgia", in the Law of Georgia "On the Securities Market", in the "Administrative Procedure Code of Georgia", in the Law of Georgia "On Non-Bank Depository Institutions - Credit Unions", in the Law of Georgia "On Non-State Pension Insurance and Provision", "On Payment System and Payment Services" in the Law of Georgia, In the Law of Georgia "On the Activities of Commercial Banks", in the Law of Georgia "On Microfinance Organizations", "On Microfinance Organizations" in the Law of Georgia, in the Law of Georgia "On Insurance" and the Law of Georgia "On Investment Funds".

In accordance with the recommendation of the OECD, with the success of the Multilateral Convention "On the Implementation of Measures Related to Tax Treaties to Reduce the Tax Base and Prevent Profit Shifting" developed within the framework of the 15th measure of the BEPS Action Plan of the Organization for Economic Co-operation and Development and the Grand Squad (OECD /G 20) For implementation, synthesized texts were prepared with the following countries: Slovakia, Croatia, France, Romania and Estonia. Currently, Georgia has signed bilateral agreements with 57 countries, of which the norms stipulated by the multilateral tax convention will apply to 34 agreements. According to current data, 26 synthesized texts have been added to the website of the Ministry of Finance of Georgia, including the following new additions: Portugal, Liechtenstein, Israel, Czech Republic, Norway, Korea, Cyprus, Greece, San Marino, Hungary and Belgium. The rest of the synthesized texts will be added gradually.

The Organization for Economic Co-operation and Development (OECD) sent the annual reports and completed questionnaires to the Virtual Zone Person, the International Company and the implementation of BEPS Measure 5th.

[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. Prototype of platform is created and tested;
2. Platform is activated.

Period: January - December

Progress: The project of creating a unified methodological base, which has been ongoing in the Revenue Service since 2021, involves the creation of an electronic information base, the same as an online data search platform, where the information is placed, intended for employees of different departments of the Revenue Service, as well as part of the information - available for taxpayers. Other types of data will be placed and constantly updated in the unified methodological base, for example:

- Legislative acts
- Internal regulatory instructions and methodological instructions, preliminary decisions, procedural manuals
- Guides

The unified methodological base will be the main source of information for the structural units that have to provide consultation to the interested parties. According to the plan, the "project of creating a unified methodological base" was divided into 24 activities, which were combined into 3 tasks:

- Task N1. Creating content tailored to the needs of users for a unified methodological base;
- Task N2. creation of a platform concept that is optimally adjusted to the needs of users for a unified methodological base;
- Task N3. Creation and implementation of a unified methodological base.

The project is completed, and the Infohub.rs.ge website is functioning in real mode. It is planned to introduce the said base to the general public in January.

2.2 Introduce a program of auditing declarations in basic taxes

Responsible Institution: Revenue Service

Performance Indicator:

1. The program is implemented in the profit tax.
2. The program is implemented in the monthly income payments.

Period: January - December

Progress: Risk criteria logics were developed as part of programs for controlling the correctness of declarations of monthly profit tax and taxes withheld at the source of payment.

The integration of the mentioned criteria in the database is carried out step by step. In contrast, the analysis and testing of the already integrated criteria are carried out in parallel mode. The task management module software has been completed, and the module's testing is underway.

The methodological provision has been completed, based on which the procedural manual of the processes to be implemented within the framework of the programs for controlling the correctness of the declarations of monthly profit tax and taxes withheld at the source of payment was developed, and at this stage, the processes necessary for the approval of the manual are underway.

2.3 Develop an estimated accrual mechanism for key tax types

Responsible Institution: Revenue Service

Performance Indicator:

Presumptive accruals are being made to the following taxes on unsubmitted declarations:

1. Excise duty;
2. VAT (natural person);
3. Income tax withheld at the source of payment;
4. Small business monthly profit tax.

Period: January- December

პროგრესი: Estimated accrual from the reporting period of February 2022 is carried out concerning the monthly declaration of profit tax not submitted by taxpayers registered as VAT payers (except natural persons) and tax declarations withheld at the source of payment.

