



GEORGIA

Public Expenditure and Financial Accountability (PEFA) Assessment 2022

October 2022



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



WORLD BANK GROUP

Currency and Indicative Exchange Rates

Local Currency Unit: Georgian Lari (GEL)

1 GEL = USD 2.67

Fiscal Year

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**PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY
(PEFA)
ASSESSMENT**

GOVERNMENT OF GEORGIA

NOVEMBER 2022

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the **'PEFA CHECK.'**

PEFA Secretariat

November 10, 2022

Abbreviations and Acronyms

ASYCUDA	Automated System for Customs Data
BAG	Business Association of Georgia
BCG	Budgetary Central Government
BDD	Basic Data and Direction Document
BFC	Budget and Finance Committee of the Parliament of Georgia
CG	Central Government
COFOG	Classification of the Functions of Government
DAP	Different Acquisition Procedure
E -	Electronic-
EU	European Union
GDP	Gross Domestic Product
Ge-GP	Georgian E-Government Procurement System
GEL	Georgian Lari
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
CHU	Central Harmonization Unit
GP	Government Procurement
GRS	Georgia Revenue Services
IMF	International Monetary Fund
IPPF	International Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LEPL	Legal Entity of Public Law
MEP	Most Effective Procurement
MoF	Ministry of Finance
MRDI	Ministry of Regional Development and Infrastructure
NA	Not Applicable
NASP	National Agency of State Property
NAT	Electronic Tender Without Auction
NBG	National Bank of Georgia
NGO	Non-Governmental Organization
N(N)LE	Non-entrepreneurial (Non-commercial) Legal Entity
PEFA	Public Expenditure and Financial Accountability
PBO	Parliament Budget Office
PFM	Public Financial Management
PFMIS	Public Financial Management Information System
PPP	Public–Private partnership
RTGS	Real time gross settlement system
SAO	State Audit Office
SPA	State Procurement Agency
TSA	Treasury Single Account
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

1. Executive Summary

1. The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the Public Financial Management system in the Republic of Georgia against the PEFA indicators. This assessment provides an update of progress in PFM since the last assessment in 2018 which was the first assessment using the 2016 PEFA methodology. It establishes a new baseline of performance.

2. The assessment covered expenditures by central government, budgetary units, and revenues collected by the Georgia Revenue Services. There are no extrabudgetary units and local government was included in indicator PI-7 (which pertains to transfers to local government). An inter-agency working group led by the Ministry of Finance organized inputs from relevant ministries and agencies on the 31 indicators. The preliminary version of the self-assessment report was produced in May 2022. It was sent to the World Bank for its initial review. A verification assessment team travelled to Georgia from July 15 to August 3, 2022 and subsequently from September 3 to 12, 2022. The financial years covered were 2019 to 2021.

3. Overall, the results of the assessment show that the public financial management systems in Georgia are strong and have continued to improve as the PFM Reform Action Plan has been implemented. However, due to the impact of the COVID-19 pandemic the aggregate expenditure side of the budget has not performed according to plan in 2020 and 2021 as there was a need for additional in-year expenditure. In 2020 there was under-performance of revenue against the budget but in 2021 there was a rebound in the economy and an over-performance against plan. These situations reflect the uncertainty that the government faced in managing its public finances. Nevertheless, there is an impressive array of information regarding the finances of the budgetary central government. Information is included in the budget on a timely basis. As a result, the budget documents include all of the basic, and most of the supplementary information, required to support a transparent budget process. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is very good. A comprehensive and inclusive process has been implemented in managing the public investment program. A debt management strategy has been produced and approved which underpins a strong focus on managing debt. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is an effective budget calendar which provides adequate time for budgetary units to prepare their budgets and for the legislature to carry out its scrutiny function.

4. There is an on-going and updated fiscal strategy. Estimates of the policy changes on revenue and expenditure are prepared. Reporting on fiscal outcomes include time-based fiscal targets. Revenue administration is strong, but some constraints remain, particularly the stock of arrears. The Treasury consolidates cash balances in the Treasury Single Account daily. A cash flow forecast is prepared annually for the year to come and is updated at least monthly on the basis of actual inflows and outflows. Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases.

5. The payroll and personnel systems are strong. Procurement databases include data on what has been procured, value of procurement, and who has been awarded contracts. The appeals process is now completely independent from the procurement implementing agency as a new and separate resolution committee has been created. The percentage of contracts awarded using competitive tendering has declined slightly due to emergency health purchases (occasioned by the pandemic), but also from the relative lowering of already low procurement thresholds due to domestic inflation and lower exchange rates. Internal controls on non-salary expenditure have strong segregation of duties, effective commitment controls, and compliance with payment rules and procedures. The internal audit function continues to be strengthened as its coverage reaches virtually all budgetary units. Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls audits and have been expanded to include performance and system audits. The focus is on identified high risk areas. Accounts reconciliation and financial data integrity are areas of strengths. The consolidated financial reports for central government budgetary units are prepared annually and are comparable with the approved budget. However, the state's consolidated annual financial statements are not externally audited, but those of individual budgetary units are. IPSAS are the disclosed accounting standards applied to all budgetary units' financial reporting. The number of IPSAS standards used is now 73 percent of the relevant standards that apply to Georgia. External audit is an area of significant strength as is legislative scrutiny of the audit reports that Parliament receives.

6. An overriding feature of PFM during the assessment period covering 2019 to 2021 has been the maintenance and development of procedures in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. This has been achieved with the impact of the COVID-19 pandemic on the country. This achievement has continued the application of the IT that was developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions, combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control), has been fundamental to the development of strengths in PFM. The continued integration and rollout of IT, internet, and enhanced personnel skills through training, has resulted in PFM's positive effectiveness and efficiency.

Aggregate Fiscal Discipline

7. Aggregate fiscal discipline has been affected by the pandemic. Both revenue and expenditure forecasts have not been realized, downwards in 2020 and upwards in 2021, as the unpredictability of the pandemic on the economy was addressed in public finances. Nevertheless control over spending during budget execution was maintained. Strong revenue administration ensured that revenues were efficiently collected. Despite the need of flexibility in budget execution and that both virement and supplementary budgets were used, the rules and procedures relating to these processes were not circumvented. Treasury operations and cash management enabled expenditures to be managed within the available resources. Control of contractual commitments was effective and the stock of expenditure arrears did not exceed two percent during 2019-2021. The strong internal and external audit function enhanced fiscal discipline.

Strategic Allocation of Resources

8. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that are consistent with a strategic allocation of resources. There is an emphasis on the overall fiscal framework which has been improved by analysis and reporting of changes in circumstances relating to fiscal strategy and implications of policy changes. The management of investment that has been implemented has affected the strategic allocation of resources. Recurrent cost implications of investment is factored into the budget process and investments are also selected to generate the best return. Monitoring of the implementation of projects has ensured that what was planned is being delivered.

Efficient Use of Resources for Service Delivery

9. The previous weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process have been addressed which has positive implications for efficiency in service delivery. Although there has been a reduction in competitive bidding, this was as a result of health related expenditures and ensuring a response to needs from COVID-19. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The continued lack of audit of consolidated annual financial statements limit the impact of external audits which in turn limits the effectiveness of oversight. This is offset by the audit of individual ministerial financial statements and by the strength of the audited annual budget execution reports which includes information on the realization of annual targets for outputs and objectives. The publishing of performance targets and outcomes also supports the efficient use of resources in service delivery units. On the revenue side, operational efficiency continues to be compromised by the accumulation of tax arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment of taxpayers. The Georgia Revenue Services has established a structural debt management unit to address uncollectable arrears which will afford the opportunity to clean up tax arrears and make them current.

Performance changes since previous assessment

10. Both the 2018 and the current PEFA assessments have been carried out using the 2016 methodology. Annex 1 provides a summary of both sets of scores and changes in scores. Across the 94 individual dimensions compared, there has been an improvement in 21 dimensions, deterioration in 7, and no change in 66 dimensions. This overall improvement in scoring has occurred over a relatively high baseline achieved in 2018.

11. The comparison of the two assessments indicates that the following dimensions have deteriorated in relation to fiscal and budgetary outcomes.

- Fiscal Discipline
- Aggregate expenditure outturn
- Expenditure composition outturn by function
- Expenditure composition outturn by economic type
- Aggregate revenue outturn
- Procurement methods
- Strategic Allocation of Resources
- System for allocating transfers

- Monitoring of Public Corporations

12. Apart from the monitoring of public corporations, the deterioration can be explained by the impact of COVID-19 and the government's response to it. In the case of the monitoring of public corporations, it is likely that the score in the previous assessment should have been the same as in the current PEFA.

13. The results of the current assessment demonstrated improvement in the following areas:

Fiscal Discipline

- Contingent liabilities and other fiscal risks
- Transparency of assets disposal
- Investment project monitoring
- Debt management strategy
- Fiscal forecasts
- Fiscal strategy adoption
- Reporting on fiscal outcomes
- Consistency of budgets with previous year's estimates
- Expenditure arrears monitoring
- Strategic Allocation of Resources
- Budget documentation
- Economic analysis of investment proposals
- Investment project selection
- Investment project costing
- Procurement complaints management
- Efficient use of Resources for Service Delivery
- Nature of internal audits and standards applied
- Submission of reports for external audits
- Accounting standards
- External audit follow-up
- Timing of audit report scrutiny
- Hearing of audit findings
- Recommendations on audit by legislature

14. These improvements can be attributed to continued strong management of the PFM reform program which the government has undertaken and plans to update it on the basis of the 2022 assessment. The Public Sector Financial Management Reform Action Plan 2018 to 2021 had set out a costed plan with targeted results. It also reflected the continued nature of the reform agenda building upon achievements from previous reform activities across the broad spectrum of the PFM agenda. Nevertheless due to the COVID-19 pandemic, a number of planned reforms were delayed or cancelled. Due to the state of emergency in the country from March 21 to May 22, 2020, a number of economic activities were limited, as priority was placed on the expenditures for healthcare and business support. However, there are a number of reform initiatives that did make progress. As an example, as a result of the 2018 PEFA findings, the reform achievements in public procurement have

been significant. Although the reform in this sector had been evolving steadily, the law on state procurement recently was modified considerably and made compatible with EU legislation and international good practice. Significant changes have been made with respect to the procurement complaints procedures since the 2018 PEFA assessment highlighted a weakness. Other areas include increased finance management support for some municipalities, development of a primary dealers pilot program regulation framework, SOE fiscal risk analysis and database, and the creation of a register of private and public partnerships.

Overview of the scores of the PEFA indicators

Summary Assessment 2022 Ratings							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Score
			1.	2.	3.	4.	
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn		C				C
PI-2	Expenditure composition outturn	M1	B	B	A		B+
PI-3	Revenue outturn	M2	C	B			C+
Pillar II: Transparency of public finances							
PI-4	Budget classification		A				A
PI-5	Budget documentation		A				A
PI-6	Central government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to sub-national governments	M2	B	A			B+
PI-8	Performance information for service delivery	M2	A	A	A	A	A
PI-9	Public access to fiscal information		A				A
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	C	A		B
PI-11	Public investment management	M2	A	A	A	A	A
PI-12	Public asset management	M2	B	C	A		B
PI-13	Debt management	M2	A	A	A		A
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	A	A	A		A
PI-15	Fiscal strategy	M2	D	A	A		B
PI-16	Medium term perspective in expenditure budgeting	M2	A	A	A	C	B+
PI-17	Budget preparation process	M2	A	A	A		A
PI-18	Legislative scrutiny of budgets	M1	A	A	A	A	A
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	A	A	D	B+
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	A	A	A	A	A
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	A	A	A	A	A
PI-24	Procurement management	M2	A	B	A	A	A
PI-25	Internal controls on non-salary expenditure	M2	A	A	A		A
Pillar VI: Accounting and reporting							
PI-26	Internal audit	M1	A	A	A	A	A
PI-27	Financial data integrity	M2	A	NA	A	A	A
PI-28	In-year budget reports	M1	A	B	A		B+
PI-29	Annual financial reports	M1	A	C	B		C+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	A	A	A	A	A
PI-31	Legislative scrutiny of audit reports	M2	A	A	A	A	A

2. Introduction

2.1. Rationale and purpose

15. The purpose of this PEFA assessment is to conduct a review of Public Finance Management (PFM) reform in Georgia, which assesses the results since the previous PEFA assessment of 2018. This assessment facilitates the continued development of the government's common vision and goals in respect of public finance system reform.

2.2. Assessment management and quality assurance

BOX 2.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Arrangements

- Oversight Team Chair & Members:
 - Sebastian Molineus, Regional Director for the South Caucasus, World Bank; and Giorgi Kakauridze, First Deputy Minister, Ministry of Finance, Georgia (co-chairs)
 - Assessment Manager, Daniel Boyce, Governance Global Practice Manager, Europe and Central Asia, The World Bank
- Assessment Team Leader Patrick Piker Umah Tete, Sr. Financial Management Specialist; Mariam Dolidze, Sr. Economist and Co-Team Leader; Ian Hawkesworth, Task Leader, Senior Governance Specialist; John Short, Lasha Gotsiridze, Papuna Petriashvili and Tessa Cullen (Consultants), The World Bank

Review of Concept Note

- Concept Note was circulated to the government and other peer reviews on April 15, 2022
- Invited reviewers: Ekaterine Guntsadze, Deputy Minister, Ministry of Finance; Irakli Khmaladze, Project Manager, EU; and Holy-Tiana Rame, PEFA Secretariat.
- Reviewers who provided comments: Project Manager, EU, PEFA Secretariat. April 28, 2022
- Date of final concept note and/or terms of reference: May 26, 2022

Review of the Assessment Report

- Validation of Scores circulated September 5, 2022, and discussed in workshop with MoF September 9, 2022
- Draft circulated September 26, 2022
- Invited reviewers and date they provided comments
 - PEFA Secretariat – October 18, 2022
 - William Leslie Dorotinsky, Lead Public Sector Specialist, World Bank – October 6, 2022
 - Irakli Khmaladze, Project Manager Economics, Regional Development and Public Finance, EU Delegation September 17, 2022
 - Natia Gulua, Head of Budget Department – Head of Budget Policy Unit, MoF – October 12, 2022

PEFA CHECK

- The two stages of the PEFA CHECK were complied with regards to the Concept Note and the response to comments on the draft report.

16. A substantial number of government officials participated, preparing the self-assessment report from May – June 2022 which formed the basis for the subsequent validation exercise. Government officials readily provided most of the documentation used for the assessment, as well as their views and insights on all the subjects. The Government team was led by the Budget Department in the Ministry of Finance and included relevant departments and divisions covering debt, fiscal risk, budget execution, and accounting and internal audit. Other non-Ministry of Finance

agencies covering external audit, scrutiny of the budget, audit, and procurement also participated. A full list of participants is included in Annex 3b. Some development partners (WB and EC) participated in the assessment but only in their capacities as members of the team and thus reviewers of the Concept Note. The EC, which funded the validation process, was informed on the process and its representative participated in some meetings.

2.3. Assessment methodology

17. Coverage of the Assessment: The assessment covers the central government (CG), comprising 64 budgetary institutions (59 Sectoral ministries covering service providers and public registries, Procurement Service, State Audit Office, Budget Office of the Parliament of Georgia, National Statistics Office of Georgia, and National Bank of Georgia). There are no extrabudgetary units in Georgia. Public corporations are included in PI-10.1, Fiscal Risk.

18. The validation team visited Tbilisi on its main fact-finding mission from July 15 to August 3, 2022 (time of validation fieldwork for the validation of the self-assessment) and subsequently from September 3 to 12, 2022. The cut-off date was September 12 although updated data for Chapter 2 was provided by the Ministry of Finance in its comments on the draft report on October 12. Comments by the external reviewers were shared with the Ministry of Finance which provided responses as required.

19. Sources of Information: The list of information for each indicator is found in Annex 3A and 3C. A full list of persons met is provided in Annex 3B.

20. Other methodological issues for the preparation of the report: The assessment was carried out using the 2016 PEFA Framework. All 31 indicators (and their 94 dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. The government performed an earlier self assessment in 2017¹ using the 2016 methodology, and the World Bank led assessment was used to validate this self-assessment. In dimensions where insufficient evidence was presented in the self-assessment, the validation team followed up with information requests in order to score in compliance with the PEFA scoring guidelines. The validation exercise also reviewed all data presented and had meetings with relevant officials to ensure all elements were fully covered.

21. As part of the validation process a workshop was held with officials and the few differences in scoring were explained and agreement on scores was reached. The narrative in Chapter 3 has followed the content contained in the self-assessment. The depth and breadth of the write up of information that the self-assessment contained may be considered substantial in comparison to other PEFA reports but removing some of the volume would not be in the spirit of the careful process that resulted in this assessment report. In this regard the 2022 PEFA assessment can be classed as a *validated self-assessment*. A comparison between the 2018 and 2022 scores is included in each indicator summary and in Annex 1.

¹ The self-assessment and validation exercise for the 2018 Central Government PEFA Assessment of Georgia were undertaken in 2017. The report was published in 2018. Hereinafter, this report and the associated scoring are referred to as the “2018 PEFA” and the “2018 scores”, respectively.

3. Country background information

3.1 Country economic situation

22. According to the National Statistics Office of Georgia, as of January 1, 2021, the population was 3,728,600.² The 2021 data indicate that GDP per capita was 5,015 USD.³ In the fourth quarter of 2021, the average monthly nominal earnings in Georgia increased by 11.3 percent (GEL 149.1) compared to the same quarter of the previous year and amounted to GEL 1,463.8.⁴ Data from the social service agency indicate that 643,200 people were socially assisted.⁵

23. In 2021, real GDP growth was 10.5 percent. Nominal GDP was GEL 60,003.3 million (USD 18,625.6 million) which is an increase of 21.8 percent over the previous year. GDP per capita was GEL 16,154.1 (USD 5,015.3). The data for 2021 show that economic growth occurred in art, entertainment, and recreation (47.2%); water supply, sewage, waste management, and decontamination activities (75.4%); electricity, gas, steam, and air conditioning (44.4%); accommodation and food service activities (34.0%); education (9.2%); health and social service activities (29.3%); transport and warehousing (28.9%); information and communication (30.1%); financial and insurance activities (21.2%); and agriculture, forestry, and fish farming (1.5%). A decrease was observed in construction (23.9%). The impact of the decline from the COVID-19 pandemic in 2020 and the recovery in 2021 are behind these figures with some sectors still being affected in 2021.

24. In 2021, the leading role in economic growth was still held by the private sector. In 2021, the turnover of the business sector increased by 32.5 percent, and the value of products produced by enterprises increased by 25.1 percent. The number of employees in the business sector increased by 12.6 thousand people on average, and by 51.8 thousand people in the last quarter.⁶

25. In 2021, the annual inflation level was 13.9% compared to 2.4% in the previous year. The formation of annual inflation was mainly influenced by price changes in the following groups. In food and non-alcoholic beverages prices increased by 15.6%, which was reflected in the increase of the total index by 5.01%. In the transport group prices increased by 17.3%, which was reflected by 2.24 percentage points on the annual index. In housing, water, electricity, and gas, a 43.5% increase in prices was recorded, which was reflected in annual inflation by 3.64%. In hotels and restaurants prices increased by 14.0%, which was reflected in annual inflation by 0.78 percentage points. In health care prices rose 7.9%, reflecting a 0.62 percentage point increase in the overall index.⁷

26. In 2021, the Georgian lari strengthened against the USD. In 2021, compared to 2020, the exchange rate of the GEL against the USD strengthened by 5.5% and amounted to 3.1 GEL per one

²<https://www.geostat.ge/en/modules/categories/316/population-and-demography>

³<https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>

⁴<https://www.geostat.ge/en/single-news/2474/average-monthly-nominal-earnings-of-employees-iv-quarter-2021>

⁵http://ssa.gov.ge/index.php?lang_id=&sec_id=1539

⁶<https://www.geostat.ge/en/single-archive/3364>

⁷<https://nbg.gov.ge/en/page/inflation-targeting>

USD. The nominal effective exchange rate of GEL, which represents the average exchange rate of GEL with the exchange rates of the trading partners, strengthened by 17.9%.

27. In 2021, foreign trade turnover in goods in Georgia amounted to USD 14,342.4 million, 25.8% more than the previous year. Of this amount, exports were USD 4,242.7 million (29.6%), and imports USD 10,099.8 million (25.4%). In 2021, Georgia had a negative trade balance of USD 5,857.1 million.⁸

28. Foreign direct investments in Georgia amounted to USD 1,241.8 million in 2021. The three largest direct foreign investor countries and their shares were: United Kingdom 48.6 % (USD 603.6 million), Netherlands 11.1 % (USD 138.3 million) and Türkiye 8.1 % (USD 100.0 million).⁹

29. Table A provides selected economic indicators.

TABLE A: Selected economic indicators

	2019	2020	2021
GDP (GEL, million)	49,253	49,267	60,003
GDP per capita (USD)	4,696	4,256	5,015
GDP real growth (%)	5.0%	-6.8%	10.5%
Public Debt (% of GDP)	40.4%	60.2%	49.7%
Foreign trade turnover in goods (% of GDP)	-21.7%	-20.0%	-20.3%
Current account balance (%)	-5.5%	-12.5%	-10.4%
External Debt (% of GDP)	32.0%	47.6%	39.9%
Total reserves (multiple of one month's imports)	3.8%	5.2%	4.6%

Source: Ministry of Finance

3.2 Significant Economic Challenges and Ongoing Reforms

30. Over the past decades, the economy has undergone a significant change. Developments with trade partners, and high dollarization in the country had a significant impact on the economy. Georgia does not have a special natural resource that could greatly affect its economy. Therefore, the success of the economy is dependent on the country's institutional development and structural reforms. As a result of reforms implemented over the last decade, Georgia has been able to establish uncomplicated regulations to support ease of doing business, low tax rates and a favorable tax regime, access to simple e-services, and favorable conditions to support private sector development. To achieve these outcomes, the most important tasks were to create a public sector free from corruption, to eradicate vicious practices existing after the collapse of the Soviet Union, and to set a distinctive example in the region.

31. The Government's new strategic document "Vision 2030" was approved in November 2022. It promotes principles for inclusive and sustainable development. The strategy complies with the agenda of the association agreement between Georgia and the European Union. The Government of

⁸ <https://www.geostat.ge/en/single-archive/3373>

⁹ <https://www.geostat.ge/en/modules/categories/536/metadata-foreign-direct-investments>

Georgia is committed to carry out reforms for the development of economic and social policies, strengthening stability and security, improving governance, justice and human rights protection by 2030. The program envisages making progress on (i) foreign policy, peaceful resolution of the Russia-Georgia conflict and ensuring public security; (ii) economic development; (iii) social policy and human capital development; and (iv) governance. The Inter-agency Council for the Development and Reforms of the Country was established to ensure efficient coordination of these reforms.

3.3 Fiscal and budgetary trends

32. Table B shows that the ratio of revenue to GDP was around 25% in 2021 and 2020, having declined from 26.2% in 2019 due to the COVID-19 pandemic. Indirect taxes were the main revenue generator. There is no separate social contribution regime in place. Expenses as a percent of GDP grew from 21.4% in 2019 to 26.3% in 2020 reflecting the government's response to the pandemic, and this remained at a higher than normal level in 2021 before being forecasted to return to normal levels in 2022. Even in these abnormal conditions there has been an operating surplus each year except 2020. After investment (net growth in nonfinancial assets) both 2020 and 2021 experienced an increase in the overall deficit above 2% to 3% of GDP which is financed by a combination of domestic and foreign borrowing.