In the third quarter, an analysis of the past quarter was carried out, in particular, according to the accounting periods, the number of unsubmitted declarations before the due date and for the periods after the estimated accrual was analyzed in each tax slot (VAT, profit (month), income (source)).

As a result of the analysis, it was revealed that the non-submission of declarations after the estimated accrual of profits and withholding taxes is 0%. At the same time, a positive trend is observed in relation to VAT declarations.

2.4 Tax debt management reform

Responsible Institution: Revenue Service

Performance Indicator:

1. Procedural debt management documents have been approved.
2. 165 employees have been trained.
3. Tasks are initiated in test mode.
4. Communication with tax payers with debts is implemented in test mode.
5. The task management module is running in test mode.
6. The structural arrangement of the debt management department has been completed.
7. The transition to the new debt management system is complete.

Period: January- August

Progress: A management department that is fully staffed and all employees are trained in enforcement measures and how to produce a personal registration card. It is planned to pay them in other directions as well.

Also,

- Debt management strategy and procedural documents were approved;
- Case-management program works in pilot mode in different directions;
- Existing work environment, lien/mortgage, debt collection, foreclosure, cash withdrawal and third-party payment programs are in pilot mode;
- The work on the structural arrangement of the debt management department within the framework of the pilot program was completed.

Within the framework of the debt management program, operational activities are carried out and their performance is monitored on a monthly basis. The program results will be analyzed after the third quarter of 2023.

2.5 Implementation of new approaches to the administration of large payers

Responsible Institution: Revenue Service

Performance Indicator:

1. The strategy for the administration of large transfers has been approved;
2. Employees of the office of large payers are trained;
3. A task management system has been implemented;
4. Key tax risk modules associated with large taxpayers are implemented in the data warehouse.

Period: January- December

Progress: A Large Taxpayer Office has been established within the Revenue Service, which operates in two main areas - service and compliance.

By the end of the year, the updated strategy and action plan for the administration of large taxpayers for 2022-2024 will be approved. The goal of the strategy is to improve the tax administration of large taxpayers through centralized, fair and transparent approaches. In order to achieve the mentioned goal, the following tasks were planned to be implemented in the following years:

- Development of services tailored to large tax payers;
- Strengthening the risk management process related to legal compliance;
- Improving human resources capabilities.

According to the order of the head of the Revenue Service N16226 of June 24, 2022, the activities to be implemented to implement the "2022-2023 compliance improvement plan" were approved, one of the priority

directions of which is the implementation of measures to reduce the compliance risk of large categories of payers.

The office is transferred to the implementation of operational actions and the work performed is monitored on a monthly basis.

Also,

- The training of the employees of the large payers' office in connection with various needs is ongoing through the Academy of the Ministry of Finance.
- Work has begun on the implementation of the task management system;
- To monitor the main tax data of large taxpayers through the standard reporting system, which is integrated into the BI environment, daily monitoring of various types of information related to large taxpayers is carried out.
- Work on document formalization of risk criteria logic has been started.
- A data exchange form was developed for feedback between the Large Payers Office (LTO) and the Analytical Department to assess identified risks.

2.6 eTIR System Implementation

Responsible Institution: Revenue Service

Performance Indicator:

1. Relevant legislative changes have been implemented;
2. The software is implemented.

Period: January- December

Progress: In May 2021, Annex 11 of the Geneva Customs Convention of November 14, 1975 (TIR Convention) "On the International Transportation of Goods under TIR Carnets" entered into force, which involves the digitization of TIR procedures.

Based on the mentioned change, a new version of the eTIR platform was approved by the UN in February, which included information and fields to be exchanged between the parties and the UN and was sent to the IT administration of all participating parties. At this stage, updated data is being processed. In addition, in February of this year, the second meeting was held in a tripartite format between the customs and IT administrations of Georgia-Azerbaijan-Turkey regarding the implementation of the eTIR platform. All administrations are currently working on updated specifications.

A working group of the Revenue Service was created, which is working on introducing the e-TIR system and establishing the rules for the electronic management of the statuses of TIR holders in the International TIR Data

Bank (ITDB). The working document on the conditions of admission, status suspension, cancellation and control of the business operator to the TIR procedure was developed by the mentioned group.

The working group prepared and sent to the Ministry of Finance for approval the project of legislative changes to be implemented regarding the conditions of admission, status suspension, cancellation and control of the business operator to the TIR procedure.

The functionality document for the software module on persons eligible for the TIR procedure has been developed, and software work is underway.

In December, to implement the eTIR project, phase 1 and phase 2 of the 5 "compliance testing" approved by the United Nations Economic Commission for Europe - UNECE was successfully tested.

3. Support for the EU integration process

3.1 Implementation of the second phase of the pilot project for automatic exchange of financial information

Responsible Institution: Revenue Service

Performance Indicator:

1. The donor's consent to the financing of the project has been obtained.
2. At least one meeting with financial institutions has been carried out.
3. No less than 4 meetings were held within the framework of OECD technical support for Georgia.
4. At least two working group meetings have been held on the implementation issues of the AEOI standard.

Period: January- December

Progress: Regular working meetings are held between the representatives of the parties involved in the pilot project of the automatic exchange of financial information. Along with the progress of the project implementation, the issue of the confidentiality standard is also discussed. (Parties involved in the project: the Revenue Service, the Ministry of Finance, as necessary, the National Bank, the German Federal Ministry of Finance, the Organization for Economic Cooperation and Development (OECD) Global Forum for the Exchange of Information for Transparency and Tax Purposes, the donor organization - the German Society for International Cooperation GIZ)).

Also, internal working meetings of the Georgian side (Revenue Service, Ministry of Finance, National Bank) are constantly held, which includes the discussion and consideration of the recommendations given by the Global Forum and the German Ministry of Finance regarding the implementation of the project.

It should be noted that the consent of the donor organization (German International Cooperation Society GIZ) has been received for the financial provision of the project in the amount of 70,000 euros.

In accordance with the functionality document developed by the working group of the Revenue Service, which refers to the functional description of the platform for the automatic exchange of information, GIZ announced a tender. Based on the tender, the winning company was identified, which has already held a meeting with financial institutions, where the financial institutions were presented with information regarding the reporting platform.

In addition, in November 2022, the Minister of Finance signed a multilateral agreement, and the Parliament of Georgia adopted the relevant legislation. Currently, work is underway on applicable secondary legislation, guidance and a technical portal for information exchange.

V - Macroeconomic Analysis and Fiscal Policy

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: July - September

Progress: The analysis of the turnover of VAT-paying enterprises in terms of branches continues. Also, the foreign trade trends are evaluated as a result of the analysis of the operational data of the customs. The data processing system is being improved to receive and process information promptly. The monthly inflation forecast is considered, and the reasons for the deviation from the actual are analyzed to refine the estimates.

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: July- September

Progress: This year, monthly and quarterly reviews were published on the website of the Ministry. Improving the analysis of economic trends using different analytical or visual indicators is continuing. Happens a monthly analysis of remittances and tourism and reveals key trends. There is also an analysis of international trade every month. Analytical information tailored to specific groups, including credit rating agencies and investors, is being prepared.

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: July - September

Progress: Work has been completed on the research paper and is now being revised in light of comments within the department. Finally, the document was published on the official website before December 31.

1.4 Analysis of shocks affecting the development of the economy, creation of scenarios and assessment of macroeconomic risks

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: July - September

Progress: At the beginning of the year, shock development scenarios were developed, firstly about the possible conflict between Russia and Ukraine and, after the start of the war - about its potential impact on the economy of Georgia. An analysis of expected risks and a corresponding "Heatmap" were also developed for the budget. In addition, the Macroeconomic Modeling Division employees were at the United Institute in Vienna, where they received training on fiscal and monetary policy analysis using the DSGE model.