TABLE B: Aggregate fiscal data (% of GDP)

Item	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Revenues	26,2%	25,2%	25,1%	25,9%	25,4%	25,6%	25,5%	25,4%
Taxes	23,2%	22,3%	22,2%	23,3%	23,2%	23,4%	23,4%	23,5%
Indirect taxes	13,9%	13,3%	13,3%	13,2%	12,8%	13,1%	13,0%	13,0%
Direct taxes	9,3%	9,0%	9,0%	10,1%	10,5%	10,4%	10,4%	10,4%
Social contributions	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Grants	1,0%	0,9%	0,8%	0,6%	0,4%	0,4%	0,4%	0,4%
Other revenues	2,0%	2,0%	2,1%	2,0%	1,8%	1,7%	1,6%	1,6%
Expenses	21,4%	26,3%	24,5%	21,6%	21,3%	21,3%	21,3%	21,2%
Labor remuneration	3,6%	3,8%	3,3%	3,2%	3,4%	3,4%	3,5%	3,6%
Goods and services	3,4%	3,8%	3,7%	3,3%	3,2%	3,2%	3,1%	3,1%
Interest	1,2%	1,6%	1,3%	1,1%	1,5%	1,4%	1,4%	1,4%
Foreign	0,7%	0,7%	0,5%	0,3%	0,6%	0,5%	0,5%	0,4%
Domestic	0,6%	0,9%	0,9%	0,7%	0,9%	0,8%	0,9%	0,9%
Subsidies	2,0%	3,3%	3,0%	2,6%	2,4%	2,4%	2,4%	2,4%
Grants	0,3%	0,1%	0,0%	0,4%	0,3%	0,3%	0,3%	0,3%
Social security	8,5%	11,3%	10,5%	8,8%	8,4%	8,4%	8,4%	8,4%
Other expenditures	2,3%	2,4%	2,6%	2,4%	2,2%	2,2%	2,2%	2,2%
Operating balance	4,8%	-1,1%	0,6%	4,2%	4,1%	4,3%	4,2%	4,2%
Net growth of nonfinancial assets	7,6%	8,2%	6,9%	7,4%	6,8%	6,5%	6,4%	6,3%
Growth	8,0%	8,6%	7,6%	8,0%	7,2%	6,8%	6,7%	6,5%
Decrease	-0,4%	-0,4%	-0,7%	-0,6%	-0,4%	-0,3%	-0,3%	-0,2%
Total balance	-2,7%	-9,3%	-6,3%	-3,1%	-2,8%	-2,2%	-2,2%	-2,1%
Net growth of financial assets	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
Growth	0,5%	0,4%	0,3%	0,3%	0,4%	0,3%	0,3%	0,2%
Decrease	-0,3%	-0,3%	-0,2%	-0,2%	-0,3%	-0,2%	-0,1%	-0,1%
Net increase in liabilities	2,8%	12,9%	4,2%	3,5%	3,0%	2,5%	2,3%	2,0%
Domestic	1,8%	4,0%	-0,6%	1,7%	1,7%	1,6%	1,6%	1,6%
Monetary authorities	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	0,0%	0,0%	0,0%
Other liabilities	1,9%	4,1%	-0,6%	1,7%	1,7%	1,7%	1,7%	1,6%
Foreign	1,0%	8,9%	4,8%	1,8%	1,3%	0,8%	0,6%	0,4%
Inflows	2,8%	10,7%	9,2%	3,2%	2,8%	2,4%	2,2%	3,4%
Outflows	-1,9%	-1,8%	-4,4%	-1,4%	-1,5%	-1,6%	-1,6%	-3,0%
Change of balance of deposits (+ growth)	-0,2%	3,5%	-2,2%	0,3%	0,1%	0,1%	-0,1%	-0,2%
Balance	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Source: Ministry of Finance

33. Table C shows the distribution of actual expenditure by function. Social protection consumes over a quarter of the total expenditure, peaking in 2020, while spending on economic activity, education, public order and safety, and general public services are more than 10% of total expenditure over 2019-2021. Healthcare increased in each year, reaching 15% in 2021. These changes in the share of expenditures reflected the response to the pandemic and also government's overall priorities.

TABLE C: Georgia consolidated budget expenditures (current, capital) according to functional classification (% of total)

Code	Item	2019	2020	2021
701	General public service	9,6%	8,7%	8,5%
702	Defense	5,6%	5,2%	5,3%
703	Public order and safety	8,6%	7,2%	7,1%
704	Economic activity	20,7%	19,9%	19,6%
705	Environmental protection	1,9%	1,8%	2,1%
706	Housing and utility services	4,4%	4,7%	4,9%
707	Healthcare	9,2%	10,9%	13,4%
708	Recreation, culture and religion	4,0%	3,1%	3,5%
709	Education	13,2%	11,0%	11,3%
710	Social protection	23,0%	27,4%	24,3%
	Total	100%	100%	100%

Source: Ministry of Finance

34. In terms of economic classifications, Table D below shows that social security transfers are the single largest expenditure by far, increasing from 37% in 2019 to 41% in 2021. This is followed by labor remuneration, which declined from 19% in 2019 to 16% in 2021.

TABLE D Economic classifications of consolidated budget expenditures (% of total)

	2019	2020	2021
Expenses	100%	100%	100%
Compensation of employees	17,0%	14,3%	13,4%
Goods and services	15,8%	14,5%	14,9%
Interest	5,8%	5,9%	5,4%
Subsidies	9,4%	12,7%	12,4%
Grants	1,2%	0,3%	0,2%
Social security	39,9%	43,0%	42,9%
Other expenditures	10,9%	9,2%	10,7%

Source: Ministry of Finance

3.4 Legal and regulatory arrangements for PFM

35. The legal basis for Georgia's public finance management is determined by the Constitution of Georgia, including the principles of fiscal governance and fiscal rules, basic principles for preparing, reporting, and controlling the draft budget, and responsible persons. The basic principles of fiscal governance and fiscal rules are approved by Organic Law of Georgia on Economic Freedom of Georgia. Since 2009 the basic law of the budget system is the Budgetary Code of Georgia, which has unified various existing legislative acts and has identified the budget process for all levels of government in a single system with unified processes and principles (Law on Georgia's Budget

System). The code has established general norms of the budget system as well as specific regulations for public budget, republican budgets of autonomous republics and budgets of municipalities. Issues regarding the management of public debt, issuance of state guarantees, and transfer of debt are regulated by the Constitution of Georgia and the Law on Public Debt (1998). There is the Tax Code of Georgia and Law of Georgia on Revenue Service as well as various related laws that regulate taxation. The law on State Internal Financial Control (Law #5447 dated December 9, 2011) covers internal audit. The State Audit Office is independent as stipulated under Article 97 (2) of the Constitution of Georgia and has operational, financial, functional, and organisational independence in accordance with Article 3 of the Law of Georgia on State Audit Office.

3.5 Institutional arrangements for PFM

36. Tables E and F show the structure of government by number of units and expenditure. Central government has 59 budgetary units including ministries and agencies. There is no Social Security Fund. There are no extrabudgetary units as all agencies (LEPL and NLE) related to ministries are included in the budget. The duties and responsibilities of municipalities include such functions as local natural resources management (forests, water, land resources), local irrigation and drainage, water supply and sewage, solid waste management, kindergardens, local roads and transportation, and recreational area management.

TABLE E: Structure of public sector – number of entities

Year: 2021	Public Sector				
	Government Sub-sector		Social Security Funds	Public Corporations ¹⁰	
	Budgetary Unit	Extra-budgetary Units ¹¹		Sub-sector	
			Nonfinancial Public Corporations	Financial Public Corporations	
Central	59	0	0	177	1
1 st tier sub-national (state)	67	0		168	
Lower tier (s) of sub-national	1				

Source: Ministry of Finance

¹⁰ Public corporations are defined as an enterprise which sells goods and services at an economically significant price, can bring profit or other financial benefits to the owner and in addition, is independent in the decision-making process in line with IMF guidance.

¹¹ All agencies (LEPL and N(N)LE) related to ministries are included in the budget. There are 2,300 of which 2,081 are schools. These are central government entities and are accountable to the 59 budget entities and thus are not independent. There is no Social Security Fund.

TABLE F: Structure of public sector - state budget expenditure

GEL, million	Central Government			
Year: 2021				
	Budgetary Unit	Extra budgetary Units	Social Security Funds	Total
Revenue	12,750.3	0	0	12,750.3
Expenses	14,197.9	0	0	14,197.9
Transfers to (-) / from (+) other units of general government	-1,827.4			-1,827.4
Total Expenditure	19,807.5	0		19,807.5
Liabilities	2,509.3	0		2,509.3
Financial Assets	-1,269.9	0		-1,269.9
Nonfinancial assets	2,544.2			2,544.2

Source: Ministry of Finance for Revenue Expenditures and Transfers and 12-month performance review of the 2021 state budget for Laibilities and Financial and Nonfinancial Assets

37. Parties involved in Georgia's budget process adhere to internationally accepted practices. The Government of Georgia, the Ministry of Finance of Georgia, the legislative body, and the State Audit Office share their functions at different stages of the budget process. The MoF and the government have been implementing public finance management reforms for more than 10 years, which envisages strengthening of the capacity of all these institutions and they will continue to work in this direction.

Ministry of Finance

38. For the purpose of preparation of the government's Basic Data and Directions Document (BDD) and determination of the medium-term policy, the Ministry of Finance (MoF) is responsible for:

- Major macroeconomic forecasts and measurements of economic development;
- Forecast and planning of budget revenues;
- Preparation of analytical materials and forecast calculations.

In addition, functions in the ministry are structurally distributed to the relevant divisions and fiscal policy is planned and implemented through their coordinated work. Relevant divisions and departments include:

Department of Macroeconomic Analysis and Fiscal Policy Planning determines estimated indicators of major macroeconomic parameters, forecasts and plans the budget revenues, analyzes the country's macroeconomic risks, and elaborates recommendations on fiscal policy. The division coordinates medium and long-term strategies of Georgia's development.

The Tax and Customs Policy Department determines the main directions of the country's tax and customs policy.

Department of Public Debt and Foreign Financing defines estimated marginal volumes of public debt to reflect such information in the state budget. Its aim is to find credit resources available to donor organizations. It also seeks to attract grant financing.

The Budget Department coordinates the development of the BDD and prepares proposals and analytical materials for determining medium-term policy. It prepares the annual draft budget and drafts of required legislative and normative acts. It coordinates the process of budget performance and the process of reporting on its performance.

The Fiscal Risk Management Department analyzes the fiscal risk that may arise from ongoing events in the economy or as a result of indirect obligations taken by the state. It also analyzes expected results in the development of various alternative scenarios.

Central Harmonization Unit (CHU) CHU ensures coordination of both internal audit and financial management and control functions. CHU ensures the updating of the internal audit strategy and methodology of the state sector and the conduct of periodic educational/practical seminars and training for employees of internal audit entities and persons responsible for financial management and control.

Parliament of Georgia and the Finance and Budget Committee

39. The Finance and Budget Committee carries out assessment of the expected outcomes of measures to be implemented in finance-budget, cash-credit, tax-customs and currency systems and prepares relevant conclusions, certificates, recommendations and solutions; it also discusses the draft budget, develops the conclusion, and organizes its review and agreement with other committees.

40. At the plenary sitting of the Parliament on the discussion of Draft Budget Law, Parliament of Georgia conducts hearings of the reports of the State Audit Office, the National Bank of Georgia, and the Finance and Budget Committee of the Parliament of Georgia.

41. The Budget Office is an independent fiscal institution, the primary goal of which is to promote strengthening of parliamentary supervision over public finance management through independent and impartial analysis, study, evaluation, and recommendations on the fiscal policy of the executive government and consequently, transparent management of public finances and fiscal sustainability for the medium / long term.

State Audit Office

42. The State Audit Office is the supreme body of the state financial and economic control. It conducts audits, develops proposals and recommendations on measures to be taken, including measures for elimination and prevention of violations / deficiencies, as well as about the improvement of relevant administrative and legal acts.

43. The main objective of the office is to protect the legitimacy and efficiency of the use of state funds, as well as other material assets of the state, to protect national wealth and property of the state, autonomous republics and local self-government units.

National Statistics Office of Georgia

44. The National Statistics Office of Georgia is an independent body created for the purpose of producing official statistics and disseminating statistical information. The goal of the National Statistics Office of Georgia is to provide official statistics reflecting the state of the social, demographic, economic and natural environment of the country on the basis of internationally recognized principles of statistics. The macroeconomic and fiscal parameters are agreed with the International Monetary Fund.

National Bank of Georgia

45. The National Bank manages independent monetary policy which is important for the stable development of the country. It leads the country's monetary policy to ensure stability of prices and facilitates the stable functioning of the financial sector. It develops and implements the monetary and credit policy according to the main directions defined by the Parliament. The National Bank operates independently from the central government.

3.6 Other Important Features of PFM and its operating environment

46. The COVID-19 pandemic has put a severe constraint on the ability of the Government of Georgia to plan its public finances in the manner it has developed. Nevertheless the processes and procedures that have been developed over the years have not been compromised and have been adhered to despite the constraints of the pandemic.

47. On January 1, 2019, the law "On Accumulated Pension" came into force. According to the law, 2% of the gross salary of an employee participating in the pension scheme is transferred to the employee's pension account. In addition to the employee's own contribution, the employer and the Treasury each contribute another 2%.¹² If the employee receives a salary from a public sector organization, all these contributions are part of general taxation and general expenditure. If the pension scheme participant is employed in the private sector, the 2% (employee's contribution) plus 2% (employer's contribution) is not part of general taxation and general expenditure. According to the law, 2% is called a contribution, not a tax. In 2021 GEL 236.0 million was transferred from the state budget to the pension fund for the co-financing of the pension scheme representing the government's contribution. All the funds in an individual's pension fund are the property of the individual.

¹² <https://www.pensions.ge/en/for-participants/pension-schema>

4. Assessment of Public Financial Management Performance

PILLAR ONE: Budget Reliability

49. For the government budget to be useful for policy implementation, it is necessary that it be realistic and implemented as passed.

PI-1. Aggregate Expenditure Outturn

50. The PI-1 indicator assesses the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. It is a single dimension indicator examining data from the 2019, 2020, and 2021 fiscal years.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-1: Aggregate expenditure outturn	C	A	The expenditure outturn (current and capital) compared to the original budget was 103.7% in 2019, 113.7% in 2020, and 110.3% in 2021.

51. Actual and originally budgeted expenditure data is summarized in Table 1.1:

Table 1.1: Total approved budget and actual expenditure (GEL, 000)

	2019	2020	2021
Approved budget	11,793.4	13,067.9	15,175.3
Actual expenditure	12,231.6	14,852.9	16,742.1
% Deviation	103.7%	113.7%	110.3%

Source: Ministry of Finance

52. Table 1.1 shows that the expenditure outturn (current and capital) compared to the original budget was 103.7% in 2019, 113.7% in 2020, and 110.3% in 2021. The score for this dimension is C.

Difference in Comparison to the Previous Assessment

53. This indicator scored A in the previous PEFA assessments of Georgia. A significant increase in the actual compared to the budget in 2020 and 2021 was caused by the outbreak of the coronavirus disease (COVID-19) worldwide in late 2019, which significantly changed the global and national economies. The deviation in these two years was different from that of 2019 which was similar to earlier years. The 2020 and 2021 budget execution differences were overspending directly tied to the COVID pandemic and associated economic downturn – hence force majeure. This overspending was undertaken within the legal framework and under the full control of the elected officials and MoF via formal, approved budget amendments. These budget deviations do not reflect a lack of fiscal control and/or weak budget formulation, but in Georgia reflect full fiscal control.

Ongoing and Planned Reforms and Measures

54. In order to manage the impact of COVID the law on the 2020 state budget was amended twice, and the Law on the 2021 state budget and the medium-term forecasts were amended once. In addition, a plan was prepared to revert to the ceilings set by the fiscal rules defined under the Organic Law of Georgia on Economic Freedom, which provides for the deficit to reach the established limits by 2023.

PI-2. Expenditure Composition Outturn

55. The PI-2 indicator assesses the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition and use of contingency reserves. Coverage is BCG and the time period is the last three fiscal years, 2019, 2020 and 2021. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-2: Expenditure composition outturn	B+	A	
2.1 Expenditure composition outturn by function	B	A	The deviation in the expenditure composition outturn by functional classification was 5.6% in 2019, and 9.5% in 2021, but 13.7% in 2020.
2.2 Expenditure composition outturn by economic type	B	A	The deviation in the expenditure composition outturn by economic classification was 6.2% in 2019, and 5.3% in 2021, but 12.6% in 2020.
2.3 Expenditure from contingency funds	A	A	Actual expenditure allocated from the contingency funds averaged 0.4% in the assessment period.

2.1 Expenditure Composition Outturn by Function

56. *Dimension 2.1 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition, by functional classification, excluding contingency items, and interest on debt.*

57. Actual and budgeted expenditures by function are presented in the Annex. The deviation in actual expenditure from that budgeted by functional classification was 5.6% in 2019, 13.7% in 2020, and 9.5% in 2021. The score for this dimension is B.

2.2 Expenditure Composition Outturn by Economic Type

58. *Dimension 2.2 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.*

59. Actual and budgeted expenditure by economic classification (excluding contingencies) are presented in Annex 1. The rate of deviation in expenditure by economic classification was 6.2% in 2019, 12.6% in 2020, and 5.3% in 2021. The score for this dimension is B.

2.3 Expenditure from Contingency Funds

60. *Dimension 2.3 measures the average amount of expenditure charged to a contingency vote.*

61. Under the Laws on the Budget Code of Georgia and the state budget of Georgia, the Contingency Fund of the Government of Georgia and the Contingency Fund of the President of Georgia are considered within the total public expenditures. Expenditures of the Contingency Funds of the Government of Georgia and the President of Georgia are allocated to finance unbudgeted expenses (contingencies). Expenditures from these funds shall be allocated by the MoF on the basis of a relevant decision of the President of Georgia and the Government of Georgia, which shall include information on the amount and purpose of the expenditures. According to Article 28 of the Budget Code of Georgia, the volume of the Contingency Funds of the Government of Georgia and the President of Georgia shall not exceed 1% of the total amount of budget allocations envisaged by the annual budget. In accordance with the rules established as a result of the amendment¹³ to the Budget Code of Georgia, which came into force on January 1, 2019, the total volume of contingency funds may be increased by not more than 20% of the approved volume of each contingency fund. Contingency funds defined by the budget (Contingency Fund of the Government of Georgia) were 0.5% in 2019, 0.4% in 2020, and 0.3% in 2021 of the original budget. The score for this dimension is A.

PI-3. Revenue Outturn

62. The PI-3 indicator measures the change in revenue estimated in the original budget submitted to the Parliament and end-of-year outturn during the last three years. 2019, 2020 and 2021 fiscal years and covers BCG. It contains two dimensions and uses the M2 (AV) method for aggregating dimensions scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-3: Revenue outturn	C+	B+	
3.1 Aggregate revenue outturn	C	A	Aggregate deviation was between 92% and 116% in two of the three years. 101.7% in 2019, 93.4% in 2020, 114.1% in 2021.
3.2 Actual revenue composition outturn	B	B	Variance in revenue collection was less than 10% in two of the three fiscal years. 6.7% in 2019, 11.7% in 2020 and 5.9% in 2021.

¹³ <https://matsne.gov.ge/ka/document/view/4418491?publication=0#DOCUMENT:1;>

3.1 Aggregate Revenue Outturn

63. *Dimension 3.1 measures the extent to which revenue outturns deviate from the originally approved budget.*

64. Actual and budgeted revenues by broad generic type are presented in the Annex. The initial budgeted forecast of the 2019 state budget revenues (GEL 10,491.5 million) was calculated with consideration of the economic growth (4.5%) and average inflation (3.0%), while their actual figures were 5% and 4.9%, respectively. Consequently, actual 2019 state budget revenue amounted to 101.7% of forecast. The initial budgeted indicator of the 2020 state budget revenue (GEL 11,226.9 million) was calculated with consideration of economic growth (4.5%) and average inflation (3.0%), however, due to the restrictions and current events in the world caused by the Covid-19 pandemic, economic growth amounted to -6.8%, and prices increased by 5.2%. Consequently, actual 2020 state budget revenues came to only 93.4% of the forecast. The initial budgeted indicator of the 2021 state budget revenue (GEL 11,179.2 million) was calculated with consideration of 4.5% GDP growth and 2.5% average inflation; however, the economic recovery was larger than forecast (10.4%) and the prices increased significantly (average annual inflation was 9.6%). Taking this into consideration, the state budget revenues also increased significantly, and the actual state budget revenue was 114.1% of the forecast. A significant deterioration in the estimates for 2020-2021 was caused by the outbreak of the pandemic in late 2019, which significantly changed global economic trends.

Table 3.1: Aggregate revenue outturn

Year	Actual as % of Forecast Revenue
2019	101.7%
2020	93.4%
2021	114.1%

Source: Ministry of Finance

65. The deviation between actual revenues collected was between 92% and 116% of budgeted revenue in two of the three completed fiscal years. The score for this dimension is C.

3.2 Revenue Composition Outturn

66. *Dimension 3.2 measures the variance in revenue composition and attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.*

67. The deviation rate in revenue structure was 6.7% in 2019, 11.7% in 2020 and reached 5.9% in 2021. The high deviation rates observed in 2020 are mainly caused by difficulties in forecasting due to uncertainties of COVID-19. In 2020, in comparison to the forecast, a decrease was observed in almost all revenue components. Only a slight positive deviation was recorded in property revenues. Many more foreign grants were also mobilized compared to the forecast. In 2021 the absolute deviation was still high. During this period, higher than expected tax revenues were mobilized from all taxes, although the deviation at the component level was mostly in one direction and the rate of internal variation was reduced. The particularly high rate of mobilization of taxes on goods and services is noteworthy. The revenues from this component exceeded planned by almost GEL 1 billion. It is expected that from 2022, along with the improved forecasting possibilities of economic indicators, the accuracy of revenue forecasting will also improve, and the deviation rate will return to

pre-pandemic levels. However, the ongoing processes in the region should also be considered, which may further increase the level of uncertainty and worsen the accuracy of the forecast.

Table 3.2: Deviation in revenue composition

Year	Deviation
2019	6.7 %
2020	11.7 %
2021	5.9 %

Source: Ministry of Finance

68. The deviation was below 10% in two of three fiscal years. The score for this dimension is B.

PILLAR TWO: Transparency of Public Finances

69. Transparency of information on public finances is necessary to ensure that activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables external scrutiny of government policies and programs and their implementation.

PI-4. Budget Classification

70. The PI-4 indicator assesses the classification of the budget and the consistency with international standards during all stages of the budget cycle including formulation, execution and reporting in the last completed year 2021. It consists of a single dimension and covers BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-4: Budget classification	A	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia.

71. The budget classification is defined in the Budget Code of Georgia.¹⁴ It is defined in more detail by the order of the Minister of Finance.¹⁵ The classification includes:

- An economic and functional classification that is used at all levels of the budget system for public accounting and is based on the standards of Government Finance Statistics Manual 2014 (GFSM 2014) and Classification of the Functions of Government (COFOG). Economic and functional classifications include revenues, expenditures, operations with nonfinancial assets, operations with financial assets and liabilities. The economic classification is coded in

¹⁴ <https://www.matsne.gov.ge/ka/document/view/91006?publication=51> Budget Code of Georgia, Article 8.