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: July - September

Progress: The analysis of the stress test carried out at the beginning of the year was related to the analysis of the possible results based on the current situation in the region.

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: July - September

Progress: The analysis of macroeconomic scenarios for 2023 has been updated, as well as macroeconomic policy objectives and a document comparing macroeconomic forecasts. As for the country's basic data and directions document 2023-2026 (BDD), which represents the medium-term budget framework, it 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: July - September

Progress: There was no need to carry out the mentioned activity this year. In addition, together with other agencies, work on the development of the country's 10-year national development strategy was underway.

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: July - September

Progress: Active communication with international rating companies such as Fitch, Moody's and S&P continues. At the beginning of the year, virtual meetings were held with all three rating companies, during which S&P upgraded the outlook from negative to stable. Moody's lowered the outlook from Ba2 stable to negative for the first time since the beginning of the pandemic, which is mainly due to the vulnerability of Georgia due to the current situation in the region. By the end of 2022, the sovereign ratings of Georgia are as follows: Fitch BB stable, S&P BB stable, Moody's Ba2 negative. There is active communication with the representatives of the agencies by e-mail and telephone, during which they are informed about the country's main economic trends or the relevant issues.

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: July - September

Progress: At the beginning of the year, remote meetings were held with the experts of the International Monetary Fund. The experts shared their experience and knowledge on assessing and analyzing tax

expenditures. Employees got acquainted with the methods and models used by the International Monetary Fund in the process of determining tax expenditures for Georgia. Within the framework of the current mission, processing and analysis of the data necessary for assessing tax expenses related to profit, income and value-added tax were carried out. After the end of the mission, the employees updated the tax expenditure information according to the latest data. In the third quarter, experts from the International Monetary Fund were in Georgia, within the framework of which there were workshops with the employees of the Department of Macroeconomic Analysis and Fiscal Policy Planning and the Tax and Customs Policy Departments on the preparation of the tax expenditure assessment report. The mentioned document has been completed, and the Georgian version has been published on the website of the Ministry of Finance in the form of an appendix to the budget. In the coming days, the English version of the report will also be published on the website of the Ministry.

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: July - September

Progress: The assessment of elasticity coefficients of total tax revenues and individual taxes (including VAT, excise, customs, income, profit and property tax) concerning the gross domestic product continues, both for the short-term and for the long-term period.

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: July - September

Progress: Every year, the accounting of public finances is refined and adjusted to international standards. The mentioned 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 and in the second quarter, the updated data using the GFSM 2014 methodology began to be published on the website of the Ministry. In addition, the Ministry of Finance prepares analytical data on economic and financial indicators, which will be published together with state budget bills/laws. In addition, the publication of the balance sheet operations of the government sector and the central government sub-sector from the period after 2019 has been started.

VI - Fiscal Risks

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 Enterprises Reform Strategy, which envisages the implementation of the best international practices of corporate management of state enterprises. The document is public and approved by partner international organizations. In 2022, the Ministry of Finance will coordinate consultations on the reform of state enterprises. The final version of the strategy will be submitted to the Government of Georgia for approval.

Period: January - December

Progress: completed

Resolution No. 573 of the Government of Georgia of December 14, 2022 on "Strategy of Comprehensive Reform of State Enterprises of Georgia for 2023-2026", "Action Plan of Comprehensive Reform of State Enterprises of Georgia for 2023-2026" and "Comprehensive Reform of State Enterprises of Georgia 2022-2063" On the approval of the 2023 piloting action plan of the Strategy of the Years" is available on the website of the Legislative Herald.

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 corporations (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 fourth quarter of 2022.

Period: April-December

Progress: Partially completed

The prerequisite for starting work on the development of the legal framework for state corporations is the approval of the state enterprise reform strategy and action plan. The 2023-2024 action plan of the 2023-2026 strategy for the comprehensive reform of state enterprises of Georgia was approved by the resolution No. 573 of the Government of Georgia dated December 14, 2022. Accordingly, active work on the legislative framework of state enterprises will begin in 2023.

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. However, in contrast to 2021, the Ministry of Finance plans to expand the fiscal risk analysis document by assessing fiscal risks arising from climate change and litigation.

Period: July - December

Progress: completed

The fiscal risk analysis document was attached to the draft law of Georgia "On the 2023 State Budget of Georgia". The document is prepared taking into account the best international practices and includes the analysis of state enterprises, public and private cooperation projects, including guaranteed electricity purchase agreements. In addition, unlike previous years, this year's fiscal risk analysis document covers fiscal risks arising from litigation, long-term fiscal risks - such as climate change, demographic (population aging) risks.

1.4 Development and further improvement of mechanisms for fiscal risk analysis and management

Responsible Institution: Department of Fiscal Risk Management

Performance Indicator: The Ministry of Finance, with the support of partner organizations, developed a strategy for the reform of state-owned enterprises and a code of corporate governance of state-owned enterprises, according to which the role of the Ministry of Finance as a fiscal supervisor and/or a centralized shareholder of state-owned enterprises has been increased; The signing of guaranteed Power Purchase Agreements (PPA) was restricted, thereby stopping the further accumulation of contingent liabilities and reducing the fiscal risks arising from the power sector. The PPA was replaced by a more transparent and healthy support scheme, the so-called "Green Tariff" (FIP).

Period: January – December

Progress: completed

In June 2022, the Ministry of Finance of Georgia was designated as the financial supervisor of some state enterprises. Financial supervision refers to a set of decisions that have a significant impact on the financial results and processes of enterprises. The obligation to add the mentioned role and functions was defined as a prerequisite for the start of the new program of the International Monetary Fund. This decision is a step forward on the path of comprehensive reform of state-owned enterprises and is critically important for timely response to potential risks, in order to reduce and avoid them.

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. In addition, workshops on the state internal financial control system were held with high and middle level managers of 2 ministries. 2. The new website of the Harmonization Center has been created and is functioning. 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: Within the framework of the pilot implementation of the reform of internal state financial control, with the support of the Swedish National Agency for Financial Management (ESV), meetings were held with 6 ministries selected as pilots (the Ministry of Education and Science of Georgia; the Ministry of Environment and Agriculture of Georgia; the Ministry of Finance of Georgia; the Ministry of Internal Affairs of Georgia; the Ministry of Labor, Health and Social Protection of IDPs from the Occupied Territories of Georgia; Ministry of Culture, Sports and Youth of Georgia) with managers and employees. In addition, needs-oriented workshops are actively being implemented with the participation of the representatives of the mentioned ministries, in particular, during the reporting period, with the involvement of Swedish experts was carried out: a workshop on risk management and indicators of goals and activities, and a workshop on the agreement on the provision of services within the framework of the budget program, with the participation of representatives of pilot ministries and legal entities of public law existing in their system. In addition, 3 external working meetings (in Georgia) and a study visit to Sweden were held for employees of the Harmonization Center and representatives of financial/economic departments;

The work on the design of the website of the Harmonization Center has been completed, the work on the improvement of the content continues;

The 2021 consolidated annual report on the development of the state internal financial control reform 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. Additionally, Clear goals and activity indicators are set in the profile departments of the 2 ministries. 2. A risk register is established and used in practice at the level of at least 4 profiling departments of the Ministry; 3. An agreement on the provision of services within the framework of at least 3 budgetary programs has been signed between the Ministry and the legal entity of public law existing in its system.

Period: January - December

Progress: with the representatives of 6 ministries (the Ministry of Education and Science of Georgia; the Ministry of Environment and Agriculture of Georgia; the Ministry of Finance of Georgia; the Ministry of Internal Affairs of Georgia; the Ministry of Labor, Health and Social Protection of IDPs from the Occupied Territories of Georgia; Ministry of Culture, Sports and Youth of Georgia) Swedish Financial Workshops were held with the support of the National Management Agency (ESV) with the involvement of international experts in order to improve/refine the main indicators of the existing goals and activities, and relevant recommendations were issued by the experts.