¹⁵ <https://www.matsne.gov.ge/ka/document/view/4530811?publication=0#DOCUMENT:1>; Order N99 of the Minister of Finance of Georgia, April 5, 2019.

line with GFS through a 5-digit sequence that identifies the expense (or revenue) at a finer level of detail than the one recommended by GFS.

- An administrative classification that is ensured by the program classification coded with a 5-digit segment that allows identification of the detail of expenses (or revenues) at least at the level required by GFS. In the case of Georgia, the detail is captured at the cost center level (the third GFS level and below).

72. According to the 2014 Government Financial Statistics Manual, the budget classification must include the economic classification of operations related to revenues, expenditures, nonfinancial assets, financial assets, and liabilities. An example of an GFS-compliant economic coding system is given below:

Example of GFS-Compliant Coding System in Georgia

Expenditure coding is in line with GFS

Expenses – Code 2:

- *Compensation of employees - Code 21*
- *Use of goods and services - Code 22*
- *Consumption of fixed capital¹⁶ - Code 23*
- *Interest – Code 24*
- *Subsidies – Code 25*
- *Grants – Code 26*
- *Social benefits - Code 27*
- *Other expenses – Code 28*

Change in nonfinancial assets – Code 31

Change in financial assets – Code 32

Change of liabilities – Code 33

Expenditure coding:

5-digit economic code: 2.2.3.12.1.

- *Expenditures: 2*
- *Goods and services: 2 2*
- *Office expenses: 2 2 3*
- *Utilities: 2 2 3 12*
- *Electricity: 2 2 3 12 1*

73. While program classification is not a GFS requirement (nor a COFOG requirement), Georgia has developed a comprehensive program budgeting system with a specific classification. It is a combination of priorities, programs (4-digit) and sub-programs (6-digit and more detailed) and the classification is determined by the annual budget. This classification substitutes the GFS organizational classification and provides, at least, the same level of detail as the GFS second and third levels. According to the program classification, the allocations are distributed to the

¹⁶ According to the budget classification (Order №99 of the Minister of Finance of Georgia, 05.04.2019), this article is valid only in case of the accrual method.

budget organizations and to the programs and sub-programs to be implemented by them, the detail of which is captured at the cost center level. An example is provided below:

Example of Program classification coding that substitutes GFS-compliant organizational classification

*The Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia – Program code 27 00 (first-level budget organization, GFS level)
Program - **Public Healthcare** (Level 2) - Code 27 03*

*Subprogram 27 03 01 State Universal Healthcare (3rd GFS Level)
Subprogram 27 03 02 Public healthcare
Subprogram 27 03 03 Provision of medical services to the population in priority areas
Subprogram 27 03 04 Postgraduate medical education*

*Subprogram / Event 27 03 02 01 Early Detection and Screening of Diseases (Level 3) - (**Cost-center** - LEPL – L. Sakvarelidze National Center for Disease Control and Public Health)
Subprogram / Event 27 03 02 02 Immunization (Level 3) - (**Cost-center** - LEPL – L. Sakvarelidze National Center for Disease Control and Public Health)*

74. It is to be noted that each cost center (sub-program or sub-sub-program implementer) is identified as such in the Electronic Public Financial Management System (ePFMs) (e-treasury and e-budget).

75. The functional classification is COFOG-compliant with the 10 following functions: general public services, defense, public order and safety, economic affairs, environmental protection, housing and community amenities, health, recreation, culture and religion, education, and social protection.

76. The Order №99 of the Minister of Finance of Georgia dated April 5, 2019 “On Approval of the New Budget Classification of Georgia” was approved based on the standards of the Government Finance Statistics Manual 2014 (GFSM 2014) developed by the International Monetary Fund. The order entered into force on January 1, 2019 and includes the following major amendments:

- ✓ A separate chapter (Chapter II) for state institutions and sectors was added to the budget classification, covering all state institutions and all non-market non-profit institutions controlled by state entities.
- ✓ Economic classification of operations related to revenues, expenditures, nonfinancial assets, financial assets and liabilities has been brought in line with the requirements of the Government Finance Statistics Manual 2014.
- ✓ When accounting for the financing of public corporations (state-owned enterprises) the accounting of the "capital contributions" was clarified, considering the economic nature. This is accounted in expenses, as well as in the classification of financial assets and liabilities and related operations and is clarified in the budget classification.

77. The score for this dimension is A.

PI-5. Budget Documentation

78. The PI-5 indicator assesses the comprehensiveness and public accessibility of information provided in the annual budget documentation prepared by a government. It includes a list of four basic and eight additional elements. Time period is the last budget submitted to the legislature (2021) and the coverage is BCG. It consists of a single dimension.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-5: Budget documentation	A	B	10 out of 12 applicable elements (four basic and six additional elements) are fulfilled.

5.1. Budget Documentation

79. Based on the table below the budget documentation meets 10 out of 12 relevant criteria, including four basic and six additional elements.

Table 5.1: Budget documentation for 2021

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
Basic Elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Budget documentation includes information on fiscal data, including fiscal balance for the last three years, expected for the current year, forecasted +3 years. ¹⁷
2	Previous year's budget outturn, presented in the same format as the budget proposal. In this element, "same format as the budget proposal" means that figures should be presented and comparable at the same aggregate level or the same level of relevant detail as in the budget proposal.	Yes	Chapter VI of the Budget Law presents a table in which each budget line has a column with the data for the current fiscal year, in addition to a column for the last fiscal year and a column for the budgeted year. ¹⁸
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Chapter VI of the Budget Law presents a table in which each budget line has a column with the data for the current fiscal year, in addition to a column for the last fiscal year and a column for the budgeted year.

¹⁷ https://mof.ge/images/File/2022-bijeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf

¹⁸ <https://mof.ge/images/File/2022-bijeti/21-12-2021/TAVI%206.docx>

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes	Information about revenues and expenditures is presented according to all main articles of budget classification for all three years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to the main categories of budget classification for the medium-term period (past, current, planned and 3 year forecast); ¹⁹
Additional Elements			
5	Sources and composition of deficit financing	Yes	Both local and foreign sources of deficit financing are presented in the budget documentation, including information on foreign debt according to the project names in case of donors and investment projects, as well as information about the structure of domestic debt. ²⁰
6	Macroeconomic parameters, including at least estimates of GDP growth, inflation, interest rates and the exchange rate.	Yes	This budget documentation contains three tables of macroeconomic forecast (one for each scenario - basic, optimistic, and pessimistic). Macroeconomic indicators are presented from 2018 to 2025. The macroeconomic indicators are GDP, GDP growth, inflation, interest rates, exchange rates, etc. ²¹
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	Yes	Information about the total forecasted volume of the debt is presented in the budget. The structure of domestic and foreign debt is presented by creditors / types. The budget annexes also include forecasts of the overall volume of the debt (internal and external separately) for the past, current, to be planned and to be planned +4 years periods. ²²
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	No	The draft budget for 2022 included information regarding the changes of financial assets for the current and past years as well as the one to be planned. However, the information regarding total financial assets was not presented in the 2022 budget.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structured	Yes	The fiscal risk report is prepared, which provides information on macroeconomic risks, analysis of debt sustainability and information on current fiscal risks from state enterprises. Information on fiscal risks is published, where information is given about the conditional obligation of the state, which includes a large part of the conditional

¹⁹ <https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%20I.doc>

²⁰ <https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%204.doc>;

<https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/20.DSA%20-%2028%2011%202021.pdf>;

<https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/22.%20Valis%20Danarti%202022%20-%2028%2011%2021.docx>

²¹ https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/16.scenarebis%20analizi_2021.docx;

https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf;

https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/17.2022%20BD%20Tables%20sen%2011_2_BDD_LEPL.pdf;

https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/18.2022%20BD%20Tables%20sen%2011_3_BDD_LEPL.pdf;

²² <https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%204.doc>;

<https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/20.DSA%20-%2028%2011%202021.pdf>;

<https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/22.%20Valis%20Danarti%202022%20-%2028%2011%2021.docx>;

No.	Criteria	Achievement (yes / no)	Relevant Justification / Comment
	financing instruments such as public-private partnership (PPP) contracts, etc.		obligations. It includes information on public-private partnership (PPP) projects. ²³
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes	The draft of the budget, its annexes, definitions and related / supporting documentation, including the BDD provide detailed and comprehensive information on both the current policy and the fiscal impact of new initiatives for the next three years. This information is separated within the programs to be implemented by budget organizations. The directions of the new policy were first reflected in the BDD for 2021-2024, which is attached to the Law on the 2021 state budget and submitted to the Parliament of Georgia. This information was also reflected in the program budget annex under the relevant program. The BDD for 2021-2024 ²⁴ identified 8 new policy directions within 3 ministries, while the BDD for 2022-2025 ²⁵ identified additional 4 new policy directions within 2 ministries. The new investment projects were prepared according to the investment project management methodology and the analysis document and economic calculations on specific evaluated projects were attached to the draft state budget for 2020, 2021 and 2022 and submitted to the Parliament.
11	Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum medium-term projection of expenditure, revenue, and fiscal balance.	Yes	The BDD includes medium-term fiscal forecasts, which contain projections for the main headings of revenue and expenditure, as well as the fiscal balance, for the budgeted years and the next 3 years. ²⁶
12	Quantification of tax expenditures.	Partial	In 2020, a document on tax expenditure analysis covering Value Added Tax (VAT) was prepared in pilot mode for the first time, which was attached to the draft budget for 2021 and submitted to the Parliament of Georgia. ²⁷ The document is being processed

Source: Ministry of Finance

Difference in Comparison to the Previous Assessment

80. The BDD for 2021-2024 and 2022-2025 reflect the fiscal impact of the new policy directions in the medium term. This was not done at the time of the previous PEFA.

81. Tax Expenditures - Document for Evaluating Tax Expenditures within the Value Added Tax (VAT) for 2020 was prepared in 2020 with technical assistance of the International Monetary Fund

²³ https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/19.FRS_III_2021.pdf;

²⁴ <https://mof.ge/images/File/2021-biujeti/12-01-2021/2.%202021-2024%20BDD.docx>

²⁵ 2022-2024 BDD <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx>;

²⁶ <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx>;

²⁷ <https://mof.ge/images/File/2021-biujeti/12-01-2021/13.%20tax.docx>

(IMF) and attached to the 2021 budget. In 2020-2021, work in this direction was continued and expanded, VAT was refined and methodological models for estimating income and profit tax expenditures were added to it, and the process of its introduction in the Ministry of Finance was launched. From 2022, with the assistance of the International Monetary Fund, the staff of the MoF is estimating the tax expenditures of all three taxes, which will be attached to the 2023 budget and will be systematic. In 2023, it is planned to prepare an analysis of the socio-economic consequences and cost-effectiveness of large tax expenditures. In the medium term, it is planned to systematize the assessment of tax breaks for all payments and to introduce analysis procedures.

82. The score for this dimension is A.

PI-6. Central Government Operations Outside Financial Reports

83. The PI-6 indicator measures the extent to which government revenue and expenditure are reported outside central government reports in 2021. It consists of three dimensions and uses the M2 (AV) method for aggregating scores.

84. The Georgian legislation and the basic principles of the budget system do not provide for nonbudgetary / extrabudgetary units outside the budget structure. The structure of the public sector in terms of central government with respect to budgetary units, nonbudgetary units, and public corporations is outlined in section 3.5 Institutional Arrangements for PFM and Table 3.5.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-6: Central government operations outside financial reports	A	A	
6.1 Expenditure outside financial reports	A	A	All expenditures are included in financial reports.
6.2 Revenue outside financial reports	A	A	All revenues are included in financial reports.
6.3 Financial reports of extrabudgetary units	N/A	N/A	There are no extrabudgetary units.

6.1 Expenditure outside Financial Reports

85. *Dimension 6.1 assesses the magnitude of expenditures incurred by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports.*

86. In accordance with the principle of comprehensiveness of the budget system of Georgia, all revenues, expenditures, and balance changes in the budget are fully reflected in the respective budgets. This includes all public bodies as legislation does not allow the existence of nonbudgetary funds. The score for this dimension is A.

6.2 Revenue outside financial reports

87. *Dimension 6.2 assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports.*

88. There are no revenues outside of the financial reports in line with the relevant legislation. The score for this dimension is A.

6.3 Financial Reports of Extrabudgetary Units

89. Dimension 6.3 assesses the extent to which ex-post financial reports of extrabudgetary units are provided to central government.

90. Information on the performance of budgets of legal entities of public law and non-profit (non-commercial) legal entities is reflected in the quarterly (3, 6, and 9 months) and annual budget statements (quarterly and annual budget statements are prepared in accordance with the Order №112 of the Minister of Finance of Georgia dated April 11, 2012, "On Approval of the Forms of State Budget Performance Report and the Terms of its Submission").²⁸ All central government entities are included in budget reports and there are no extrabudgetary units to report. The score for this dimension is N/A.

PI-7. Transfers to Local Governments

91. The PI-7 indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it during 2021. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-7: Transfers to central governments	B+	A	
7.1 Systems for allocating transfers	B	A	The horizontal distribution of 82.4% of the amount allocated by the central government to the local government is determined by transparent, rule-based systems.
7.2 Timeliness of information on transfers	A	A	Local self-government bodies will be provided with detailed information on the annual volume of transfers not less than 6 weeks prior to the start of the year to be planned.

92. The development of the system of local self- government started in 1991 and was legally formalized in 1997 through adoption of the Law on Local Self-Government. The Law on the Budgets of Local Self-government Units (2006) was replaced by the new Budget Code of 2009, unifying the budget process and procedures for all layers of government, and specifying that:

- Each local self-government body has its own independent budget.

²⁸ <https://mof.ge/5429>

- The independence of the local self-government bodies in budgetary matters is safeguarded by: (i) own revenues and (ii) earmarked transfers from the central government for implementation of authorities delegated to the subnational governments, and special transfers, which are mostly targeted to investments in infrastructure.
- Central and autonomous republic authorities cannot interfere in the budgetary powers of the subnational governments.

93. In 2014 Parliament enacted the Law on Local Self- government, replacing the law of 2005. By the new law, the responsibilities and competencies of the municipalities were expanded and the system of internal institutional arrangement of self-governance was changed. Local government responsibilities are focused on communal affairs, local roads, kindergardens, and some public health programs and supplementary financing of healthcare. However, in addition to designating a number of specific functions as municipal responsibilities, the Law on Local Self-government also contains: (a) a “general competence” clause allowing local governments to perform functions beyond those specifically enumerated in the law as long as they are not explicitly disallowed in the legislation; and (b) an additional clause that allows delegation of functions to local authorities by law or through intergovernmental agreements. All other sectors are now mostly administered directly from the central government’s line ministries and agencies.

7.1 Systems for Allocating Transfers

94. *Dimension 7.1 assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers.*

95. The Budget Code specifies the following types of transfers to the autonomous republics and local self-government units:

- **Special transfer.** Special transfer is financial assistance provided between the state, autonomous republics, and municipal budgets. These are allocated to eliminate the effects of natural disasters such as ecological and other disasters, hostilities, epidemics and damages from other emergency situations as well as support to assist municipalities in the implementation of other activities. The municipality may only allocate the transfer for the specific purposes of the transfer within the scope of its powers defined by the legislation of Georgia.
- **Capital transfer.** Capital transfers are allocated to municipalities in accordance with the rules and procedures of Decree №23 of the government. The rules and procedures are:
 - ✓ A Special Commission is created which, among others, includes the Deputy Minister of Finance, a Budget Department representative of the MoF, the Deputy Minister of Regional Development and Infrastructure (MRDI), and representatives of the respective department dealing with coordination with municipalities from MRDI.
 - ✓ Municipalities submit proposals of different capital projects to the commission.

- ✓ Criteria for project selection are defined by the government decree.²⁹ The criteria are as follows:
 - Compliance of the project proposal and project documentation with the development strategy of a specific region and the development program of the given self-governing unit (if they exist);
 - Maximum involvement of the local population in the process of project proposal selection and project implementation;
 - The need for financial support from the state to implement the project;
 - Improving the production and economic parameters of the self-governing unit;
 - Creation of new jobs;
 - There should be no duplication with the programs and activities of other organizations; and
 - Increasing the accessibility of the population and raising the quality in the fields of transport, healthcare, education, sports, culture, housing and communal services, as well as providing a safe, ecologically healthy and safe environment for the population.
- ✓ Municipalities are obliged to co-finance the projects at least by 5%.
- ✓ Commission allocates available funds per specific projects and money is transferred to the municipality according to the contract amount and actual performance. This type of transfer from the central budget is given to the municipality in accordance to the agreement signed between the municipality and the project implementer. In some cases, it can be an advance payment within 20%. In other cases, the transfer is paid according to the work performed, after submitting the relevant documentation
- **Targeted transfer.** There is a transfer from the state budget to a lower-level budget to ensure the financial security of a delegated authority.

96. In 2019, the equalization transfer system in use was replaced by one based on a value-added tax (VAT) distribution system. This system directs at least 19% of the VAT mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion. Value added tax is distributed in accordance with Article 71 of the Budget Code.

97. VAT is distributed to municipalities according to population characteristics of the municipality in the following proportions:

- **60%** - Size of the population of the municipality;
- **15%** - Number of children under 6 of the municipality;
- **10%** - Number of adolescents aged 6 to 18 registered in the municipality;
- **5%** - Area of the municipality; and
- **10%** - Number of persons permanently residing in a highland settlement.

²⁹Resolution №23 of the Government of Georgia of February 7, 2013, "On Approval of the procedures and criteria for the selection of local self-government and regional projects to be financed from the fund of projects to be implemented in the regions of Georgia envisaged by the state budget of Georgia".

98. The MoF reflects the percentage of the share of each municipality in the value added tax determined for the municipalities in the budget proposal.

Table 7.1: Transfers from central government to local governments

		GEL, million		
#	Transfers	2019 Actual	2020 Actual	2021 Actual
1	Value Added Tax	995.4	919.2	1,145.2
2	Targeted transfer to exercise delegated authority	11.8	12.0	12.0
3	Special transfer	207.5	214.8	231.0
4	Capital transfer	371.2	440.0	439.2
4.1	Of which to finance capital projects in accordance with the amount of transfers distributed by the commission in accordance with government Decree №23	320.8	406.2	381.3
4.2	Other capital transfers	50.4	33.8	57.9
	Total	1,585.9	1,585.9	1,827.4
	Amount of rule-based transfers distributed (1+2+4.1)	1,328.0	1,337.3	1,538.5
	Percentage of rule-based transfers distributed	83.7 %	84.3 %	84.2 %

Source: Ministry of Finance

99. Transfers that were not based on the rule in the total transfer were: 2019 - 16.3%; 2020 - 15.7%; 2021-15.8%. The main ones were:

- ✓ As a result of COVID-19 outbreak, the macroeconomic and fiscal parameters have undergone significant changes and as a result led to a reduced distribution of value added tax to municipalities. Additional transfers were allocated to the municipalities in order to supplement their own incomes.
- ✓ From 2019, the occupied municipalities (Akhalgori, Azhara, Eredvi, Tighvi, Kurta, and Akhalgori) do not participate in the distribution of value added tax. Allocation of funds for the mentioned municipalities was carried out in the form of a special transfer provided by the Law on the state budget.
- ✓ GEL 39.3 million has been allocated to the Tbilisi municipality in 2020-2021 for the modernization of transport infrastructure (Tbilisi Bus Project).
- ✓ In 2019, the construction of outpatient clinics was carried out in various municipalities, for which a capital transfer of GEL 22.5 million was additionally allocated.

100. The amount transferred by rules-based transfer is between 75% and 90% of the total. The score of this dimension is B.

7.2 Timeliness of Information on Transfers

101. This dimension assesses the timeliness of reliable information to subnational government of their allocations from central government.

102. The Budget Code defines relevant procedures for allocation of funds from the state budget to local self-government entities. The MoF provides local self-government entities with macroeconomic parameters by July 15 of each year. Local self-governing entities then begin to

prepare relevant budget proposals. The MoF, not later than October 5, informs the local self-government bodies about the projections of revenues received from the transfers and taxes to be allocated from the state budget to the relevant budget.³⁰

103. Not later than November 15, the Councilor / Mayor of the relevant local self-governing unit will submit the draft of the budget of the local self-governing unit to the representative body - City Council for review. No later than December 10, the Councilor / Mayor of the local self-governing unit will submit the draft budget to the representative body - City Council for final approval. These requirements were followed in 2021 for the 2022 budget.

104. There is a well specified budget calendar that includes the information on transfers that allows at least 6 weeks for budget preparation. The score for this dimension is A.

PI-8. Performance Information for Service Delivery

105. The PI-8 indicator examines the service delivery performance information in the executive’s budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The coverage is government services managed and financed by different tiers of government (central and local).

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI - 8: Performance information for service delivery	A	A	
8.1 Performance plans for service delivery	A	A	Information is annually prepared and published according to program objectives of ministries, their performance indicators, outputs and outcomes.
8.2. Performance achieved for service delivery	A	A	Information about intermediate and final results of the programs /sub-programs implemented by ministries relating to outputs and outcomes within the priorities. Performance assessment indicators are published annually in the annual budget reports.
8.3. Resources received by service delivery units	A	A	The information on the resources received by the service providers is collected and recorded in the TSA at the service delivery unit. This information is prepared on an annual basis in budget execution reports as well as monthly.
8.4. Performance evaluation for service delivery	A	A	Assessment of efficiency and effectiveness of service delivery has been prepared and published by the State Audit Office in respect of activities of most ministries over the past three years.

³⁰For local self-government bodies - Article 79 of the Budget Code of Georgia

8.1 Performance Plans for Service Delivery

106. *Dimension 8.1 assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation for 2021, at the function, program, or entity level.*

107. Program-based (result-oriented) budgeting was introduced in 2009. According to the Budget Code, the state budget and local budgets are prepared in the program budget format since 2012 and 2013. The program budget is prepared for the medium term (planned year + 3 years) and includes a description and purpose according to the programs / sub-programs within the priorities set in the budget, expected final and intermediate results and evaluation indicators, including basic and targeted indicators, probability of failure and possible risks. The program budget annex³¹ is attached to the draft state budget, which is submitted to the legislative body.

108. According to the Budget Code, the budget process starts from March 1 of each year, when the Government of Georgia annually determines the list and deadlines of information to be submitted by the budget organizations, the authorities of the autonomous republics, and the municipalities (except the municipalities within the autonomous republics). The annexes to this resolution are prepared in the format of the program budget and include the format of preparation of medium-term action plans by the ministries in accordance with Article 34 (Part 4) of the Budget Code, ministries approve their detailed medium-term action plans by June 30 each year. In the medium-term action plans, information on outputs, outcomes, evaluation indicators and related cost estimates is presented at the level of more detailed measures according to the implementers of at least one program. The budget proposal includes a separate annex where programs are broken down into implementer-level program codes and this information is reflected in the electronic budget management system. A program code cannot be implemented by more than one budget organization.

109. Pursuant to Article 34 (Part 8) of the Budget Code (amendment of №4017-I of December 14, 2018), "the Government of Georgia ensures the compatibility of the draft state budget and the BDD. The ministries ensure compliance of their medium-term action plans approved on the basis of Part 4 of this article with the draft state budget and the Basic Data and Directions Document."

110. According to the program-based budgeting methodology, there are 4 types of programs: management and regulation, service delivery, subsidies and infrastructure and budgeted programs also include the content of these types of programs.

111. Information on the goals, results and indicators of the programs / sub-programs prepared by the Ministries of Georgia are presented in the table below according to the annex to the program budget attached to the 2022 draft budget which is published.