In 4 ministries (the Ministry of Education and Science of Georgia; the Ministry of Environmental Protection and Agriculture of Georgia; the Ministry of Labor, Health and Social Protection of IDPs from the Occupied Territories of Georgia; the Ministry of Culture, Sports and Youth of Georgia), risk registers have been established at the level of profiling departments, work in this direction continues in the Ministries of Finance and Internal Affairs of Georgia;

In addition, more than 10 agreements on the provision of services within the framework of the budget program were signed.

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 and at least 2 ministries of autonomous republics are institutionally strengthened; 2. At least 20 monitoring of the implementation of the recommendations issued as a result of the external assessment of the quality of the internal audit subjects' activities 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 with the support of the Harmonization Center.

Period: January - December

Progress: In the direction of institutional strengthening of internal audit subjects, in close cooperation with the State Audit Service, the regional forum of internal auditors of Imereti was held in Tskaltubo. Within the framework of the forum, Sharing the results and experience of the efficiency audit pilot project carried out by Tskaltubo's internal audit service to colleagues, as well as opportunities for improving the activities of internal audit subjects were presented by the State Audit Service and the Harmonization Center. In addition, meetings were held with the senior management of the City Hall and the heads of departments regarding the role of internal audit and the advisory mandate, as well as the importance of a high standard of implementation of the given recommendations.

In order to increase the efficiency of internal audit activities in the government institutions of the Autonomous Republic of Abkhazia, an awareness-raising practical work conference was held for management and internal auditors.

In terms of monitoring the implementation of the recommendations issued as a result of the external evaluation of the quality of the internal audit subjects, the analysis of the recommendations made by the municipalities, the study/evaluation of the presented documentation is carried out in the form of continuous communication.

With the support of the German Society for International Cooperation (GIZ) and the involvement of local experts, the efficiency audit pilot projects were completed in St. Rustavi and St. In Tskaltubo town halls, meetings were held with the mayors of both municipalities to get acquainted with the results. Also, in two additional city halls (Sachkhere, Gurjaani) pilot projects of efficiency audit were implemented with active communication with the Academy of the Ministry of Finance of the Netherlands and international experts.

Internal auditors of ministries and municipalities participated in an international webinar organized by the Slovenian international financial expert center "Center for Excellence in Finance" (CEF) to increase their ability to independently perform IT audits. Also, in coordination with the Internal Audit Department of the Ministry of Defense of Georgia, within the framework of "NATO BI Internal Audit training", a practical training was carried out, through which up to 30 internal auditors will be trained in the direction of information technology (IT) audit.

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. FSS standards are translated and published on service's webpage;
3. MSS FSS trainings conducted for the target audience with the support of donors and sponsors;
4. 2020 and 2021 reports of more than 60,000 enterprises made public through the report submission tab (**Reportal.ge | SARAS**) on the service portal (**Reportal.ge**);

Period: January-December

Progress: In 2022, updated FSS standards were translated and posted on the website of the service;

In the direction of reform and financial reporting standards, the service participated in 3 awareness-raising events. The representative of the service also spoke in a television program, where the audience was informed about news related to governance reporting;

For representatives of IV category enterprises, 8 events were held in September in five different cities: Kutaisi, Zugdidi, Batumi, Tbilisi, and Telavi. The events served to review the reporting process and the standard of financial reporting of IV category enterprises. A total of 700 accountants from across the country attended the presentations.

Also, the representative of the service took part in the event organized by the Union of Accountants. The meeting served to review the issues related to the presentation of the report and to answer questions. About 150 accountants attended the event.

In addition, representatives of the service attended the annual international conference of the FSS Foundation. Also, the Service and the IFRS Foundation, with the support of the World Bank, held joint events - "IFS Standards, IAS IFRS Standard and Governance Reporting - Important News".

Also, in partnership with the International Finance Corporation (IFC) and with the support of the Swiss State Secretariat for Economic Affairs SECO, an event was prepared - "Study of governance reports submitted by business entities in 2020" - representatives of the service took part in this.

75,734 individual and 854 consolidated reports of 76,588 enterprises are made public on the service portal (Reportal.ge) through the report submission tab (Reportal.ge | SARAS).

Support of improvement of Audit service quality

Responsible Institution: Service for Accounting, Reporting and Auditing Supervision

Performance Indicator: A detailed review of an average of 35 reports.

Time Period: January-December

Progress: A detailed review of the statements of 40 enterprises was carried out as part of the activity of checking the compliance of the submitted statements with the international standard of financial reporting.

3. Promoting the growth of audit service quality

3.1 Increasing the quality of audit services

Responsible Institution: Service for Accounting, Reporting and Auditing Supervision

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

Time Period: January-December

Progress: Monitoring of the quality control system for 35 audit firms/individual auditors.

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 the management system of the budgets of SSIs and A(A)IPs was configured for the year 2022; The users' side of the electronic budget management system of LLPs and AIPs copied to the new technology was launched in the real environment; The administration-configuration side of the electronic system of budget management of LSIs and AIPs rewritten on new technology was rewritten on new technology and launched in a real environment; A new policy connection classifier was introduced into the system, as a result of which changes were made to the following parts of the system: configuration module, annual files, reports. Changes were made to a number of reporting documents. In the system, the mechanism of management of official ranks with coefficients was introduced, based on which, as a result of the change in the basic salary, official ranks are changed according to the coefficients. 94 corrections were made to the system and 27 errors 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: Statements of foreign exchange requirements and obligations have been added to the expenditure portal, and information on the status of the contract registered in procurement has been added to the existing obligations fulfillment statement. Information fields have been added to the forms of requests, packages, and

salaries of the spending portal, the logic of importing the previous year's obligations have been changed and the integration scheme with billing systems has been improved. The back office and financial institutions portals have been added to the SMS code authorization facility and reporting of CPV codes. The back office was added, and the means of controlling the report generation process, the connection protocol with the SWIFT system was changed. The system has added bank account holder verification functionality and new validations in the liabilities, packages, salaries, deposits, LSI assignment modules, pension fund claims processing, and turnover determination processes. In the registration system service, a means of loading registrations with the mandatory indication of the identification code of the payer has been added. New versions of the electronic treasury, enrollment search system, and tender search system were launched in the real environment.

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: A number of foreign debt programs, projects, and components were structurally adjusted in the state debt and investment project management system and related systems; Donors were corrected on projects and components; Amendments were made to the reporting documents; Imported billing information for several projects; 45 corrections were made to the system and 4 bugs 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 integration of the professional training module in the eHRMS system with the Moodle system was completed, and the relevant integration service was also updated. The existing modules of the system were updated and new tasks were implemented. In the evaluation module, the functionality of copying components has been updated, as well as the vacation functionality has been completely updated. New static reports were

added to the system and the report tab was optimized. The task of exporting data in the organization window has been completed.

New requirements/cases are being identified and their technical solution works are in progress.

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. Purchase and implementation of Web Application Firewall (WAF) and balancer.

Period: January - December

Progress: A new generation brand wall (PALOALTO) was introduced, the existing configuration was transferred and further optimized in accordance with security measures. Brandmauer integration with "Active Directory (AD)" was implemented, new generation Brandmauer internet traffic and content filtering rules were configured.

A new system of access turnstiles was introduced in the system of the Ministry of Finance, new servers were installed, controllers were configured, data was transferred from the existing ones, a new Oracle database "Gateway" was installed and configured. Traffic information has been integrated into Oracle's main database.

Email and Active Directory servers for external users have been updated.

Updated the software code and virtualization platform of the hyperconverged Dell EMCVxRail system. Also updating the DellEMC XtremIO2 system firmware for the disk array.

Provision of duplicated connection with headquarters using SD-WAN technology in revenue service regions, installation of new routers, configuration migration.