³¹ <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/14.Programuli%2027.11.2021%20me3%20wardgena.doc>

Table 8.1 Action plans of the ministries

Ministries	Budget for 2022 (GEL, million)	Program Description and Purpose	Evaluation Indicators		Planned Interim Outcomes	Planned Final Outcomes
			Interim Output Evaluation Indicators	Final Output Evaluation Indicators		
Ministry of Regional Development and Infrastructure	2,895	Y	Y	Y	Y	Y
Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs	6,027	Y	Y	Y	Y	Y
Ministry of Education and Science	1,685	Y	Y	Y	Y	Y
Ministry of Finance	105	Y	Y	Y	Y	Y
Ministry of Economy and Sustainable Development	932	Y	Y	Y	Y	Y
Ministry of Justice	311	Y	Y	Y	Y	Y
Ministry of Defense	1,002	Y	Y	Y	Y	Y
Ministry of Internal Affairs	865	Y	Y	Y	Y	Y
Ministry of Foreign Affairs	177	Y	Y	Y	Y	Y
Ministry of Culture and Sports	358	Y	Y	Y	Y	Y
Ministry of Environment Protection and Agriculture	591	Y	Y	Y	Y	Y
Sum of budgets of ministries	14,948					
Total expenditures of all ministries	14,951					
Percentage share	99%					

Source: Annex to the Program Budget attached to the 2022 Draft Budget

Note: The office of the Minister of Reconciliation and Civic Equality does not prepare a detailed medium-term action plan. The Office implements a management and regulatory type program, and the description and purpose of this program is reflected in the annex of the program budget.

112. A recent review by the World Bank under the Economic Governance and Fiscal Accountability Project reviewed the performance indicators at program and subprogram level in ministries covering Education, Health and Environment and confirmed the coverage was by outputs and outcomes. It did observe that the presentation could be improved and the volume of indicators could be streamlined. The score for this dimension is A.

8.2 Performance Achieved for Service Delivery

113. *Dimension 8.2 examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, for 2020 in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.*

114. The government publishes an annual report on the interim and final outcomes of programs and sub-programs of all sectoral ministries. Information on the financial performance of programs is

also prepared on a quarterly³² (3, 6 and 9 months) and annual basis and these are available on the website of the MoF.

115. The annual budget performance report outlines the performance of planned outputs and outcomes with indicators. The format of the performance report provides the opportunity to compare the planned and achieved indicators and in case of inconsistencies between these indicators, there is a relevant explanation. This information is provided to the Government of Georgia no later than 3 months after the end of the fiscal year. Upon receipt of the report, the Parliament of Georgia submits it to the State Audit Office for the conclusion. The audit opinion of the State Audit Office on the annual budget performance reports is submitted to the Parliament of Georgia not later than 5 months after the end of the fiscal year.

116. The annual budget performance reports are available on the website of the MoF, which includes a separate annex on the planned and achieved outcomes and indicators of the programs.³³ The score for this dimension is A.

8.3 Resources Received by the Service Delivery Units

117. *Dimension 8.3 measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the sources of those funds for 2019, 2020 and 2021.*

118. In accordance with the Budget Code, the budget shall be consolidated with all revenues and expenditures generated or operated by all budgetary units under the Treasury Single Account (TSA). Revenues, expenditures and balance changes (including the own revenues allowed by the legislation) of all budgetary units, including those that supply services, are fully recorded through the TSA.

119. Since 2015, all budget units and public legal entities, as well as non-profit (non-commercial) legal entities subjected to their control have been unified in the TSA, except public schools. Kindergartens and pre-school institutions are included in municipality budgets as individual LELPs and expenditure on them is available in their budget performance reports.

120. Two large line ministries can be considered providers of basic services defined by the budget, which annually prepare comprehensive reports reflecting information on the services provided by their service centers.

121. As a priority of the government, the quality of Public Health Care and Social Security is measured through the major programs implemented by the Ministry of Labor, Health and Social Affairs. Statistical information about labor, health and social security programs is available on the website of LEPL Social Services Agency and LEPL L. Sakvarelidze National Center for Disease Control and Public Health.³⁴ Statistics data comprise information about the number of beneficiaries (the total number of beneficiaries according to gender and age, as well as according to the regions),

³² <https://mof.ge/5429>

³³ <https://mof.ge/5307>

³⁴ http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=610

financial assistance, transferred amount, number of visits, program suppliers, service centers, etc. The above information is compiled on the website of the ministry on a report- format and typically updated monthly with statistical information of previous periods (also available on the website). Beside these national programs, data is also collected and recorded at the level of each hospital (cost center). The information is compiled in an annual report.

122. Discussions with the Ministry of Health relating to receipt of in kind aid indicates that it is insignificant. There were some COVID-19 vaccination kits received but they were very few in relation to those bought by the government using donor grants and own revenues through the TSA. All vaccines were distributed through clinics and hospitals and were recorded at that level. Given the nature of the economy and its relationship with its donor development partners who channel support through the state budget, in-kind donations are not significant.

123. With respect to another priority education and science, its performance is measured within the program budget framework of the Ministry of Education and Science. Secondary schools are financed in accordance with the legislation in order to support development of the general education system. Their funding is calculated based on a financial norm and a corresponding standard ratio per student, with consideration of the number of pupils, number of pupils with special educational needs, teachers' workload, additional teachers with relevant status defined by the scheme, administrative costs, school maintenance, and other expenses required for school development. Information on financing secondary schools is prepared and available on the website of the MoF. Semi-annual and annual budgets include information on revenues, expenditures and balance changes of the public schools existing on the territory of the resource centers, according to financing sources (including budgetary funds and other own revenues / expenditures permitted by legislation). The very detailed level of disaggregation of the budget classification (see PI-4) and the disclosure of all data related to service delivery through this classification on at least a semi-annual basis provides robust, compiled information about service delivery at frontline service unit level (e.g., secondary schools).

124. The score for this dimension is A.

8.4. Performance Evaluation for Service Delivery

125. *Dimension 8.4 considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations for 2019, 2020 and 2021.*

126. Budget legislation states that the State Audit Office prepare reports and make recommendations on service delivery performance at the state budget level. Audit activities of the State Audit Office are expected to strengthen its role as a key advisor in this process through consideration of the main challenges of ongoing reforms in the public finance management system. Thus, the State Audit Office's conclusions and reports regarding the state budget, in addition to the improvement of public finance management at the level of specific agencies, are focused on identifying systemic deficiencies and issuing relevant recommendations.

127. The State Audit Office prepares a report on the annual performance of the state budget of the previous year, which aims to assess the accuracy and completeness of the information on the state budget performance. In order to facilitate the improvement of the efficiency of the public

financial management system, these reports examine the systemic deficiencies revealed through program implementation and issue recommendations.

128. In 2019-2021, the State Audit Office conducted and published 42 performance audits of programs implemented by 8 ministries (Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia, Ministry of Education and Science of Georgia, MoF, Ministry of Environment Protection and Agriculture of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Regional Development and Infrastructure of Georgia, Ministry of Justice of Georgia and Ministry of Defense of Georgia). In addition, 7 performance audits were carried out by ministerial internal audit departments.

129. Table 8.2 shows that ministries where these features apply represent 90 percent of the total expenditures of all line ministries.

Table 8.2: Performance audits

Ministries	Budget (GEL, million)	Performance audit
Ministry of Regional Development and Infrastructure	2895	Y
Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs	6027	Y
Ministry of Education and Science	1685	Y
Ministry of Finance	105	Y
Ministry of Economy and Sustainable Development	932	Y
Ministry of Justice	311	Y
Ministry of Environment Protection and Agriculture	591	Y
Ministry of Defense	1002	Y
Other 4 ministries where a performance audit was not implemented	1403	N
Total of the ministries where a performance audit was implemented	13548	
Total expenditure of all ministries	14951	
Percentage	90	

Source: State Audit Office

130. The score for this dimension is A.

PI-9. Public Access to Fiscal Information

131. The PI-9 indicator assesses the comprehensiveness of fiscal information available to the public in 2021 based on specified elements of information to which public access is considered critical. It consists of a single dimension and the coverage is BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-9: Public access to fiscal information	A	A	The government provides access to all types of information listed.

132. Fiscal information is available on relevant state agencies' websites. These include the Ministry of Finance,³⁵ Treasury,³⁶ State Audit Office of Georgia,³⁷ State Procurement Agency³⁸ and the Parliament.³⁹ The National Bank of Georgia⁴⁰ publishes comprehensive financial information, including monthly updated statistics on state external debt, net demands of central and local governments and treasury securities. Relevant ministries and central authorities also publish their annual budgets on their websites.

133. Based on the results of the Open Budget Survey 2019 published by the International Budget Partnership, Georgia ranked 5th among 117 countries with 81 points and maintained its position among the most transparent countries. Indeed, Georgia now leads the world in budget transparency practices, scoring 87 out of 100 in Open Budget Survey 2021. This is an increase of six points from Open Budget Survey 2019, reflecting the Ministry of Finance's work to continue publishing timely and comprehensive budget documents.

134. The following types of budget information are made publicly available:

- **Annual executive budget proposal documentation**⁴¹ - The executive budget proposal, and supporting documentation is available within the timeframe established by law on the Ministry of Finance website.
- **Enacted budget**⁴² - The annual budget law approved by Parliament is made available to the public from the date of its approval by the Parliament on the website of the Ministry of Finance.
- **In-year budget performance reports** - Quarterly reports (3, 6 and 9 months)⁴³ are submitted to the Parliament of Georgia together with the supporting documentation and materials within one month from the completion of the quarter. The reports are available to the public

³⁵ Website of the MoF: <http://mof.ge/>

³⁶ State Treasury website: <http://treasury.ge/>

³⁷ Website of the State Audit Office of Georgia: <http://sao.ge/>

³⁸ Website of the State Procurement Agency: <http://procurement.gov.ge/>

³⁹ Website of the Legislative Body (Parliament) of Georgia: <https://parliament.ge/>

⁴⁰ National Bank of Georgia: <https://nbg.gov.ge/>

⁴¹ <https://mof.ge/5477>

⁴² <https://mof.ge/5477>

⁴³ <https://mof.ge/5429>

on the website of the Ministry of Finance immediately after submission to the Parliament of Georgia.

- **Annual budget performance report**⁴⁴ - The annual budget performance report covers the execution of revenues, expenditures and balances of the state budget, the budgets of the autonomous republics, and local self-governing units. It is available to the public the Ministry of Finance website immediately after its submission to the legislative body.
- **Audited annual financial report, incorporating or accompanied by the external auditor's report** - The State Audit Office audits the annual budget performance report, as well as the expenditures of budget allocations in accordance with the rules prescribed by the legislation. Under Article 31 (1) of the Law of Georgia on State Audit Office, Article 190 (2) of the Rules of Procedure of the Legislature of Georgia and Article 19 and Article 57 of the Budget Code, the State Audit Office prepares the audit report and notifies the Government of Georgia of the completion of the report within 45 days of the receipt of the annual budget performance report from the Government of Georgia. The State Audit Office submits its report to the legislature and at the same time publishes it on its website. The legislature also publishes the report on its website (45 days after receipt). The budget performance audit report for the 2020 budget was published on May 25, 2021, 5 months after the end of the fiscal year 2020.⁴⁵

Additional elements:

- **Pre-budget statement**⁴⁶ - The preparation of the annual draft budget starts with work on the BDD from March 1 of each year. The BDD is a major plan for development of the country, reflecting information on medium-term macroeconomic and fiscal forecasts (4 years ahead, current and previous years), as well as information on programs with the main priorities and directions of development, and ceilings of budget allocations for budgetary units. It covers the central government of Georgia, the autonomous republics and local authorities. The document is updated annually. The government approves the BDD by July 10 of each year and publishes it immediately (more than 5 months before the start of the next fiscal year).
- **Other external audit reports** - The State Audit Office prepares a report on spending execution in line ministries. It also issues various reports on public sector performance.⁴⁷ It issues the annual report on the activity of the State Audit Office. All reports of the State Audit Office are available on its website as soon as they are issued.⁴⁸
- **Summary of the budget proposal or enacted budget. Citizen's Guide to the state budget law** - The MoF has prepared an annual Citizen's Guide to the state budget law⁴⁹ since 2012.

⁴⁴ <https://mof.ge/5411>

⁴⁵ <https://sao.ge/ka/%E1%83%9B%E1%83%9D%E1%83%AE%E1%83%A1%E1%83%94%E1%83%9C%E1%83%94%E1%83%91%E1%83%90%E1%83%A1%E1%83%90%E1%83%A5%E1%83%90%E1%83%A0%E1%83%97%E1%83%95%E1%83%94%E1%83%9A%E1%83%9D%E1%83%A12020-%E1%83%AC%E1%83%9A%E1%83%98%E1%83%A12021052510374086ka.html>

⁴⁶ <https://mof.ge/5439>

⁴⁷ <https://sao.ge/ka/%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%94%E1%83%91%E1%83%98?IsAudit=True&page=1>

⁴⁸ <https://sao.ge/ka/%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%94%E1%83%91%E1%83%98?isAudit=false>

⁴⁹ https://mof.ge/mokalakis_gzamkvlevi ; <https://mof.ge/en/4787>

This document is prepared for both the draft budget and the approved budget: The Citizen Guide is updated as soon as the approved budget is published and is made available immediately on the website of the Ministry of Finance.

- **Macroeconomic forecasts**⁵⁰ - Information on medium-term macroeconomic forecasts is part of the annual BDD that is updated regularly within the year until its final approval (July 10 of each year) and is made available on the website of the Ministry of Finance at each update stage.

135. The government provides access to all types of information specified in the indicator in 2021. The score for this dimension is A.

⁵⁰<https://mof.ge/BDD>

PILLAR THREE: Management of Assets and Liabilities

136. Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized, and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

PI-10. Fiscal Risk Reporting

137. P1-10 measures the extent to which fiscal risks to central government are reported for 2021. It contains three dimensions, and uses the M2 (AV) method for aggregating dimension scores:

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-10: Fiscal risk reporting	B	B	
10.1 Monitoring of public corporations	C	B	Audited annual financial statements for most public corporations are published within ten months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector and on major SOEs in the annual Fiscal Risk Report.
10.2 Monitoring of subnational government	C	C	Annual consolidated financial statements for local governments are published within 4 months of the end of the year (end of April) but are not audited on an annual basis.
10.3 Contingent liabilities and other fiscal Risks	A	B	A report on all central government contingent liabilities, including their quantification, and other fiscal risks is submitted to Parliament annually and published. It covers information/analysis on risks by public corporations, quasi-fiscal activities, PPP, PPA, COVID-19 and other risks such as from pandemic, disaster and climate change.

10.1 Monitoring of Public Corporations

138. *Dimension 10.1 assesses the extent to which information on the financial performance and associated fiscal risks of the central government’s public corporations is available through audited annual financial statements.*

139. The fiscal risk document⁵¹ covers 87% of SOEs (enterprises created with the share participation of the state, municipality) according to turnover. The unified register of SOEs includes information provided by state bodies, the National Statistics Office and other administrative sources,

⁵¹ <https://www.mof.ge/en/5374> The fiscal risk document covers enterprises created with the share participation of the state or municipality) among them 100% of public corporations defined as an enterprise which sells goods and services at an economically significant price, has the ability to bring profit or other financial benefits to the owner and in addition, is independent in the decision-making process. This is followed in this dimension.

enterprises created with share participation of central and local governments that are classified as significant enterprises for fiscal risks analysis. The following enterprises are considered as such:

- a) All central government enterprises
- b) Municipal enterprises in which the state owns more than 25% of shares and annual turnover exceeds GEL 200,000, or the annual payroll exceeds GEL 15,000. For the purposes of evaluating enterprises regarding the mentioned indicators, financial data obtained from various administrative sources was used.

140. Based on this data, a financial database for the year 2020, was created for these enterprises. Based on the above criteria, 346 SOEs were presented for fiscal risks analysis, 178 enterprises were owned by the central government and 168 were owned by the local government. The listed enterprises had 83 subsidiaries in total. Analysis of the consolidation of financial data was based the 346 SOEs; the data of 83 subsidiaries was presented in the form of additional information. Responsibility for the supervision of the 178 state-owned enterprises was distributed as indicated in Table 10.1.:

Table 10.1: Responsibility for public corporations

Number of SOEs	Responsible Ministry
130	Ministry of Economy and Sustainable Development
25	Created with the participation of a Partnership Fund
6	Ministry of Environmental Protection and Agriculture
5	LELPs
6	Ministry of Defence
2	Ministry of Regional Development and Infrastructure
2	Ministry of Justice
1	Ministry of Education and Science
1	Investment Fund created by state

Source: Fiscal Risk Report Dec 2021

141. In the analysis of individual SOEs there is a risk rating assigned to them ranging from low to medium to high to very high. There is also a section in the fiscal risk report that covers the 6 most important state enterprises individually which amount to more than 60% of the assets of all state enterprises. The fiscal risk report discusses the purpose of the analysis, key assumptions underlying the analysis, the modeled macroeconomic scenarios, and key findings and conclusions of the risk analysis.

142. At the end of 2020, the Government of Georgia issued an ordinance instructing state corporations to publish individual and consolidated audited financial statements within 6 months of the end of the financial year. However, some of them submitted statements later than the deadline but it is anticipated that after 2022 the number of late reports will diminish significantly.

Table 10.2: 13 Largest central government SOEs

<i>GEL, million (reporting year 2020)</i>	Total Revenue	Total Expenses	Audit Within 6 months	Audit Within 9 months	Audit Within 10 months	Date of Audited Financial Statement⁵²
Engurhesi Ltd.	27	89				01/07/2021
Georgian Amelioration Ltd.	32	117				19/10/2021
United Water Supply Company Georgia Ltd.	72	278				06/08/2021
Georgian Post Ltd	83	76				08/07/2021
Georgian Gas Transportation Company Ltd.	122	90				18/05/2021
JSC Georgian State Electrosystem	380	416				07/10/2021
JSC Georgian Railway	528	693				20/10/2021
JSC Electricity System Commercial Operator	655	651				13/10/2021
JSC Georgian Oil and Gas Corporation	1,024	1,021				08/09/2021
State Construction Company Ltd	1	3				30/06/2021
JSC UES Sakrusenergo	32	21				25/06/2021
Agricultural Logistics and Services Company` Ltd	14	38				27/12/2021
JSC Partnership Fund (Individual)	74	69				28/12/2021
Total top 13	3,044	3,431	114	1,554	3,431	
Consolidated SOEs	3,547	4,040				
Share in total	86%	85%	4%	45%	100%	

Source: Fiscal Risk Report Dec 2021

Notes: Consolidated includes some municipality SOEs but not Tbilisi Transport Company which is 6th largest SOE in Georgia

143. Table 10.2 present details of the submission of audited report in 2021 covering 2020 by the largest SOEs covering at least 85% of revenue and 85% of expenses. Only 4% of expenses were covered within 6 months, 45% within 9 months, and 100% within 10 months of the end of the financial year. Although the audited annual financial statements of some state-owned enterprises are submitted after 9 months, the annual financial statements of 13 the largest state-owned enterprises (with some of them being audited) are submitted within 9 months of the end of the year. The information obtained from the annual reports of state-owned enterprises is consolidated in the the fiscal risk document, which was submitted to the Parliament on September 24, 2021 as an annex to the 2021 budget.⁵³

144. For most public corporations, financial statements are produced and submitted to the Fiscal Risk Division of the Ministry of Finance within nine months of the end of the fiscal year. The score for this dimension is C.

⁵² The unaudited financial statements are submitted to the Ministry of Finance's Fiscal Risk Department for the analysis of SOEs in the fiscal risk document, which was submitted to the Parliament on September 24, 2021.

⁵³ <https://fof.ge/5477>

10.2. Monitoring of Local Government

145. *Dimension 10.2 assesses the extent to which information on the financial performance, including the central government's potential exposure to fiscal risks is available through audited annual financial statements of sub national governments.*

146. Reports on the performance of local budgets (revenues, expenditures, and sources of financing) are prepared using the cash method and are submitted by the end of April of the following year to the Mayor's Office. Local government reports are included in the indicators of the state finance statistics. Local budgets prepare their financial statements in accordance with the Decree №108 of the Minister of Finance of May 5, 2020 -"Financial Accounting by Budgetary Units on the basis of International Public Sector Accounting Standards (IPSASs)", Decree № 17 of the Minister of Finance of January 15, 2020 "Chart of Accounts of Budgetary Units and its Use" and Decree №24 of the Minister of Finance of February 4, 2021 "Rules for Preparation and Submission of Financial Statements by Budgetary Units".⁵⁴ Financial Statements of local budgets include data on assets, liabilities, and equity, as well as revenue and expenses. In addition, under the local self-government code, the following is implemented in order to ensure the legality and effectiveness of the activities of the municipal authorities in accordance with the legislation of Georgia:

- State Audit - by the State Audit Office;
- Independent audit – by a selected auditor;
- Internal audit - by entities implementing internal audit that are identified by the regulation of city assembly / city hall.

147. The independent auditor's report is submitted to the City Assembly, and then it is sent to the State Audit Office and published. In addition, according to the legislation, the State Audit Office submits the report about the audits conducted for the revenues and expenditures of the budgets of the local self-government units to Parliament once every two years. Tbilisi municipality's financial statement for 2019 and 2020 was audited. However, municipalities such as Batumi and Martvili have not been audited. Their financial statements for 2021 were submitted to the Treasury on March 31, 2022. These statements are published on their websites. The Treasury also published these financial statements on its website along with those of all other municipalities.⁵⁵ A consolidated financial statement for the whole of government covering 2020 was submitted for audit on July 30, 2021.

148. The annual financial statements for local governments are submitted to the Treasury within four months after the end of the year (by the end of April) and published on the municipalities and the Treasury's website. However, they are not audited annually. The score for this dimension is C.

⁵⁴ The financial information for 2020 for municipalities and autonomous republics has been prepared in accordance with the instructions on the Accounting of Budgetary Organisations approved by the Order No 1321 of the Minister of Finance of Georgia December 24, 2007 and the Order No 364 of the Minister of Finance of Georgia issued on April 16, 2008 on the Approval of Financial Reporting Templates for Budgetary Organisations.

⁵⁵ These 3 municipalities are subject to an SN PEFA and are used as an example of the coverage of municipality audit as well as published financial statements. Tbilisi and Batumi are the two largest municipalities.

10.3 Contingent Liabilities and Other Fiscal Risks

149. *Dimension 10.3 assesses monitoring and reporting of the central government’s explicit contingent liabilities from its own programs and projects, including those of extrabudgetary units.*

150. The Fiscal Risk Department of the MoF produces a report annually on fiscal risk. Although the majority of the report focuses on SOEs (see dimension 10.1 above) there is considerable analysis of the fiscal risks from PPPs, pandemics (such as COVID-19), climate change, and natural disasters (such as earthquakes). Macroeconomic fiscal risks have been addressed in a separate report, Fiscal Risk Analysis 2019-2023. These are all the fiscal risks as identified by the government and all contingent liabilities are thus covered. The Parliamentary Budget Office report “Monitoring Report of the Fiscal Rules Established by the Organic Law of Georgia on Economic Freedom 2021” validates the work done on contingent liabilities by the Fiscal Risk Department.

151. A report which consolidates all government contingent liabilities covering PPPs, pandemics, climate change, natural disasters, and macroeconomic risks, including their quantification is submitted to Parliament annually and published.⁵⁶ The score for this dimension is A.