Creation of new infrastructural environment installation within the framework of SICPA excise stamps project.

Software update of the hyperconverged system Dell EMCVxRail system software code and virtualization platform.

Estimates for public finance management reform 2022 action plan events

#	Field/Event	Full Funding/Funding Source (GEL)
	I – Budgeting	23 01 – Public finance management
		3,000,000
1	Improvement of Budget Management	3,000,000
1.1	Development of law of Annual budget project	400,000
1.2	Increasing efficiency of mid-term spending (MTEF)	400,000
1.3	Facilitate program budget improvement at the state and local levels	400,000
1.4	Ensuring compliance of budget documentation with fiscal management principles.	300,000
1.5	Establishing a unified cycle of investment/capital project management.	500,000
1.6	Annual and quarterly budget performance reporting, strengthening accountability to the controller.	300,000
1.7	Ensureing the transparency of the budget process.	100,000
1.8	Improvement of finance management by municipalities	400,000
1.9	Support the budget process by perfecting the relevant legislation.	50,000
1.10	Support for the budget process by refinement of corresponding legislation	150,000
	II- Government debt management	23 01 – Public finance management
		1,100.0

1	Update the government's medium-term debt management strategy	300,000
2.	Development of government securities market	800,000
2.1	Going through the next stage in the process of introducing the system of primary dealers	300,000
2.2	Improving communication with investors	300,000
2.3	Update the law on public debt	200,000
III - 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	In order to comply with the requirements of IPSAS standards and best international practices, to refine and improve the regulatory acts of accounting and reporting in the public sector	50,000
1.2	In accordance with the IPSAS Standards Court, accounting and reporting of categories by budgetary organizations on behalf of the State.	50,000
1.3	Conducting workshops, seminars, trainings, etc. for public sector accountants	700,000
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
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
		8,400,000
1	Improvement of Legislative Base	1,300,000
1.1	Harmonization of tax legislation with EU directives within the Framework of the Association Agreement	400,000
1.2	Further refinement of the tax code	200,000
1.3	Further refinement of Customs legislation	500,000
1.4	Refinement of international tax policy	1,100,000
2	Strengthen the tax risk management process in the field of compliance with the law	5,800,000
2.1	Creation of a unified methodological base	1,500,000
2.2	Introduce a program of auditing declarations in basic taxes	900,000
2.3	Develop an estimated accrual mechanism for key tax types	1,000,000
2.4	Tax debt management reform	700,000
2.5	Implementation of new approaches to the administration of large payers	600,000
2.6	Implementation of the eTIR system	1,100,000
3	Support for the EU integration process	200,000
3.1	Implementation of the second phase of the pilot project for automatic exchange of financial information	200,000
	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	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
1.1	Prepare a state-owned enterprise reform strategy and submit it to the Government of Georgia for approval	100,000
1.2	Develop a comprehensive legal framework for state-owned enterprises	100,000
1.3	Prepare a fiscal risk analysis document	100,000
1.4	Development and further refinement of fiscal risk analysis and management mechanisms	200,000
VII - Development of public internal financial control system		23 01 - Public finance management
		1,043,000
1	Public Internal Financial Control Reform	1,043,000
1.1	Planning, evaluating and raising awareness of public internal financial control reform	140,000
1.2	Support of implementation and effective functioning of financial management and control system in public sector	600,000

1.3	Development and support of internal audit activities in public sector	303,000
VIII - Accounting, Reporting and Auditing Supervision		
		23 06 - Supervision of accounting, reporting and audit
		900,000
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
		3,766,940
1	Development and Support of the Public Finance Management Integrated Information System	3,766,940
1.1	eBudget - System development and addition of new features	533,540
1.2	eTreasury- Improvement of the system and addition of new features	1,003,000
1.3	eDMS - Improvement of the system and addition of new features	210,600
1.4	eHRMS - Improvement of the system and addition of new features	433,700
1.5	Ensure the sustainability of ICT infrastructure of Ministry of Finance	1,568,100

*The activity will be funded by a donor