PI-11. Public Investment Management

152. The PI-11 indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government for 2021. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores and covers central government.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-11: Public investment management	A	C	
11.1 Economic analysis of investment proposals	A	C	New projects require economic analysis and that this analysis to be independently reviewed. The new projects in the 2021 budget followed this process. These are published by the Ministry of Finance
11.2 Investment project selection	A	C	There is a process for selecting projects based on a defined criteria and procedures using feasibility studies and an inter-agency commission
11.3 Investment project costing	A	C	The budget reflects the timetable for completing projects and the annual allocation of costs as well as the provision for recurrent cost of implementation if the project is completed during the MTEF period.

⁵⁶ https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/19.FRS_III_2021.pdf

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
11.4 Investment project monitoring	A	C	For each project there is an initial plan which covers project execution and its financing/payment schedule on a quarterly basis. Monitoring project implementation may use project consultants that report on physical progress that is linked to the invoicing for work completed. For smaller projects this may be done by an in-house team.

Description of Current State

153. Based on the Public Expenditure Review prepared by the World Bank, the investment project management guide and methodology were developed with technical assistance of the World Bank. Decree №191 of the Government of Georgia dated April 22, 2016 "On Approval of the Investment Project Management Guide" and Decree №165 of the Minister of Finance of Georgia dated July 22, 2016 (amendment to the Decree №385 of the Minister of Finance of Georgia dated July 8, 2011 "On Approval of Program-Based Budgeting Methodology"). This guide and methodology regulate the preparation, pre-selection, evaluation, budgeting, implementation, monitoring and follow-up evaluation processes of investment projects worth more than GEL 5 million.

154. To consistently implement investment management reform, at the request of the MoF, a Public Investment Management Assessment Report (PIMA)⁵⁷ was prepared within the framework of the IMF technical assistance mission in 2018. Recommendations and an action plan for 2018-2021 were also developed. By the order №385⁵⁸ of the Minister of Finance of Georgia dated October 8, 2018, a working group was established in the MoF to evaluate investment projects and implement relevant measures.

155. As a result of these initiatives, an amendment was made to the Decree №191⁵⁹ in Decree №679 of the government of December 31, 2019 "On the Approval of the Investment Project Management Guide" and a number of regulations were amended. In particular:

- The guide applies to all investment / capital projects of GEL 5 million or more regardless of source of funding (including donor-funded projects and state enterprises-funded projects). In addition, the guide applies to public corporations if the total cost of the investment project exceeds 10% of its assets.
- Regulations were established for PPP projects, including the process of review.
- The guide clarifies and clearly defines the roles and responsibilities of the initiators and implementers of investment projects at each stage of the life cycle of investment projects, as well as the roles and responsibilities of the MoF.
- An Interagency Commission for Investment Project Management has been established.

⁵⁷ <https://mof.ge/images/File/PIMA-2018-IMF.pdf>. A PIMA mission to update the 2018 work was undertaken in July 2022.

⁵⁸ <https://matsne.gov.ge/ka/document/view/1400751?publication=4>

⁵⁹ <https://matsne.gov.ge/ka/document/view/3265745?publication=1>

In 2019, the composition of the working group was renewed, and the statute of the working group was approved by the order N411 of the Minister of Finance dated December 26, 2019.⁶⁰

156. Since 2019, new investment projects are selected based on the investment project management guide and methodology. During the preparation of the draft budgets for 2020-2022, a total of 14 projects were evaluated in 2019, 11 projects in 2020, and 13 new investment projects in 2021 on the basis of investment project concept cards and cost-benefit analysis documents submitted by the relevant agencies. This information is an integral part of the draft budget of the respective year, and it is submitted to the Parliament of Georgia, is public, and is published on the website of the MoF.

157. The COVID 19 pandemic in 2020-2021 and the related economic recession have affected the forecasts of Georgia's economic parameters and the budget, both in terms of revenue and expenditure. A number of economic activities were limited. In addition to the expenditures on health care and treatment and diagnosis of those infected with the virus, it has become necessary to take a number of measures for the social security of the population and business promotion. The expenditure of the budget was significantly limited. All programs, non-implementation and / or postponement of which would not significantly harm the relevant sector, were reduced. Among them, cultural, sports and tourism activities were limited due to natural factors (pandemic constraints). Significant reductions in the number of capital projects have affected tourism infrastructure. Consequently, the implementation of existing investment projects was delayed, and the funds needed to finance new projects were limited.

158. The top ten projects in the 2021 budget have been used to assess this indicator. The assessment team met with Investment Departments in the Ministry of Regional Development and Infrastructure (MRDI) and the Ministry of Education and Science (MES) which account for 9 out of the 10 projects and over 99 per cent of the total cost. It was important to discuss the indicator with MES as MRDI dominate the materiality of projects in Table 11.1

⁶⁰ <https://mof.ge/images/File/kanonebi-brdzanebebi/411%20PIM%20samushao%20jgupi.pdf>

Table 11.1: Ten largest major investment projects

Projects and Project Implementer	Total investment cost of project in GEL	As a per cent of top 10 major projects approved	Economic analysis			
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity
Construction of Tbilisi-Sartichala (Lot 1) and Sartichala-Sagarejo (Lot 2) sections of Tbilisi-Bakurtsikhe-Lagodekhi auto road (MRDI)	600,000,000	63 per cent	Y	Y	Y	Ministry of Finance
Rehabilitation of water supply and sewerage systems in Khashuri and construction of a sewage treatment plant (MRDI)	190,000,000	20 per cent	Y	Y	Y	Ministry of Finance
Rehabilitation project of Vardnili and Enguri hydropower plants (Ministry of Economy and Social Development)	96,000,000	10 per cent	Y	Y	Y	Ministry of Finance
construction of a new educational building of LEPL "Black Sea College" (MES)	15,150,000	2 per cent	Y	Y	Y	Ministry of Finance
Construction of Tbilisi public school N128 building (MES)	10,500,000	1 per cent	Y	Y	Y	Ministry of Finance
Construction of Tbilisi Public School N10 (MES)	8,515,000	1 per cent	Y	Y	Y	Ministry of Finance
Construction of the central office building of the Public Defender's Office (Min of Justice)	8,300,000	1 per cent	Y	Y	Y	Ministry of Finance

Projects and Project Implementer	Total investment cost of project in GEL	As a per cent of top 10 major projects approved	Economic analysis			
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity
Construction of the College of Art of Tbilisi State University (MES)	7,105,000	1 per cent	Y	Y	Y	Ministry of Finance
Construction of Tbilisi Public School N158 (MES)	6,500,000	1 per cent	Y	Y	Y	Ministry of Finance
Construction of the College of Media and TV Arts of Tbilisi State University named after Ivane Javakhishvili (MES)	6,100,000	1 per cent	Y	Y	Y	Ministry of Finance
Total/Coverage	948,170,000	100%	100%	100%	100%	

Source: Budget Department Ministry of Finance

11.1 Economic Analysis of Investment Proposals

159. Dimension 11.1 assesses the extent to which robust appraisal methods, based on economic analysis, are used to conduct feasibility or prefeasibility studies for major investment projects and whether the results of analyses are published.

160. The annex⁶¹ on the capital projects attached to draft law on the state budget for 2022 is prepared on the basis of information provided by the budget organizations and includes 72 projects (program / sub-program) classified as capital projects. Up to 96 percent of the total cost of these projects are ongoing projects, mainly implemented by the Ministry of Regional Development and Infrastructure of Georgia, aimed at road infrastructure improvement (construction of highways, construction / rehabilitation of internal roads), regional and municipal infrastructure and water supply infrastructure rehabilitation, as well as public school rehabilitation.

161. The annex on the capital projects also includes capital projects for the development of the systemic transmission network and the improvement of the electricity and natural gas supply of the population within the framework of the projects to be implemented by the Ministry of Economy and Sustainable Development of Georgia; infrastructure projects to be implemented by the Ministry of Education and Science of Georgia, the Ministry of Environment Protection and Agriculture of

⁶¹ <https://mof.ge/images/File/2021-biujeti/30-11-2020/danartebi/15.%20kapitaluri%2029.11.2020.doc>

Georgia, the Ministry of Justice of Georgia, the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia.

162. Information on investment projects that are prepared in accordance with the Public Investment Management guideline and methodology consists of concept cards and economic calculations. 2019 was the first time the new PIM projects were assessed according to the guideline and methodology and included in the 2020 state budget law package. Since then, during 2019-2021 33 projects (including 4 projects initiated twice in 2020 and 2021 by the Ministry of Education and Science) were assessed and included in the 2020, 2021 and 2022 state budget law package submitted to the Parliament of Georgia. This information is available on the MoF website. In 2021, 100% of new projects were assessed according to the guideline and methodology.

163. In 2020 11 new PIM projects were assessed and included in 2021 state budget law package submitted to the Parliament of Georgia (available on the MoF website). These 11 capital projects were assessed according to the guideline and methodology. Among them, 7 projects were submitted by the Ministry of Education and Science of Georgia, 2 projects by the Ministry of Regional Development and Infrastructure of Georgia, 1 project by The Ministry of Economy and Sustainable Development and 1 project by The Public Defender's Office. The economic analysis of the projects is based on the assumptions presented by the initiating agency, including the basic assumptions, underlying reasons and logic and the result of the analysis (e.g., NPV, IRR, ENPV, and EIRR).

164. A cost-benefit analysis of each project, including assumptions and related calculations, project development, maintenance and operation expenditures over the entire project cycle, revenue forecasts and their alternatives.⁶² The initiating agency carries out the cost-benefit analysis, often hiring consultants to work on it. The Ministry of Finance Investment Department reviews the cost benefit and economic analysis reports and publishes them on its website.

165. With respect to ongoing projects that are included in the budget, which predate Decree №679, economic analyses are prepared for up to 50% of ongoing projects that are already considered by the budget. These are mainly funded by a donor (which is likely to have carried out its own economic appraisal) and this was not required from the implementing ministry itself. Although these documents are not public, the annex of the capital budget of the annual budget performance reports provides information on the implementation of capital projects.

166. New projects since the passing of Decree №679 require economic analysis and this analysis is to be independently reviewed. The new projects in the 2021 budget followed this instruction. The score for this dimension is A.

11.2 Investment Project Selection

167. *Dimension 11.2 assesses the extent to which the project-selection process prioritizes investment projects against clearly defined criteria.*

⁶² The investment department of the Ministry of Education and Science illustrated the decision-making process for assessing whether a school should be repaired and renewed or a new school built. School population estimates, if there were alternative schools with spare capacity and the cost and time frame for bussing students (in terms of distance and number of years needed) were all factors alongside the cost of repair or new built that were considered.

168. The investment project management methodology and guide outline the steps for selecting investment projects, the roles and responsibilities of the parties involved in this process. The following measures are taken at the stages of preliminary and final selection of investment projects:

- **Preliminary selection and evaluation of projects** - Process of preliminary assessment of the project strategic goal, logical reasoning, its impact on the budget and economic feasibility. The first stage of the investment project management process involves the development of project concept card and a preliminary cost-benefit analysis, on the basis of which a decision must be made.
- **Final evaluation and selection of project** - The decision-making process through project cost-benefit analysis and / or other ways of feasibility studies identified by the Interagency Commission, which ensures that the project with the highest social and economic results is identified (including the decision of inaction (maintenance of the current situation)).

169. According to Resolution (№411, December 26, 2019) of the working group for investment project evaluation established in the MoF, when selecting an investment project priority will be given to the project that will receive the majority of votes of the members of the working group present. In case of equal distribution of votes, the vote of the head of the working group is decisive. The working group is also empowered to develop a system of scoring criteria for project evaluation. These procedures are being further refined, with the support of the World Bank and the European Union, and a unified system of criteria for evaluating projects is being developed, after which it will be put into practice. These procedures have been followed and implemented in the selection of projects for the budgets passed in 2020 and 2021.

170. There is a process for selecting projects based on a defined criteria and procedures using feasibility studies and an inter-agency commission. The score of this dimension is A.

11.3 Investment Project Costing

171. *Dimension 11.3 evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated.*

172. The annex of the capital projects attached to the 2022 draft budget⁶³ includes information on ongoing and planned investment / capital projects within the framework of programs and sub-programs classified as “capital project” in the state budget for the medium-term period of 2022-2025. Annex of the capital projects includes the following information about programs / sub-programs classified as capital projects:

- Program code and name of the project;
- Implementation priority;
- Project implementer;
- Project description and purpose;

⁶³ <https://mof.ge/images/File/2021-biujeti/30-11-2020/danartebi/15.%20kapitaluri%2029.11.2020.doc>

- Expected interim outcome of the project;
- Detailed information about the project;
- Expected final outcome of the project; and
- Volumes of financing of capital projects, in particular, the actual expenditure of the project including last year, the current year plan, the volumes of financing for the planned medium-term (4-year) period by years and the total cost of the project.

173. The preparation of the annex of capital projects is part of the budget application and is carried out through the electronic budget management program (eBudget.ge). Projects are published on the website of the MoF and constitute an important part of the overall state budget documentation. In the case of investment projects prepared by the new regulations (Decree №679) guide, current and capital expenditures are separated, and forecasts are made for an average period of 15 years. For example, the recurrent costs relating to implementation of a completed project are included in the relevant projection of the relevant economic category in the MTEF of the implementing ministry such as MRDI and MES.

174. The budget reflects the timetable for completing projects and the annual allocation of costs as well as the provision for recurrent cost of implementation if the project is completed during the MTEF period. The score of this dimension is A.

11.4 Investment Project Monitoring

175. *Dimension 11.4 assesses the extent to which prudent project monitoring and reporting arrangements are in place for ensuring value for money and fiduciary integrity.*

176. Chapter 5 of the Investment Project Management Guide (№191, April 22, 2016) concerns the implementation and monitoring of investment projects, where the roles and responsibilities of the persons involved in this process are described in detail. Project implementation reports should include at least the following information:

- a) Name of the project;
- b) Project start date;
- c) Estimated project completion date;
- d) Percentage of work performed;
- e) Source of funding;
- f) Planned budget and expenditure incurred; and
- g) Clarifications on project deferrals, over- or under-planned expenditures, financing and construction issues, and activities planned with this in mind.

177. Within the framework of investment project management, the working group statute approves the investment project register form, which records information on new investment projects by years. Reporting for state funded projects is made within the timeframe set for the budget performance report defined by the Budget Code and are submitted to the Parliament of Georgia together with the quarterly and annual performance reports. The mentioned information is published on the website of the MoF. Annual budget performance reports are prepared in the format of the

program budget⁶⁴ and provide information on the planned and achieved results and evaluation indicators of all programs / sub-programs, part of which are also capital projects. Regarding the capital projects, annual reports on the performance of capital projects are prepared in the form of a separate annex, which contains detailed information on the volume of funding, as well as the progress of these projects and the results achieved.⁶⁵

178. For each project there is an initial plan which covers project execution and its financing/payment schedule on a quarterly basis. Discussion with MRDI and MES departments responsible for monitoring project implementation indicates the use of project consultants that report on physical progress against the quarterly plan that is linked to the invoicing for work completed. For smaller projects this may be done by an in-house team. In both situations there is on-site inspection on progress with a report going to management. Payment of invoices is based on the sign-off of work completed. The score for this dimension is A.

Difference in Comparison to the Previous Assessment

179. As noted in the introduction to the indicator there has seen significant changes with respect to investment processes and procedures since the previous assessment.

Current and Planned Reforms and Measures

180. Within the framework of World Bank and EU technical assistance, it is planned to develop an electronic module for investment / capital projects for all stages of the project management process (including preliminary selection, evaluation and final selection / budgeting). Representatives of the budgetary organizations will have the opportunity to work in the electronic system with the status of a user, and the MoF - with the status of a curator. Information about the projects is automatically reflected in the investment project register system. The system registry creates a unified database of investment projects, where it will be possible to filter projects and obtain analytical information according to project types, implementation deadlines, project status and other characteristics.

181. Within the framework of World Bank and EU technical assistance, it is planned to conduct trainings for both working group members to develop selection criteria for prioritizing investment projects and for representatives of budgetary organizations to implement the procedures provided by the investment project management guide and methodology. (It is planned to train about 60 people from different agencies in 2022).

PI-12. Public Asset Management

182. The PI-12 indicator assesses the management and monitoring of government assets and the transparency of asset disposal in place in 2021. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

⁶⁴ Annex of the Program Budget of the 2020 Budget Performance Report - <https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/24-05-2021/Programuli%20biujeti%202020%20weli.docx>

⁶⁵ Annex of the Capital Budget of the 2020 Budget Performanc Report - <https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/11.%20Kapitaluri%20wliuri%202020.docx>

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-12: Public asset management	B	C+	
12.1 Financial asset monitoring	B	B	The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at real (market) value. Information on the performance of the major categories of financial assets is published annually. The financial information on these assets is based on the IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets.
12.2 Nonfinancial asset monitoring	C	C	The government maintains a register of its holdings of nonfinancial assets and collects partial information on their usage and age. Financial information on nonfinancial assets (initial cost, accumulated depreciation / amortization, accumulated impairment / impairment loss, carrying amount, etc.) is based on the IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets.
12.3 Transparency of asset disposal	A	C	Procedures for disposal / management / transfer of assets are established and the relevant information is registered in the LEPL National Agency of State Property.

Description of Current State

183. Annual financial statements submitted by organizations funded by state and local budgets include information on financial and nonfinancial assets. This information is presented in the consolidated financial statements prepared at the level of state and local budgets, which are published on the official website of the Treasury by July 1 of the following year after the end of the fiscal year in order to ensure accountability and transparency.⁶⁶

12.1 Financial Asset Monitoring

184. *Dimension 12.1 assesses the nature of financial asset monitoring by central government, which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management.*

⁶⁶ www.treasury.ge

185. Issues related to financial assets are regulated by the Budget Code, by the Law of Georgia on Public Debt, by the Law of Georgia on Restructuring of Tax Arrears and state loans, etc. Financial assets include various instruments such as loans, contributions to share capital, and shares. The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at real (market) value. Information on the performance of the major categories of financial assets is published annually.

186. The financial information on these assets is based on the IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets. This information is presented in the consolidated financial statements prepared at the level of state and local budgets, which are published on the official website of the Treasury until July 1 of the year after the end of the fiscal year in order to ensure accountability and transparency.⁶⁷

187. The following are the main categories of financial assets in accordance with the Chart of Accounts developed based on the IPSAS Standards and the Government Finance Statistics Manual 2014 (GFSM 2014), as well as information on determining their value:

Table 12.1: Categories of Financial Assets

Category name	Where is the information stored?	Comment
Monetary funds (cash and equivalent)	In financial statements of organizations	Monetary funds are presented in the financial statements of organizations, which are based on IPSAS standards. They are presented in nominal value which approximates to fair value.
Long-term loans	In financial statements of organizations	Long-term loans are reflected in financial statements of organizations at amortized cost in accordance with IPSAS standards.
Investments in equity instruments (excluding investments in controlled entities, associates or joint ventures)	In financial statements of organizations	Investments in equity instruments excluding investments in controlled entities, associates, or joint ventures are reflected in the financial statements of organizations at acquisition cost.
Equity instruments made in controlled entities, associates or joint ventures	In financial statements of organizations	Equity instruments made in controlled entities, associates or joint ventures are reflected in the financial statements of organizations using the equity method.
Finance lease receivables	In financial statements of organizations	Finance lease receivables are reflected in financial statements of organizations in accordance with IPSAS 13, at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease receipts each determined at the inception of the lease.

Source: Treasury Ministry of Finance

188. In terms of materiality, the composition of financial assets is as follows:

⁶⁷ www.treasury.ge

Table 12.2: Composition of financial assets

Financial assets	GEL, thousand	% of total financial assets	Valuation
Funds	3,239,349	28	
Current investments	78,429	1	Reflected at their nominal value
Short-term (current) receivables	640,637	5	Reflected at their contractual value
Other short-term (current) assets	2,048,738	17	Reflected at their contractual value
Long term loans	3,531,913	30	Reflected at their nominal value
Investments in equity instruments	1,411,658	12	Reflected at their nominal value
Other long-term financial assets	653,528	6	Reflected at their nominal value
Other long-term receivables and non-cash receivables	88,516	1	Reflected at their contractual value
Total	11,692,768	100%	

Source: Treasury Ministry of Finance

189. Out of the financial categories, the majority such as monetary funds (28% of all financial assets), finance lease receivables and long terms loans are recognised at fair or market value. Others such as equity are measured at initial cost. They are reported in the annual financial statements. Score: B

12.2 Nonfinancial Asset Monitoring

190. *Dimension 12.2 assesses the features of nonfinancial asset monitoring for BCG. Reporting on nonfinancial assets should identify the assets and their use.*

191. The government maintains a register of its holdings of nonfinancial assets and collects partial information on their usage and age. In these registers, nonfinancial assets are mainly recorded without value – for recording, storage and maintenance purposes. These registers include nonfinancial assets such as fixed assets (buildings, land, machinery, vehicles, infrastructure assets, etc.), non-produced assets (natural resources, energy resources, etc.), cultural heritage assets (cultural, historical and ecological assets) and other. These are contained in the Asset Registry of the Ministry of Justice into which all ministries and agencies contribute based on their holdings. Individual ministries have their own assets registries related to their usefulness for their own planning. Moveable assets such as furniture (desks and tables, etc.) as well as computers are bar-coded. MRDI and MES maintain a register of roads and schools respectively which includes age, and this is used to plan maintenance and replacement expenditure.

192. Financial information on non-financial assets is based on IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets. For determination of the value of non-financial assets the cost of acquisition is mainly used, in some cases, the fair (market) value is used (for example, in the case of donation of assets from international organizations/foreign governments, or for realization purposes), which does not provide comprehensive and accurate information on values. This information is presented in the consolidated financial statements

prepared at the level of state and local budgets, which are published on the official website of the Treasury Service until July 1 of the following year after the end of the fiscal year in order to ensure accountability and transparency. It lists nonfinancial assets by categories indicating initial cost, accumulated depreciation/amortization, various sources of use, carrying amount, residual value and etc., and is published. Therefore, the stock and flows of the non-financial assets are indicated per category. The age of nonfinancial assets is not typically available but can be deduced from when they have been entered into the data. Further, Treasury has complete information about the asset owners by spending entities (as this information is compiled from the financial statement of each entity); however, they are not required to make this information public.

193. The following are the main categories of nonfinancial assets in accordance with the Chart of Accounts developed based on the IPSAS Standards and the Government Finance Statistics Manual 2014 (GFSM 2014), as well as information on determining their value.

Table 12.3: Categories of nonfinancial assets

Category	Subcategory	Location of the information	Comment
Inventories	Materials and supplies	In financial statements of organizations	Inventories are recorded and reported in accordance with IPSAS 12. Inventories are generally valued in accordance with this standard, however, in some cases, they are not reflected at the lowest cost between the initial cost and net realizable value and between the initial cost and current replacement cost.
	Work-in-progress		
	Finished goods		
	Goods for resale		
	Military supplies		
Fixed assets	Buildings and structures	In financial statements of organizations	Fixed assets are generally recorded and reported in accordance with the requirements of IPSAS 17, however, in some cases, these assets may be reflected in the financial statements at an unrealistic cost. In addition, fixed assets are incompletely recorded by organizations. In particular, fixed assets owned on behalf of the government are not presented in the financial statements of the organizations.
	Machinery and equipment		
	Land		
	Other fixed assets		
Intangible assets		In financial statements of organizations	Intangible assets are recorded and reported in accordance with the requirements of IPSAS 31, however, in some cases, these assets may be reflected in the financial statements at an unrealistic cost.
Valuables	Precious stones and metals	In financial statements of organizations	Valuable assets are recorded and reported in accordance with the requirements of the Government Finance Statistics Manual 2014 (GFSM 2014).
	Works of Art		
	Other valuables		
Heritage assets	Cultural assets	In financial statements of organizations	The category of heritage assets is less covered by the financial

Category	Subcategory	Location of the information	Comment
Non-produced assets (excluding land)	Historical assets	In financial statements of organizations	statements prepared by the organizations - as they are usually reflected in the relevant registers without values.
	Ecological assets		
	Fossil		The financial statements prepared by the organizations do not provide information on assets owned on behalf of the government. Information on other natural resources is incompletely reflected in the financial statements.
	Other natural assets		

Source: Treasury Ministry of Finance

194. Nevertheless, information on nonfinancial assets is not fully and accurately reflected in the consolidated financial statements of state and local budgets due to the fact that often nonfinancial assets are recorded in various registers and cadasters without value – only for maintenance and other purposes. The value of nonfinancial assets is mainly determined based on the initial cost, and in some cases, on fair (market) value, which does not provide comprehensive and accurate information about their value.

195. Despite the inclusion of these assets in the financial statements and the register of the holdings of nonfinancial assets only partial information on their usage and age is available. The score for this dimension is C.

12.3 Transparency of Asset Disposal

196. *Dimension 12.3 assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. For financial assets coverage is CG and for nonfinancial assets, BCG.*

197. If the relevant state or local self-government body is interested in acquiring/using specific property that is owned by the state, the decision on the issue of transferring / disposing the public property is made on the basis of the principle of proportionality of public and private interests, which is based on the rational use of public property. In addition, in case of a positive decision, the document certifying the disposal / transfer of the property will be reflected in LEPL National Agency of State Property Registry. This registry reflects all state assets no longer in use.

198. The issue of transfer and / or disposal of state-owned property for use or ownership are based on determined procedures. An independent audit report reflecting the market value of the property subject to relevant application by interested parties / organizations is commissioned by the Office of Private Sector Relations in the National Agency of State Property Registry. The audit report of the market value of immovable property and a draft resolution of the Government of Georgia is provided to the Ministry of Economy and Sustainable Development of Georgia for submitting to the government, in accordance with the Law of Georgia on State Property.

199. The agency sells the largest part of state property in the form of electronic auctions according to procedures as defined by the law. To do this, it requires widespread dissemination of information and availability of the information to any interested person. Auction publicity is ensured

through electronic auctions and electronic and non-electronic media outlets. The agency has a special service for providing information to the interested person, namely, it prints information cards, carries out the agency's PR campaigns, and provides information to the interested person about the agency and the facilities subject to privatization. Information about significant facilities subject to privatization is publicly available through media outlets such as Inter Press News and Business Professional Network. The information is also published on the official Facebook page of the agency, which has a large number of followers. In addition, the agency is actively working on the creation of the single electronic program - "State Property Management Portal", which will have the function of further informing those interested in the ongoing privatization process.

200. Disposal of ownership of SOEs follows the same procedures as immovable assets with independent valuation and e-auction. In order to increase the capital of the enterprise established by the state equity participation, the Public Enterprise Management Service also is able to offload both material and intangible assets

201. The agency also disposes of moveable property such as vehicles and equipment. In this regard, the agency has a number of shop/retail units which supplements the e-auction procedures.

202. In the case of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia, there are different regulations. Different regulations also apply to transfer free of charge of state-owned immovable property to the Apostolic Autocephalous Orthodox Church of Georgia, upon its request, on the basis of the decision of the government. In addition, the issue of transferring the state property, which includes immovable / movable property and intangible property, to the ownership of the Autonomous Republic of Adjara and the local municipality is regulated in accordance with the rules established by the Law of Georgia on state property, local self-government code, Decree №330 of the government dated December 11, 2013 "On the Approval of the List of Fixed (Non-Expropriated) Assets to be Transferred to the Local Self-Government Unit" and Decree №26 of 19 February 2005 "On the Rules for Transfer of State Property to the Ownership of Autonomous Republic of Adjara." The issue of transferring the state property for use to the Autonomous Republic of Abkhazia or the Autonomous Republic of Adjara, local self-government body and a legal entity of public law is regulated in accordance with the rules established by the Law of Georgia on State Property and Decree №302 of the Government of Georgia dated October 1, 2010 "On approval of Procedures for Submitting, Reviewing and Decision-Making on the Transfer of State-Owned Property for Use to the State, Autonomous Republic of Abkhazia or the Autonomous Republic of Adjara, local self-government body and legal entity of public law."

203. The sale of assets – both financial and nonfinancial -- are included in budget execution reports of the Ministry of Economy and Sustainable Development which is the parent ministry of the National Agency of State Property. These are produced monthly, quarterly, and annually and go to Parliament. The score for this dimension is A.

PI-13. Debt Management

204. The P1-13 indicator assesses the management of domestic and foreign debt and guarantees. It contains three dimensions and uses the M2 (AV) method for aggregating scores and covers central government.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-13: Debt Management	A	B	
13.1 Recording and reporting of debt and guarantees	A	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.
13.2 Approval of debt and guarantees	A	A	Primary legislation grants authorization to borrow, issue new debt and issue loan guarantees on behalf of the central government to the Ministry of Finance (as represented by the Minister. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing is approved by the government or legislature.
13.3 Debt management strategy	A	D	The MoF has developed, and the government approved the government Debt Management Strategy Document. The strategy defines the directions of the debt management policy, the main target indicators and sets the plan for their achievement. The strategy is available on the website of the Ministry of Finance and the results are included in budget documentation submitted to Parliament.

205. The Law on Public Debt regulates the relations regarding the public debt and the authority of issuing the state guarantees on domestic and foreign credits and establishes the basic principles of public debt repayment. According to the provisions of the MoF, all actions related to foreign and domestic debt management are carried out by the Public Debt and Foreign Financing Department of the Ministry of Finance.

13.1 Recording and Reporting of Debt and Guarantees

206. Dimension 13.1 assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting for CG at the time of assessment.

Table 13.1. Recording and reporting of debt and guarantees

Domestic and foreign debt records maintained	Frequency of update of records	Records are complete and accurat	Frequency of reconciliation	Statistical reports (covering debt service, stock and operations prepared)	Additional information from reconciliation reported (if no statistical report)
Yes	Monthly	Yes	Monthly All	Monthly	NA

Source: Public Debt and Foreign Financing Department of the Ministry of Finance.

207. The MoF maintains complete, updated and reconciled information on state external debt (bilateral and multilateral loans, euro bonds issued by the government), on debt transfer and state guarantees (state guarantee issued on a KFW loan in 1994; remaining payout of EUR 1.9 million) in two different systems (DMFAS⁶⁸ version 6.1.1 and MS Access database). State internal debts (Treasury Bills, Treasury Bonds, State Bonds and related transactions) are registered in the E-Debt Management System (eDMS). The auction results are registered on the day of the auction or the related additional issue, and the settlement is fixed two days after the auction day, through the electronic treasury system, after the payment is confirmed.

208. Loan agreements are registered promptly. After receiving information on the notification of payment from the creditors, transactions (charges and debit services) are recorded in the database on the same day.

209. Following the Law on Public Debt (Article 7), the Ministry of Finance provides information to the National Bank of Georgia (NBG) on public debt and the loans on which the state guarantees are issued. The MoF provides information on public debt statistics (balance, allocations, grants, etc.) to Parliament government, and NBG monthly. Public debt statistics⁶⁹ are also available on the website of the Ministry of Finance. The Treasury receives the current statistical data of the public debt and forecasts of future payments of the public debt from the department responsible for debt monthly. The State Audit Office and other institutions may obtain statistical data in accordance with the internal and external debt requirement.

210. The state budget performance report, submitted to the Parliament includes information on public debt. This information includes the balance of public debt, changes in liabilities, allocations and the aggregated data of payments for the debt service, both for internal and external debt, which is divided in accordance with the types of donors and instruments. The budget performance report also provides information on the planned and achieved results. Since 2015, the budget performance report includes a debt sustainability analysis and additional information on the state debt.

211. Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly. The score for this dimension is A.

13.2 Approval of Debt and Guarantees

212. *Dimension 13.2 assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees, which is crucial to proper debt management performance for CG in 2021.*

⁶⁸ UNCTAD's Debt Management and Financial Analysis System

⁶⁹ https://mof.ge/saxelmwifo_valis_statistika

Table 13.2: Approval of debt and guarantees,

Primary legislation exists	Documented policies and guidance		Debt management responsibility		Annual borrowing approved by government or legislature
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity	
Yes	Yes	Yes	Yes	Yes	Yes

Source: Public Debt and Foreign Financing Department of the Ministry of Finance.

213. Issues regarding the management of public debt, issuance of state guarantees, and transfer of debt are regulated by the Constitution of Georgia, the Law on Public Debt (1998), the Law on International Treaties of Georgia (1997), the Budget Code, Organic Law of Georgia on National Bank of Georgia, the Law “on Restructuring Tax Liabilities and State Loans” (2004), and the Economic Freedom Act.

214. Under the Law of Georgia on Public Debt, the MoF (through the Minister), with the consent of the Government of Georgia (through Parliament, except Eurobonds) and through consultations with the National Bank of Georgia (NBG), has the single and exclusive right and responsibility to a) conclude agreements on the debt in national and other convertible currency; and b) issue state guarantees for credits to the financial institutions of Georgia and other countries in national and other convertible currencies, which are allocated to Georgian economic agents regardless of ownership and economic activity (Article 2.2). The MoF carries out external debt service, makes decisions about attracting foreign loans, negotiates with foreign creditors, signs the relevant documents on loans, and records and uses the borrowed funds (Article 2.3). In addition, the MoF ensures the management of domestic debt through organizing its coverage and recording, determining and paying interest rates, as well as through conducting other operations (Article 13). In the case of external debt, the MoF, together with the Ministry of Economy and Sustainable Development of Georgia, NBG and other interested agencies and organizations:

- Reviews agreements on the terms and conditions of the public external debt and studies the possibilities and conditions of financing on the international financial markets;
- Analyzes the possibilities and conditions of refinancing the public external debt; ensures that the net balance of new debt does not exceed the state external debt limits (marginal amount) set by the Law on the Annual State Budget; and

- Elaborates the normative acts in accordance with the law and submits them to the Government of Georgia and to the Parliament of Georgia to fulfill the obligations of 55 Eurobonds in addition to those 60 Eurobonds, derived from the right to manage the public external debt.

215. In case of Eurobonds, the process is the same, although the ratification of the Parliament is not necessary. The government defines the regulatory norms for the issuance of Eurobonds and grants and empowers the MoF to release the Eurobonds and to sign all relevant documents.

216. Financial conditions of loans from foreign sources are selected and reviewed by the State Debt Formation and Regulation Commission of the MoF; selected financial conditions are submitted to the government for approval. The Commission also discusses matters related to the public internal debt. External and domestic debt parameters are defined in the draft state budget to ensure the maintenance of public debt sustainability in a medium-term and are part of the budget approval process.

217. Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to the Ministry of Finance. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing is approved by the government or legislature. The score for this dimension is A.

13.3 Debt Management Strategy

218. *Dimension 13.3 assesses whether the government has prepared a debt management strategy with the long-term objective of contracting debt within robust cost-risk trade-offs at the time of assessment for CG with reference to 2019, 2020 and 2021.*

219. The Debt Management Strategy is intended to reflect the measures and actions to be taken by the government to ensure the implementation of effective debt management policy. The main objectives of the strategy are to ensure that the borrowing needs of the government within the adequate risks are funded, and to provide strategic directions.

220. The first strategy document - "Debt Management Strategy of Georgia for 2016-2019" - was approved by the government in early 2019. At the end of 2021 the Debt Management Strategy of Georgia for 2022-2025 was updated. The electronic version of the document⁷⁰ is published on the website of the Ministry of Finance. The structure of the strategy is in line with the methodology developed by the World Bank and the International Monetary Fund. The topics discussed in the document are:

- Objectives and Scope of the Debt Management Strategy;
- Macroeconomic Overview;
- General Government Debt Portfolio Description;
- General Government Debt Portfolio Analysis:
 - Exchange rate risk;

⁷⁰ <https://mof.ge/5231>

- Refinancing risk;
- Interest rate risk.
- Sources of domestic and foreign financing and their comparative analysis; and
- Strategic goals.

221. Since 2019, the MoF produces, and the Government of Georgia approves, the government Debt Management Strategy document which defines the directions of the debt management policy, the main target indicators, and establishes a plan for their achievement. The latest strategy document was approved by the government on December 31, 2021 and published on the website of the MoF (<https://mof.ge/en/5232>). The macro-fiscal and debt data included in the strategy are completely identical to the data presented in the main economic and financial indicators document attached to the state budget. The strategy covers the existing and projected government debt and includes target ranges for indicators such as interest rates and re-financing. Foreign currency risks are included. The government's annual plan for borrowing is consistent with the approved strategy. In the appendix of the strategy document, the evaluation of the strategy of the past period is also presented. The annual report on debt management objectives as part of annual budget execution report is submitted to Parliament annually before March 31. The Parliamentary Finance and Budget Committee has reviewed the strategy in the light of the impact of COVID-19 and has made suggestions for amendments.

222. The MoF has developed, and the Government of Georgia approved the Government Debt Management Strategy Document. The strategy defines the directions of the debt management policy, the main target indicators and sets the plan for their achievement. The strategy is available on the website of the Ministry of Finance and the results are included in budget documentation submitted to Parliament. The score for this dimension is A.

Difference in Comparison to the Previous Assessment

223. The following measures have been implemented after the previous assessment:

- ✓ Since 2018, the MoF is issuing benchmark bonds to increase the liquidity of Treasury securities and to attract more investors.
- ✓ Since 2019, the MoF is developing, and the Government of Georgia is approving the Debt Management Strategy Document, the electronic version of which is available on the website of the Ministry of Finance.
- ✓ In 2019, the MoF introduced and launched buyback operations for the purpose of optimal management of domestic liabilities.
- ✓ In November 2020, the MoF, in coordination with the National Bank of Georgia, the International Monetary Fund and the World Bank, launched a pilot program for primary dealers.
- ✓ The MoF publishes information on the Treasury securities portfolio weekly.⁷¹
- ✓ Since the end of 2021, information about the annual plan for the issuance of Treasury securities for the next year is published on the website of the MoF.⁷²

⁷¹ <https://mof.ge/5485>

⁷² <https://mof.ge/5491>

Current and Planned Reforms and Measures

224. The following measures are in the development stage:

- ✓ The module of domestic debt and targeted grants is working properly in the Electronic Debt Management System (eDMS). A module for projects and external debt is under development.
- ✓ The Law of Georgia on Public Debt is being amended with the involvement of the World Bank technical assistance mission. The amendment is intended to bring existing debt definitions for various purposes into line with public finance and public sector debt statistics handbooks and to ensure their compatibility. Investor relations strategy and related statistical-analytical reports / presentations are being developed.
- ✓ The final version of the Guide to Public Borrowing Needs Determination Procedures is under development.
- ✓ In the near future, in parallel with the budget process, the government's Debt Management Strategy for 2023-2026 will be updated.

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

225. Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

PI-14. Macroeconomic and Fiscal Forecasting

226. PI-14 measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses M2 (AV) for aggregating dimension scores and covers 2019, 2020 and 2021.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-14: Macroeconomic and fiscal forecasting	A	A	
14.1 Macroeconomic forecasts	A	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections are reviewed by the Finance and Budget Committee of the Parliament of Georgia, as well as by the Independent Fiscal Institution - the Parliament Budget Office (PBO) and the State Audit Office.
14.2 Fiscal forecasts	A	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), disaggregated expenditure, and the budget balance, for the budget year and three following fiscal years. These forecasts, together with the underlying assumptions and explanation of differences, are included in budget documentation submitted to the legislature.
14.3 Macro-fiscal sensitivity analysis	A	A	The government prepares scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.

14.1 Macroeconomic Forecasts

227. *Dimension 14.1 assesses the extent to which comprehensive medium-term macroeconomic forecasts relating to the whole economy and underlying assumptions are prepared to inform the fiscal and budget-planning processes and are submitted to the Legislative Assembly as part of the annual budget process.*

Table 14.1 – Production of Macroeconomic Forecasts

Item	2019 Budget	2020 Budget	2021 Budget
GDP Growth	Yes	Yes	Yes
Inflation	Yes	Yes	Yes
Exchange Rates	Yes	Yes	Yes
Interest Rates	Yes	Yes	Yes

228. The Ministry of Finance prepares comprehensive medium-term macroeconomic forecasts stating underlying assumptions to implement the budget planning process. Forecasts and underlying assumptions are generated for the key variables of the national accounts (including GDP growth, inflation, interest rates, and the exchange rate), as well as the external, monetary and public sectors.

229. The timeframe covers a data series of the last two years, the current year, the year to be planned, and the next three years (7 years in total). The forecasts are updated at least annually but at the stage of annual budget processing. In addition, forecasts are updated if the state budget law is amended during its implementation. Fiscal forecasts are being reviewed by the Parliament Budget Office, an independent fiscal body that supports the Parliament supervision function on public finances through independent analysis, studies and evaluations.⁷³ The Parliament Budget Office (PBO⁷⁴) has reviewed and assessed the draft 2022 state budget law package, including fiscal forecasts for 2022-2025, three times: in October 2021 (first submission of the 2022 budget law to the Parliament), in November 2021 (second submission) and in December 2021 (third submission).

230. The PBO develops forecast alternatives to the MoF's forecast. Taking into account the budget cycle, in particular, provisions set out in the Articles 34, 38-39 of the Budget Code and Articles 136-138 of the Rules of Procedure of the Parliament of Georgia, as well as the availability of the relevant data, PBO's annual macroeconomic forecasts are revised four times a year. The timetable is determined as follows:

- Based on the timetable of the parliamentary review of the information on key macroeconomic forecasts and major directions of the ministries that is submitted by the government by June 1;
- Based on the timetable of the parliamentary review of the BDD (MTBF for Georgian fiscal framework) and draft state budget together with the supporting documents that are submitted to the Parliament.
- To ensure that the stakeholders have timely and regular updates on key anticipated developments in macroeconomic environment using the most up-to-date information, PBO produces quarterly GDP growth forecasts, usually within 6 weeks after the start of the quarter.

⁷³<http://pbo.parliament.ge>; charter:

<http://pbo.parliament.ge/images/debuleba%20ofisis%202020.pdf>

⁷⁴<http://pbo.parliament.ge/ge/component/k2/itemlist/category/177.html>

231. In addition, the State Audit Office carries out its own review.

232. The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections are reviewed by the Finance and Budget Committee of the Parliament, and by the PBO and the State Audit Office. The score for this dimension is A.

14.2 Fiscal Forecasts

233. *Dimension 14.2 assesses whether central government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections which reflects government-approved expenditure and revenue policy settings.*

Table 14.2 Published fiscal forecasts

	2019 Budget	2020 Budget	2021 Budget
Aggregate Revenue	Yes	Yes	Yes
Detailed Revenue	Yes	Yes	Yes
Aggregate Expenditure	Yes	Yes	Yes
Detailed Expenditure	Yes	Yes	Yes
Budget Balance	Yes	Yes	Yes

234. Fiscal forecasts in Georgia are prepared on the basis of macroeconomic parameters for the forthcoming budget year and for the next three years. The BDD reflects both the revenue and expenditure forecasts and links these to the priorities of the country. In 2021, the MoF prepared a fiscal forecast for budget year 2022 and the three following fiscal years based on updated macroeconomic projections which reflected government-approved expenditure and revenue policy settings. The fiscal forecasts developed by the Ministry of Finance include: (i) revenue decomposition by direct and indirect taxes, grants and non-tax revenues; (ii) spending decomposition by categories; (iii) change in financial and nonfinancial assets and liabilities; (iv) fiscal balance; and (v) underlying assumptions (including rates, coverage, and projected growth).

235. The updated expenditure and revenue estimates of 2022 budget and subsequent three years were based on the policy decisions made in 2021. Therefore, all necessary adjustments to the inflation and growth figures were incorporated in the fiscal forecasts for 2022-2025. A draft amendment to the 2021 budget law was introduced due to the uncertainty surrounding the pandemic and the more-than-expected improvement in the economy compared to the initial forecasts, which led to the need for amendments in the budget law. In 2021, certain economic stimulus programs were continued, aimed at helping citizens and businesses affected by the pandemic. The explanatory note

to the 2022 Annual Budget Law⁷⁵ includes an explanation of variations from the 2022-2025 and the 2021-2024 approved fiscal forecasts. In addition, the explanatory note includes partial costing of measures affecting the planning year (2022), but not the medium-term projections.

236. The medium-term forecasts comparison document is attached to the draft budget law. In addition to the comparison of the forecasts for the 2021 and 2022 draft budgets, the document provides a forecast of reverting to the ceilings set by the fiscal rules defined under the Organic Law of Georgia on Economic Freedom. The medium-term forecasts comparison document provides an explicit reporting of the differences between the estimates/projections reported in the macro fiscal framework of 2022-2025 and macro fiscal framework of 2021-2024, as well as projections for reverting to the budget deficit and debt ceilings.

237. The fiscal forecasts include detailed breakdown of revenues and expenditures for the budget year and next three years. They include assumptions underlying the forecasts and the difference from previous forecasts in the documentation submitted to Parliament in the BDD. The score for this dimension is A.

Difference in Comparison to the Previous Assessment

238. At the time of the 2018 assessment explanations of the differences were not available; this fact led to a lower score. The explanations of differences are now available.

14.3 Macro-Fiscal Sensitivity Analysis

239. *Dimension 14.3 assesses the capacity of the central government to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt.*

240. The published budget law 2022 package included three scenarios of major macroeconomic indicators: baseline, optimistic and pessimistic.⁷⁶ The baseline scenario is based on the expected economic development, the probability of which is the highest in the medium-term. The fiscal framework is drawn up on the basis of this baseline scenario. The pessimistic scenario is created to model an impediment to economic development, while the optimistic scenario assumes an acceleration of economic activities. For an effective management of macroeconomic risks, it is important to predict what fiscal responses the government will have in case of deviations from the baseline scenario.

⁷⁵<https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/10.ganmartebiti%20barati%202022%20-%20III%2030.11.2021.docx>;

⁷⁶https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf;
https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/18.2022%20BD%20Tables%20sen%2011_3_BDD_LEPL.pdf;
https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/17.2022%20BD%20Tables%20sen%2011_2_BDD_LEPL.pdf

241. Analysis of macroeconomic risks of the fiscal sector is prepared for 2021-2025.⁷⁷ The purpose of the document is to identify macroeconomic risks and assess their fiscal outcomes in order to predict fiscal policy responses in case of both negative and positive deviations. In the process of the macroeconomic risk assessment, all available positive or negative economic and political factors affecting the macroeconomic indicators are considered.

242. A debt sustainability analysis (assessed in PI-13.3) of the government has been developed for 2021-2030. The major goal of the analysis is to assess the government's ability to service obligations in the medium and long terms. It includes the assessment of various possible risk factors and their impact on the government debt portfolio. It helps the government to identify the outcomes of negative factors in advance and to elaborate the relevant action plan.

243. The government prepares scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions; these scenarios are reflected in the published budget documentation together with forecasts. The score for this dimension is A.

PI-15. Fiscal Strategy

244. PI-15 analyses the capacity of the central government to develop and implement a clear fiscal strategy and measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage is central government.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-15: Fiscal Strategy	B	D+	
15.1 Fiscal impact of policy proposals	D	D	The government has prepared estimates of the fiscal impact of all proposed changes in revenues and expenditures (90% and more) for the planned and subsequent 3 years for 2020 and 2012 but not in 2019. This has been submitted to the Parliament together with the annual draft budget law.
15.2 Fiscal strategy adoption	A	B	The fiscal strategy (BDD) is adopted by the government. The document is published and includes quantitative and qualitative goals and objectives of the year to be planned and of the next three following years.
15.3 Reporting on fiscal outcomes	A	D	The state budget performance report submitted to the Parliament, includes information on the implementation of fiscal policy objectives (fiscal rules) and relevant explanations, in case of differences as well as actions to be taken.

⁷⁷ https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/16.scenarebis%20analizi_2021.docx

15.1 Fiscal Impact of Policy Proposals

245. *Dimension 15.1 assesses the capacity of the government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation in 2019, 2020 and 2021.*

Table 15.1. Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared, 2020 and 2021		
Budget year	Two following FYs	Submitted to legislature
Yes	Yes	Yes

246. The BDD for 2022–2025 includes major planned reforms over the next four years. The document includes medium-term macroeconomic forecasts for the budgeted and the next three following years, the main priority areas and budget ceilings for budgetary organizations to finance the programs and activities to be implemented by them.

247. Despite the situation created in the country by the pandemic, there were fewer resources to plan and implement new policy directions. The BDD for 2021-2024, which was part of the 2021 state budget package and was submitted to the Parliament of Georgia, first reflected the new policy directions and separated them from the basic policy directions, including the fiscal effect of the new policy in the medium term.

248. The BDD for 2022–2025, which is the part of the 2022 state budget, reflects all new policy directions. Among them, the new policy directions that were planned for the beginning of the medium-term period and envisaged by the BDD for 2022-2025 were maintained. In addition, the directions planned for the beginning of the medium-term period for 2023-2026 were separated. The BDD for 2022–2025 reflects all the directions of the new policy within the framework of programs of the Ministry of Economy and Sustainable Development of Georgia (Entrepreneurship Development Program), the Ministry of Education and Science of Georgia (Preschool and General Education Program), the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia (Social Security, Healthcare, Labor and Employment System Reform Programs), as follows:

- ✓ New direction of economic support policy against new coronavirus (COVID-19) - support of the construction sector;
- ✓ New policy direction to promote entrepreneurship;
- ✓ New direction of pension policy - indexation of pensions;
- ✓ New direction of social protection - improving the social status of children and families with children;
- ✓ New directions of provision of medical services to the population: co-financing of medical insurance, organ transplantation, spinal-muscular atrophy, continuous monitoring of glucose.
- ✓ New direction of labor safety policy;

- ✓ New direction of employment policy; and
- ✓ New directions of general education reform: professional development and career advancement scheme for teachers and increase of their remuneration, introduction of the "new school" model.

249. The BDDs for 2021-2024 and for 2022-2025 distinguishes the fiscal impact of these policy directions in the medium term:

Table 15.2 Ministerial new policy direction (GEL, thousand)

Ministry / Program / New Policy Direction	2022 Projected	2023 Forecast	2024 Forecast	2025 Forecast	Comment
Ministry of Economy and Sustainable Development of Georgia	1,037,792.9	990,436.0	877,838.0	768,878.8	
Entrepreneurship development	273,486.0	292,630.0	293,263.0	295,297.0	
Including: New direction of economic support policy against new coronavirus (COVID-19) - Support of the construction sector	30,000.0	30,000.0	30,000.0	30,000.0	New policy directions introduced in the medium term of 2021-2024
Including: New policy direction to promote entrepreneurship	185,000.0	208,950.0	218,920.0	260,720.0	New policy directions introduced in the medium term of 2022-2025
Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia	6,029,145.8	6,043,741.0	6,354,223.0	6,771,208.0	
Social security	4,021,210.0	4,300,000.0	4,600,000.0	4,900,000.0	
Including: Pension indexation	500,000.0	800,000.0	1,100,000.0	1,400,000.0	New policy directions introduced in the medium term of 2021-2024
Including: Improvement of social status of children and families with children	150,000.0	150,000.0	150,000.0	150,000.0	New policy directions introduced in the medium term of 2021-2024
Healthcare	1,791,204.0	1,510,000.0	1,510,000.0	1,610,000.0	
Including: Medical insurance co-financing	2,250.0	2,250.0	2,250.0	2,250.0	New policy directions introduced in the medium term of 2021-2024

Ministry / Program / New Policy Direction	2022 Projected	2023 Forecast	2024 Forecast	2025 Forecast	Comment
Including: Organ transplantation	5,000.0	5,150.0	5,300.0	5,500.0	New policy directions introduced in the medium term of 2022-2025
Including: Spinal-muscular atrophy	5,000.0	6,000.0	7,000.0	8,000.0	
Including: Continuous monitoring of glucose	5,100.0	6,000.0	6,500.0	7,000.0	
Labor and Employment System Reform Program	9,195.0	9,922.0	10,439.0	12,018.0	
Including: New direction in occupational safety policy	4,000.0	4,000.0	4,000.0	4,000.0	New policy directions introduced in the medium term of 2021-2024
Including: New direction of employment policy	1,500.0	1,500.0	1,500.0	1,500.0	
Ministry of Education and Science of Georgia	2,076,085.9	2,501,670.0	2,564,918.0	2,671,252.0	
Preschool and general education	1,157,826.8	1,393,433.0	1,484,807.0	1,576,533.0	
Including: Teacher Professional Development and Career Advancement Scheme and Increase of Remuneration	250,000.0	350,000.0	450,000.0	550,000.0	New policy directions introduced in the medium term of 2021-2024
Including: Introduction of the "new school" model					
<i>New policy directions introduced in the medium term of 2021-2024 in total</i>	<i>937,750.0</i>	<i>1,337,750.0</i>	<i>1,737,750.0</i>	<i>2,137,750.0</i>	
<i>New policy directions introduced in the medium term of 2022-2025 in total</i>	<i>200,100.0</i>	<i>226,100.0</i>	<i>237,720.0</i>	<i>281,220.0</i>	
Total payments in total	17,023,409.6	18,666,826.5	18,736,829.7	18,790,528.3	
% of new policy directions introduced in the medium term of 2021-2024 in total payments	5.5%	7.2%	9.3%	11.4%	
% of new policy directions introduced in the medium term of 2022-2025 in total payments	1.2%	1.2%	1.3%	1.5%	
% of total new policy directions in total payments	6.7%	8.4%	10.5%	12.9%	

Source: Ministry of Finance

250. The revised version of the BDD for 2022–2025 has been prepared and submitted to the Government and Parliament of Georgia within the timeframe established by law and complies with the requirements of the legislation. This document is available on the website of the MoF.⁷⁸

251. As shown in Table 15.2, the BDD for 2022–2025 reflects both the new policy directions for the medium term of 2021–2024 and additional new policy directions. The BDD for 2022–2025 fully includes explanations of all new policy directions and information on fiscal impact. No new policy direction was planned in terms of revenues. While there has been significant improvement since the last PEFA assessment, as there was no fiscal impact estimated at all, this assessment does not meet the requirement for a fiscal impact to be estimated in each of the three years covered. This was only implemented in 2020 and 2021 and not 2019. The score for this dimension is D.⁷⁹

15.2 Fiscal Strategy Adoption

252. *Dimension 15.2 assesses the extent to which government prepares a fiscal strategy in 2021 that sets out fiscal objectives for at least the budget year and the two following fiscal years.*

253. The BDD is approved by the government by July 10 of each year. The document consists of the main directions, budgetary priorities and maximum allowable budget allocations for the budgetary units for the year to be planned and for the next three years. The BDD is an integral part of the annual budget law package and is submitted to the Parliament in accordance with the rules and terms defined by the Budget Code.

254. The BDD for 2022–2025 discusses the fiscal policy prior to the outbreak of the pandemic and the economic and fiscal consequences of the pandemic and provides information on compliance with the fiscal rules established by the Organic Law of Georgia on Economic Freedom.⁸⁰

255. The Organic Law of Georgia on Economic Freedom⁸¹ establishes the following fiscal rules:

- ✓ Balance rule - the consolidated budget deficit's ratio to the gross domestic product (GDP) – not more than 3%;
- ✓ State debt rule – states debt's ratio to the gross domestic product (GDP) – not more than 60%; and
- ✓ Revenue rule - the introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum. In addition, the Government of Georgia has the right to request a temporary increase in taxes - for a period not exceeding 3 years. In this case, a referendum is not held.

256. According to the Organic Law of Georgia on Economic Freedom, due to the declaration of a state of emergency, the Government of Georgia was given the opportunity to act beyond the fiscal

⁷⁸ <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx>

⁷⁹ The BDDD in 2022 covering the 2023 to 2026 period follows the 2020 and 2021 format and this would have elevated the score to A if the period covered 2020 to 2022.

⁸⁰ <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx>

⁸¹ <https://matsne.gov.ge/document/view/1405264?publication=3>

parameters set by law in order to ensure the smooth financing of the above measures. Due to the COVID-19 pandemic, during the introduction of the amendments to the Law of Georgia on the State Budget for 2020, as well as during the preparation of draft amendments to the Budget Law of 2021 (December 2021) and the draft Law of Georgia on the State Budget for 2022, the forecasts of the fiscal rules defined by the Organic Law of Georgia on Economic Freedom were planned beyond the thresholds established by the Organic Law. Accordingly, in addition to these forecasts, a plan of reverting to the set ceilings was prepared in advance - "Comparison of medium-term forecasts and the projection of reverting to the ceilings set by the fiscal rules in the Organic Law of Georgia",⁸² which was attached to the draft budget and submitted to Parliament. The return to the ceilings defined by the Organic Law of Georgia on Economic Freedom is envisaged by 2023.

257. The PBO is also conducting monitoring of fiscal rules compliance, which is not included in PBO's legal mandate. The PBO has been tasked to monitor and report on the government's compliance with the fiscal rules through the Financial Agreement Sector Reform Performance Contract between the EU commission and the Government of Georgia (2018). In 2020 the PBO first assessed the rules compliance and from then on PBO continues to conduct the assessments although it is not officially mandated by law.

258. The BDD is adopted by the government. The document is published and includes goals and objectives and well as targets of the year to be planned and of the next three following years. The score of this dimension is A.

15.3 Reporting on Fiscal Outcomes

259. *Dimension 15.3 assesses the extent to which the government makes available—as part of the annual budget documentation in 2021 submitted to the legislature—an assessment of its achievements against its stated fiscal objectives and targets.*

260. In line with Article 55 of the Budget Code, the MoF prepares an annual state budget performance report based on data of the Treasury and information obtained from budgetary units and other relevant budget organizations. These are to be submitted to the Government of Georgia no later than 3 months after the end of the year. The annual budget performance report includes information established by the Budget Code, including information on compliance with the fiscal rules established by the Organic Law of Georgia on Economic Freedom, and explanations on the differences between the planned and achieved indicators. In addition to the annual report, detailed information is provided on the comparison of medium-term forecasts, where existing differences are discussed and the reasons for these differences are explained.⁸³ The 2020 budget performance report is published on the website of the MoF.⁸⁴ The annual state budget report for 2020 is accompanied by an additional annex - "New Coronavirus (COVID-19) Spread in Georgia and Fiscal Policy

⁸² "Comparison of Medium-Term Forecasts and Projection of Reverting to the Ceilings set by the Fiscal Rules Defined under the Organic Law of Georgia on Economic Freedom" (December 2021) <https://www.mof.ge/images/File/2021-biujeti/10-12-2021/danartebi/11.prognozebis%20shedareba%202021.docx>
<https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/21.prognozebis%20shedareba%202022%20-3.docx>

⁸³ <https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/8.2020%20mokle%20informacia%20angarishi.docx>

⁸⁴ <https://mof.ge/5411>

Response.”⁸⁵ A separate annex on the pandemic is also prepared together with the quarterly reports. These are all published on the website of the MoF.⁸⁶

261. Article 56 of the Budget Code stipulates what should be included in the annual report on state budget execution. The Government of Georgia shall submit the annual state budget performance report to the State Audit Office within 3 months after the end of the budget year. The Government of Georgia shall submit the annual state budget performance report to the Parliament of Georgia upon receipt of notification from the State Audit Office on the completion of audit opinion on annual budget performance report, but no later than 5 months after the end of the fiscal year.

262. After reviewing the annual state budget performance report and conducting a hearing on the State Audit Office's report on this report, the Parliament of Georgia approves the annual state budget performance report by a resolution before the end of the spring session. The annual state budget performance reports are published on the website of the MoF.⁸⁷

263. The government has produced an analysis of medium-term projections and forecasts to get back within fiscal rules and limits as defined by the Economic Freedom Law. The document provides comprehensive analysis of deviations between projections and actual outcomes, quantifies differences, and shows the reasons such as COVID-19 related economic downturn. Chapter 2 shows the forecasts and the ways to get to the key fiscal targets and thresholds such as revenues, changes in nonfinancial and financial assets, changes in liabilities (both internal and external), current and capital expenditure, etc. Chapter 3 focuses on budget deficit and public debt. Chapter 4 focuses on the key macroeconomic indicators such as GDP growth, CPI, deflator, payment balance, monetary indicators, and others. Parliament Budget Office has produced fiscal assesment report 2022 – Monitoring Report of the Fiscal Rules Established by the Organic Law of Georgia on Economic Freedom, that provides further analysis based on the government report.

264. The state budget performance report, which is submitted to the Parliament of Georgia, includes information on the implementation of fiscal policy objectives (fiscal rules) and relevant explanations, in case of differences. There is information regarding actions to address any deviations. The score for this dimension is A.

PI-16. Medium-Term Perspective in Expenditure Budgeting

265. The PI-16 indicator examines the extent to which expenditure budgets are developed for the medium-term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores and covers BCG.

⁸⁵ <https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/9.COVID-is%20danarti.docx>

⁸⁶ <https://mof.ge/5307>; <https://mof.ge/5429>

⁸⁷ <https://mof.ge/4564>

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-16: Medium-term perspective in expenditure budgeting	B+	B+	
16.1 Medium-term expenditure estimates	A	A	The annual budget presents an estimate of expenditure for the budget year and three following fiscal years allocated by economic and program classification.
16.2 Medium-term expenditure ceilings	A	A	Expenditure ceilings are set for budgetary units for the budget year and three following fiscal years, which are approved and communicated to budgetary units by the government before their preparation of budget submissions.
16.3 Alignment of strategic plans and medium-term budgets	A	A	Medium-term action plans are prepared and costed by all ministries and are in line with the annual budget law and the BDD.
16.4 Consistency of budgets with previous year's estimates	C	D	The deviation analysis of medium-term forecasts is prepared at the aggregate level, attached to the draft state budget and submitted to the Parliament of Georgia.

266. Due to the transfer of the 2012 state budget to the program-based format, the BDD of 2013-2015 was prepared in a different format for the first time in order to make it consistent with the requirements set out in the program budget format.

267. In 2015, program-based budgeting methodology was modified to facilitate the regulation of both substantive and procedural issues in the development of sectoral and other types of strategies and action plans. The program-based budgeting methodology was modified again in 2018. The format of preparation of budget documentation for the autonomous republics and municipalities was modified and the process significantly improved.

268. The program budget considers a wider system of indicators: basic and targeted indicators, the probability of failure, and the possible risks are presented for each program. The goal is that Programs / Sub- programs / Activities and their budgets defined by the ministries' medium-term action plans or various sectoral strategies will be reflected in the relevant annual draft budget and BDD. The methodology describes the procedures for ministries' preparation of medium-term action plans and provides detailed information on what shall be covered by those plans and how to prepare information, including cost estimates of each plan for different types of programs.

269. The revised methodology of program budget proposes to facilitate the preparation of medium-term action plans by the ministries in the working group's format. Within the framework of the EU Public Finance Management Reform the evaluation mission issued a recommendation on the involvement of high-level management on the preparation of medium-term action plans by the ministries and on the creation of the working groups in all ministries. According to the recommendation, the working group will be headed by the Minister and will be composed of heads / representatives of departments that define the policy of relevant direction, and heads / representatives of the structural units.

270. These regulations concerning the preparation of budget documentation in the format of the working group also was drafted by the government on the "Measures to be implemented for the

purpose of drawing up the BDD for 2022-2025” and was approved by the Resolution N104 of February 26, 2016.⁸⁸

271. Within the framework of the public finance management reform, all levels of budget and all budgetary organizations were unified in the Treasury Single Account system. In particular, the relevant modules of the state finance management system have been updated. Since January 1, 2015, all levels of budget and all budgetary organizations have been unified in the TSA system both at planning and performance stages.

272. The area of the TSA has expanded and already includes local government and public agencies, in addition to schools and kindergartens. Thus, consolidated reports and information on budget execution of both central and local governments and public agencies are available in real time, by days, months, and years. The Treasury has developed the necessary regulations for managing cash on the treasury accounts and started holding free cash in commercial banks using Bloomberg's auction system.

273. As a result of the reform, the circle of institutions envisaged under the Budget Organization terminology was expanded and the sphere of regulation of the Budget Code applies to all legal entities established by and/or subordinated to central, autonomous, and local authorities (except for legal entities with entrepreneurial status and the NBG). This contributes to greater transparency of the budgetary process. The budget format and submission procedures have been significantly improved. Significant steps have been taken towards the results-oriented planning, medium-term perspective, and the existence of links between strategic planning and budget. Additionally, the connection between the main directions of the country and the budget has been strengthened. The sectoral action plans include the relevant estimates and comply with the parameters set out in budget law and the BDD for the 4-year period.

16.1 Medium-Term Expenditure Estimates

274. *Dimension 16.1 assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve predictability of budget allocations. Medium-term estimates should be disaggregated by high-level administrative, economic, and program or functional classification. The coverage is the budget submitted in 2021 covering subsequent years.*

Table 16.1. Medium-term expenditure estimates

Classification	Budget year	Two following FY
Administrative	Yes	Yes
Economic	Yes	Yes
Program/Function	Yes	Yes

⁸⁸ <https://matsne.gov.ge/ka/document/view/5111933?publication=0>

275. The BDD is the fiscal framework and fiscal strategy document for the medium-term planning for the budget year and the following three years. The BDD is a main plan of development for the country, which captures information on the mid-term macroeconomic and fiscal projections, along with information on the major directions of development within central, autonomous, and local authorities.

276. For the 2022-2025 BDD, the government adopted Resolution №77 on 28 February 2021,⁸⁹ on the basis of which budgetary units, Autonomous Republican and Local Authorities submitted the information to the MoF. Following Article 34 (4) of the Budget Code, the Government of Georgia submitted information on the major macroeconomic projections and main directions of the line ministries to the Parliament of Georgia on May 31, 2021. Line ministries approve their medium-term action plans by June 30 of each year.

277. According to Article 34 (5) of the Budget Code, the BDD must contain at least the following information:

- a) For the past, current, future and three following fiscal years:
 - ✓ Main macroeconomic indicators (nominal and real Gross Domestic Product (GDP), economic growth, inflation, investments etc.) projections and their description; and
 - ✓ Aggregated indicators of Consolidated and state budget Revenues and Expenditures, transactions with financial and nonfinancial assets and liabilities;
- b) Analysis of state budget execution for the past fiscal year and adjusted projections of the current fiscal year;
- c) For the future and following fiscal years:
 - ✓ State priorities defined by the government;
 - ✓ Programs, aims and funding of budgetary units defined in the government Resolution of Georgia; Solely for information purposes – Autonomous Republican and Local Authority priorities for a mid-term period, along with programs and funding earmarked for their achievement, goals and outcomes of such programs;
 - ✓ Aggregated indicators of the targeted threshold budget allocations defined for each budgetary unit of the state budget; and
 - ✓ List of priority directions indicated in the state budget, within which the budgetary units of the state budget capture their programs and sub-programs in the respective budget proposals;
- d) Projected number of staff for the next fiscal year broken down by budgetary units; and
- e) Main fiscal indicators projected within the limits of the fiscal rules defined by the Organic Law of Georgia on Economic Freedom.

278. Government of Georgia approves the BDD not later than July 10 of each year. The BDD for 2022-2025 was approved by Decree №1179 on July 9, 2021.

⁸⁹ <https://matsne.gov.ge/ka/document/view/5111933?publication=0>

279. The BDD is updated annually. The document is an integral part of the state budget documentations and is attached to the draft state budget at the time of its submission to Parliament. The BDD Document for 2022-2025 was prepared in accordance with the rules and deadlines established by the Budget Code. It is published on the website of the MoF.

280. The BDD for 2022-2025 provides expenditure estimates for the budget year and the following three years by administrative, economic and program classification. The score for this dimension is A.

16.2 Medium-Term Expenditure Ceilings

281. *Dimension 16.2 assesses whether medium-term expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives. Such ceilings should be issued to ministries before or when the first circular is distributed at the commencement of the annual budget preparation cycle. The coverage is the budget submitted in 2021 covering subsequent years.*

282. The BDD for 2022-2025 includes information on the number of budgetary units and the maximum allowable amount of allocations (ceilings) for the budget year and three following fiscal years, which is approved by the Government of Georgia by July 10 of each year. These ceilings are included in the budget instructions. Budgetary units submit their budget proposals to the MoF via an e-budget management system no later than September 1 of each year.

283. In the process of preparing their budget submission budgetary units also have the opportunity to prepare and submit information to the MoF on the requirements above the ceilings to factor in any additional financial requirements to deliver key services. These are considered in the budget negotiations before the budget is finalized but have to be justified and the case presented. Unjustified and excessive demands are rejected as a matter of course.

284. Expenditure ceilings are set for budgetary units for the budget year and three following fiscal years, which are approved and communicated to budgetary units by the Government of Georgia before the preparation of their budget submissions. The score for this dimension is A.

16.3 Alignment of Strategic Plans and Medium-Term Budgets

285. *Dimension 16.3 measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies. Strategic plans should identify resources required to achieve medium- to long-term objectives and planned outputs and outcomes. The coverage is the budget submitted in 2021 covering subsequent years.*

286. One of the important issues in the framework of public financial management reform in Georgia has been the possibility to identify compliance between strategic documents and the budget. Compliance between medium-term planning documents and the budget are provided at the legislative level. The introduction of program-based budgeting (since 2012 for the state budget and since 2013 for the autonomous republics and municipalities) has strengthened the links between policy and budget. Pursuant to Article 34 (4) of the Budget Code, the ministries approve their detailed action plans by June 30 of each year, which are in line with the draft annual budget and the

BDD. In medium-term action plans, programs are broken down into more detailed sub-programs and measures than those specified in the state budget; each program / sub-program / measure includes a description and purpose, expected interim and final results, evaluation indicators (basic and target indicators, probability of failure and possible risks).

287. Pursuant to Article 34 (8) of the Budget Code, the Government of Georgia ensures the compatibility of the draft state budget and BDD. Line ministries ensure the compatibility of their medium-term action plans, the BDD, and the state budget law. The Government of Georgia develops strategic documents and action plans in accordance with the Resolution №629 of the Government of Georgia of December 20, 2019, "On Approval of the Rules for Development, Monitoring and Evaluation of Policy Documents,"⁹⁰ which in turn includes the costing of measures provided for in the action plan and linking of each measure with the annual budget law. Programs and subprograms are costed according to economic classifications. These procedures and procedures have been applied in practice since their enactment.

288. The strategic documents and action plans adopted by the Government of Georgia, as well as the medium-term action plans developed by the line ministries are in line with the annual budget law and the BDD. Programs and subprograms are costed according to economic classifications. The score for this dimension is A.

16.4 Consistency of Budgets with Previous Year's Estimates

289. *Dimension 16.4 assesses the extent to which the expenditure estimates in the last medium-term budget (2020) establish the basis for the current medium-term budget (2021). This will be the case if every expenditure variation between the corresponding years in each medium-term budget can be fully explained and quantified.*

290. The comparison report of medium-term fiscal forecasts for 2021-2024 and 2022-2025 was prepared during the processing of the 2022 draft state budget and represents the annex attached to the 2022 state budget documentation, which was submitted to the Parliament of Georgia within the timeframe set by the Budget Code and published on the website of the Ministry of Finance.⁹¹ The annex "Comparison of medium-term fiscal forecasts and projection of reverting to the ceilings set by the fiscal rules defined under the Organic Law of Georgia on Economic Freedom" consists of the following chapters:

- Basic macroeconomic and fiscal settings;
- Fiscal framework; and
- Government debt.

291. The document compares the medium-term fiscal forecasts for 2021-2024 prepared in December 2020 with the updated forecasts for 2021-2024 prepared in July 2021 and November 2021, and explains the differences between them. The law on the 2021 state budget was amended twice (July and December). Due to the COVID-19 pandemic, there was a need to update medium-

⁹⁰ <https://matsne.gov.ge/ka/document/view/4747283?publication=0>

⁹¹ <https://mof.ge/5477>; <https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/21.prognozebis%20shedareba%202022%20-3.docx>

term forecasts to allocate additional funds for health care, social security, and business support purposes. The explanatory note of the 2022 state budget of Georgia, as well as the explanatory note attached to the budgets of the previous years (2021 and 2020) includes detailed information on changes in revenues and payments.⁹² An explanatory card is also prepared, which includes information on the deviation from the planned indicators in the medium term and its fiscal effect.

292. While information and explanations on the deviation in medium-term forecasts is prepared and published in budget documents, this is only done at the aggregate level, not at the level of budgetary units. The score of this dimension is C.

PI-17. Budget Preparation Process

293. The PI-17 indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores and covers BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-17: Budget preparation process	A	A	
17.1 Budget calendar	A	A	The budget calendar allows budgetary units to start working on the budget at least 6 weeks before the budget is submitted.
17.2 Guidance on budget preparation	A	A	The level of information included in the BDD is clear and comprehensive. It covers total expenditure of central government for the fiscal year and contains expenditure ceilings for all the budgetary units. It is approved by Cabinet and reviewed by Parliamentary Committees.
17.3 Budget submission to the legislature	A	A	The draft annual budget is submitted to the legislature over 3 months before the beginning of the year.

17.1. Budget Calendar

294. *Dimension 17.1 assesses whether a fixed budget calendar exists and the extent to which it is adhered to. It covers the budget submitted in 2021 for 2022 implementation.*

⁹² Explanatory Note of the Law of Georgia on the 2022 State Budget of Georgia- <https://mof.ge/images/File/2022-bijeti/21-12-2021/DanarTebi/10.ganmartebiti%20barati%202022%20-%20III%2030.11.2021.docx>; State budget by years - https://mof.ge/saxelmwifo_bijeti_wlebis_mixedvit

Table 17.1: Budget calendar and guidance on budget preparation in 2021 for 2022

budget calendar exists	date of budget circular	deadline for submission of estimates	Coverage	% of ministries complying with deadline	date cabinet approved ceilings	budget estimates are reviewed and approved by cabinet after completion (if ceilings not issued)
Yes	July 10	August 31	All	100%	June 30	Yes

Source: Ministry of Finance

295. The budget calendar is clearly defined by the Budget Code. The Budget Code in turn clearly defines the terms and conditions for submitting relevant information for each stage of the budget process.

296. The 2021⁹³ budget calendar, as well as the previous (2019 and 2020) budget calendar, follows the conditions set out in the Budget Code, indicates relevant dates, and is available on the website of the MoF. The rights and obligations of relevant state agencies are described in detail for each phase of the budgeting process. The main steps of the budget process are described in the diagram below. The budget calendar was strictly compiled by all participants for the last three budgets submitted to the legislature (budgets for 2019, 2020 and 2021 fiscal years).

297. The BDD document is adopted by the government before July 10 of each year. It includes the budgetary unit's ceilings that are filled in the electronic budget system, E-Budget, before July 15 each year. The application forms provided to the budgetary units through the electronic system are clearly understood and enable them to provide all the necessary information. In addition, E-Budget is connected to E-Treasury, which allows for the automatic synchronization of the data of the previous years. Consequently, accuracy of information is ensured, and the process is transparent.

298. After the budget ceilings were entered in E-Budget, *all* the budgetary units (99%) sent their budget proposals between July 13 and August 31.

299. The budget calendar allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time. The score for this dimension is A.

⁹³ https://mof.ge/sabiujeto_kalendari

Table 17.2: Budget Process



Source: Ministry of Finance

17.2. Guidance on Budget Preparation

300. Dimension 17.2 assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions. It covers the budget submitted in 2021 for 2022 implementation.

301. The budget circular is the BDD. This is the main development plan of the country. It reflects information on medium-term macroeconomic and fiscal forecasts, as well as information on the main directions of development of the central, autonomous republics, and local governments. The document is available electronically on the website of the MoF.

302. This document is prepared according to the Budget Code:

- A government resolution defines a list of information and deadlines for submission of the requested data by budgetary units (as well as autonomous republics and local governments) for the BDD by March 1;⁹⁴
- The government submits information on the major macroeconomic projections and main directions of the line ministries to the Parliament by June 1.⁹⁵
- The Parliament does not officially endorse the BDD, but its committees send their opinions by June 20. The government approves the first draft of the BDD by July 10;⁹⁶
- In compliance with the ceilings defined in the BDD and within 5 days of its approval, the government submits the budget proposals template to the budgetary units through E-Budget.

303. The Basic Data and Direction Document, which includes the ministry ceilings, is discussed with the budgetary units during its preparation, submitted to the Parliament for opinion, and approved by the government before it is distributed to the budgetary units. The Budget Code defines the content of the BDD⁹⁷:

- Main macroeconomic indicators (nominal and real Gross Domestic Product (GDP), economic growth, inflation, investments, etc.) projections and their description for the past, current, next three fiscal years;
- Aggregated indicators of consolidated and central government budget revenue and expenditure, financial and nonfinancial assets and liabilities for the past, current, next three fiscal years;
- Analysis of the central government budget execution for the past fiscal year and projections for the current fiscal year;
- State priorities defined by the government for the next four years;
- Programs, objectives, and funding of budgetary units for the next four years;
- Budget ceilings for each budgetary unit; and
- Orientations for expenditure for the programs and sub-programs for each budgetary unit.

304. The BDD is not approved and has no force of law. The revised version of the document is an important part of the draft annual budget law submitted to the Parliament of Georgia and its final version is prepared within 1 month from the beginning of the budget year and submitted to the Finance and Budget Committee of the Parliament of Georgia.

⁹⁴ Budget Code, Article 34 (3)

⁹⁵ Budget Code, Article 34 (4)

⁹⁶ Budget Code, Article 34 (6)

⁹⁷ Budget Code, Article 34 (5)

305. The level of information included in the BDD is clear and comprehensive. It covers total expenditure of central government for the fiscal year and contains expenditure ceilings for all the budgetary units. It is approved by government and reviewed by Parliamentary Committees. The score for this dimension is A.

17.3. Budget Submission to the Legislature

306. Dimension 17.3 assesses the timeliness of submission of the annual budget proposal for 2020, 2021 and 2022 to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

307. In accordance with the Budget Code, the government should submit the draft central government budget to Parliament not later than October 1.⁹⁸ Table 17.3 shows that this rule was complied with in 2020, 2021 and 2022.

Table 17.3: Budget submission dates to Parliament

Budget year	Date of Submission
2020	September 13, 2019
2021	September 25, 2020
2022	September 24, 2021

Source: Ministry of Finance

308. The government submitted the annual budget proposal more than three months before the end of the year in each of the last three completed fiscal years. The score for this dimension is A.

PI-18. Legislative Scrutiny of Budgets

309. The PI-18 indicator assesses the nature and extent of scrutiny of the annual budget by the Legislative Assembly. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores and covers BCG:

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-18 Legislative Scrutiny of Budgets	A	A	
18.1 Scope of budget scrutiny	A	A	Parliament reviewed fiscal policies, medium term fiscal forecasts, medium term priorities and details of revenue and expenditure in compliance with the requirements of the Rules of Procedure.

⁹⁸ Budget Code of Georgia, Article 38 (1)

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
18.2 Legislative procedures for budget scrutiny	A	A	The review of the 2022 state budget was carried out within the timeframes and procedures established by law. Individual sector committee review the budget proposals, and these are discussed in plenary sessions of Parliament before the budget is passed. These are open to the public with consultation.
18.3 Timing of budget approval	A	A	During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	A	A	Reallocation of funds between programs and sub-programs of budgetary units may be carried out by the Ministry of Finance without requiring amendments to the law and approval of the Parliament. However, such reallocations shall not exceed 5% of the annual budget allocation of the budgetary unit.

18.1. Scope of Budget Scrutiny

310. *Dimension 18.1 assesses the scope of legislative scrutiny in 2021.*

Table 18.1: Extent of budget scrutiny 2021

Legislature reviews budget	Areas of scrutiny				
	Fiscal policies	Medium-term fiscal forecasts	Medium-term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Yes	Yes	Yes	Yes	Yes	Yes

311. The law on Budget Code describes the procedures for preparing, submitting, reviewing and approving the draft budget in detail. Accordingly, the draft budget prepared and submitted to the legislature in accordance with the code includes detailed information on fiscal policy, medium-term fiscal forecasts (with consideration of baseline, pessimistic and optimistic scenarios), medium-term priorities, budget revenues and expenditures. Along with the draft budget, the BDD is submitted to the legislature. It reflects information on medium-term macroeconomic and fiscal forecasts, as well as information on the main directions of development of the central, autonomous, and local governments of Georgia.⁹⁹

312. The legislature, in turn, analyzes the above information in accordance with the established rule.¹⁰⁰ In 2018, the provisions about PBO's¹⁰¹ role in budget process was introduced in the rules of procedures of Parliament, which defines the submission timelines of the main PBO's budgetary

⁹⁹ Budget Code of Georgia, Article 34

¹⁰⁰ <https://parliament.ge/legislation/reglament/35>

¹⁰¹ www.pbo.parliament.ge

reports, such as the reviews of the draft law on state budget and annual analysis of the state budget execution. In addition, PBO has its own reporting policy, which clearly determines the publication dates for all the relevant reports prepared by it throughout the annual budget cycle.¹⁰²

313. In particular, as set forth in Articles 136-138 of the Rules of Procedure of the Parliament governing the review and approval of the annual state budget law, The PBO reviews the BDD and the draft state budget together with the supporting documents submitted to Parliament (first, revised, and final versions).

314. The reviews include analysis of the presented fiscal policy for the short and medium term and PBO's own alternative macro-fiscal forecasts, including positive and negative scenarios. As laid down in the Rules of Procedure of the Parliament, the review preparation timeline by the PBO is as follows:

- For the first version of the draft state budget (submitted to the Parliament not later than October 1) – within two weeks after the Parliament makes the documents public;
- For the revised version of the draft state budget (submitted to the Parliament not later than November 5) – within three days after the documents are submitted to the PBO;
- For the final version of the draft state budget (submitted to the Parliament not later than November 30) – based upon the schedule for the Parliamentary review/hearings.

315. As set out in the Article 139 of the Rules of Procedure of the Parliament of Georgia, PBO also reviews the amendments of the budget law (PI-21.4). The preparation timetable is determined based on the Parliament's hearings schedule as defined by the speaker of Parliament.

316. All PBO reports are submitted to the Parliament in time according to the deadlines in Parliament's rules of procedures and PBO's reporting policy. These documents are sent to the Budget and Finance Committee. PBO representatives regularly attend all the Budget and Finance Committee hearings, where budgetary issues are discussed and PBO is always given a possibility to speak during the committee meetings. PBO's analytical products, especially independent macroeconomic forecasts, fiscal rules monitoring as well as reviews on the state budget draft law and state budget execution include the content with alternative opinions.

317. According to the statute pertaining to PBO, reports, reviews all documents prepared by the PBO are transparent and public. They are published on PBO's website; main information/findings on publications are also shared via PBO's Facebook page.

318. The draft state budget of 2022 and previous years was fully compatible with the requirements defined in the Budget Code. The Parliament reviewed fiscal policies, medium term fiscal forecasts, medium term priorities, and details of revenue and expenditure in compliance with the requirements of the Rules of Procedure. The score for this dimension is A.

18.2. Legislative Procedures for Budget Scrutiny

319. *Dimension 18.2 assesses the extent to which review procedures are established and adhered to in 2021.*

Table 18.2: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements
Yes	Yes	Yes	Yes

320. The Rules of Procedure of the Parliament of Georgia¹⁰³ define in detail the procedures for reviewing the BDD, the draft state budget law and attached materials for all three submissions, the role of other institutions, and the relevant deadlines (Rules of Procedure of the Parliament of Georgia, Chapter XII "Budgetary Powers of Parliament"). These procedures define the internal organizational procedures of the legislature, such as:

- The respective responsibilities of the Budget and Finance Committee and other legislative committees in the process;
- The existence of technical support within the Parliament such as the staff of the Budget and Finance Committee or the PBO, which is independent from the Parliament but issues comments on the budget proposals; and
- Negotiation procedures, such as the existence of a submission of a second and a third version of the budget proposal by the executive to the legislature after the Parliament comments on the proposals.

321. The final review and adoption of the draft state budget law is set out in the rules. The submitted documents become publicly available upon their submission to the Parliament (Article 135 (2)). Individual sector committees review the budget proposals, and these are discussed in plenary sessions of Parliament before the budget is passed. In accordance with the Rules of Procedure of the Parliament, the committee sittings shall be public (Article 34 (11)), and the information on the date and agenda of a committee sitting, together with issues under consideration, shall be published on the website of the Parliament not later than 3 calendar days before the sitting (Article 34 (8)).

322. The review of the 2022 state budget was carried out within the timeframes and procedures established by law. Individual sector committees review the budget proposals, and these are discussed in plenary sessions of Parliament before the budget is passed. These are open to the public with consultation. The score of this dimension is A.

¹⁰³ Rules of Procedure of the Parliament of Georgia - <https://matsne.gov.ge/document/view/4401423?publication=27>

18.3. Timing of Budget Approval

323. *Dimension 18.3 assesses the timeliness of the scrutiny process in 2019, 2020 and 2021 in terms of the legislature's ability to approve the budget before the start of the new fiscal year.*

324. According to the Budget Code:

- The Government of Georgia shall submit the draft budget and its annexes to the Parliament of Georgia not later than October 1;¹⁰⁴
- The revised versions of the draft budget and the BDD, with consideration of the expressed comments and suggestions, will be resubmitted to the Parliament of Georgia not later than November 5.¹⁰⁵ Subsequently the draft budget will be discussed at the plenary session.
- The Government of Georgia shall submit the final version of the draft budget and the relevant revised version of the BDD to the Parliament of Georgia not later than November 30,¹⁰⁶ together with the information on the status of consideration of the comments and suggestions expressed at the plenary session.
- The Parliament must approve the budget by the third Friday of December.¹⁰⁷ The state budget law is adopted with a listed majority within one hearing.

325. Table 18.3 shows the dates of approval of the draft budget by the Parliament of Georgia and the deadline set by law for the last three completed fiscal years.

Table 18.3 Date of approval of the budget

Budget	Date of Approval	Deadline
2020	December 10, 2019 ¹⁰⁸	December 20, 2019
2021	December 29, 2020 ¹⁰⁹	December 18, 2020
2022	December 17, 2021 ¹¹⁰	December 17, 2021

Source: Ministry of Finance

326. During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year. The score for this dimension is A.

18.4. Rules for Budget Adjustments by the Executive

327. *Dimension 18.4 assesses arrangements made to consider in-year budget amendments in 2021 that do not require legislative approval.*

328. The Budget Code clearly defines rules for making amendments and/or additions to the annual budget law by the executive government during the year.¹¹¹ Materials attached to the draft law on

¹⁰⁴ Budget Code, Article 38 Paragraph 1

¹⁰⁵ Budget Code, Article 39 Paragraph 4

¹⁰⁶ Budget Code, Article 39 Paragraph 7

¹⁰⁷ Budget Code, Article 39 Paragraph 8

¹⁰⁸ <https://www.matsne.gov.ge/document/view/4734727?publication=2>

¹⁰⁹ <https://www.matsne.gov.ge/document/view/5071216?publication=3>

¹¹⁰ <https://www.matsne.gov.ge/document/view/5309246?publication=0>

¹¹¹ Budget Code, Article 40

amendments and/or additions to the annual budget law shall include the updated mid-term macroeconomic and fiscal projections and information containing arguments for such amendments and/or additions.

329. Rules for making amendments to the budget throughout the year, including the nature and scope of the distribution¹¹² are determined by the Budget Code:

- Reallocations of budgets between budgetary units must be approved by the Parliament through an amendment. This is relevant to PI-21.4.
- Reallocation of funds between programs and sub-programs of budgetary units may be carried out by the Ministry of Finance without requiring amendments to the law and approval of the Parliament. However, such reallocations shall not exceed 5% of the annual budget allocation of the budgetary unit. This rule was complied with in 2021.
- Funds allocated for budgetary units on the grounds of their budget proposals and decisions made by the Government of Georgia may be used to cover the expenditures of general state significance, provided they do not exceed 2% of the budget allocations envisaged in the annual budget for the expenditures of general state significance. MoF shall notify the Fiscal Committee of the Parliament of Georgia on the applicable decision. This rule was complied with in 2021. This is relevant to PI-2.3

330. Reallocation of funds between programs and sub-programs of budgetary units may be carried out by the Ministry of Finance without requiring amendments to the law and approval of the Parliament. However, such reallocations shall not exceed 5% of the annual budget allocation of the budgetary unit. This rule was complied with in 2021. The score for this dimension is A.

¹¹² Budget Code, Article 31

PILLAR FIVE: Predictability and Control in Budget Execution

331. Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

PI-19. Revenue Administration

332. PI-19 relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public corporations that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor central government revenues. It contains four dimensions and uses M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-19: Revenue administration	B +	B+	
19.1 Rights and obligations for revenue measures	A	A	GRS collects all revenues. It uses multiple updated channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, minimum, redress processes and procedures.
19.2 Revenue risk management	A	A	GRS uses a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <i>all</i> categories of revenue and has a focus on large taxpayers and their needs. There is an extensive penalty system for non-compliance with the tax laws.
19.3 Revenue audit and investigation	A	A	GRS has an audit plan for both domestic taxes and import taxes which are determined by a comprehensive audit plan based on risk assessment. The actual audits have been in excess of those planned.
19.4 Revenue arrears monitoring	D	D	The stock of total arrears at the end of 2021 is 36 per cent of total tax revenue collected in 2021 but the revenue arrears older than 12 months is 89 per cent of total revenue arrears.

333. Revenues mobilized in the budget according to the types of taxes are provided in Table 19.1. There is no system of social security contributions in Georgia. All taxes covered by this indicator are collected by the GRS.

Table 19.1: Revenues mobilized in the budget (GEL, million)

	2019	2020	2021
Total	11 417,8	10 964,4	13 380,0
Tax	6 251,9	6 068,6	7 243,0
Custom	5 165,9	4 895,9	6 137,0
Income tax	3 482,8	3 326,7	3 775,7
Profit tax	866,3	919,4	1 015,3
Value added tax	5 239,0	4 837,2	6 029,5
Including:			
<i>Domestic Tax</i>	1 515,7	1 470,3	1 695,5
<i>Custom</i>	3 723,4	3 367,0	4 334,1
Excise Tax	1 506,7	1 619,4	1 868,8
Including:			
<i>Domestic Tax</i>	143,2	164,9	152,3
<i>Custom</i>	1 363,5	1 454,5	1 716,5
Customs duty	79,1	74,4	86,4
Property tax	474,3	433,7	510,7
Other taxes (undeclared payments)	-230,3	-246,4	93,6

Source: GRS

19.1 Rights and Obligations for Revenue Measures

334. *Dimension 19.1 assesses at the time of assessment the extent to which individuals and enterprises have access to information about their rights and obligations, and to administrative procedures and processes that allow redress, such as a fair and independent body outside of the general legal system (ideally a “tax court”) that is able to consider appeals.*

335. The GRS has a number of features relating to information for taxpayers which are outlined in the next sections.

Web Portal Features

336. The updated version of the official website of the GRS¹¹³ was launched in test mode at the end of 2020, and from January 2021 became fully operational. Website updates included a complete modernization of the design and structure, as well as a complete update of the consulting information. Several important website improvements were made:

¹¹³ www.rs.ge

- The visual side and structure of the website was completely changed according to modern requirements;
- The minimalist homepage is focused on the main users - the current and potential taxpayer;
- Consulting information, including frequently asked question (FAQ), is broken down by individuals and legal entities. In addition, the structure of the consultation information layout was changed, and all articles were completely updated;
- There is a separate section for posting important announcements and legislative news;
- All consulting articles and some of the most frequently used services are available in English;
- An internal procedural document for website management was developed, which ensures timely updating of the information posted on the website;
- The consulting section of the new website is adapted to the needs of blind and visually impaired users;
- A feedback mechanism was introduced; and
- A new communication channel - RS Chat - was introduced.

337. In addition, a separate taxpayer rights tab was provided in the consultation information, and the "Payers' Charter" was updated and made public. The website operates more than 30 electronic services. These services are easily accessed, comprehensive, and updated when changes in information are made.

Services Channels and their Characteristics

338. The GRS is actively involved in the activities provided by the public administration reform services delivery component. In addition, the GRS has developed a service development strategy for 2021-2024, the main goal of which is to maximize self-service.

339. In 2021 GRS provided 437 services to interested parties. In conjunction with these services, a number of measures have been taken to optimize, systematize, and develop them in accordance with internationally recognized standards, including:

- The legal framework is analyzed and, if necessary, improved;
- Service delivery manuals and business process modeling documents were developed; and
- User manuals and video guides, etc., were developed.

340. Services are provided through several channels - physically (through service centers and RS CAR), remotely and electronically (from the authorized page of the taxpayer's electronic services). At the same time, in consideration of international best practices and pandemics, self-service is maximized, including by expanding the preferential pricing policy on e-services. The consultation can be received through the call center. In addition, a new communication channel - RS Chat – became available in 2021. The GRS Call Center was renewed and equipped with upgraded infrastructure.

341. In addition, a very important project is being implemented with the support of USAID and EBRD, namely, development of a single methodological framework, which involves introduction of an electronic information platform based on integrated approaches, designed for both internal

(employees) and external users. A variety of information, including situational guides, manuals, solutions, etc., will be placed in a systematic form in a single methodological database and will be constantly updated. With the development of this platform, a new self-service tool will be introduced, which will provide transparency of an important information by gathering issues related to tax and customs administration in a single, easy-to-use space.

Tax Education Programs

342. The GRS constantly informs taxpayers through both direct and indirect means of communication. The official website of the GRS, Facebook page, and various media outlets are widely used for this purpose. For direct communication, the authorized page of the taxpayer's electronic services is actively used, which allows specific target groups to be informed about important legislative changes, and if necessary - to receive a short text message. Given the pandemic, virtual meetings are also actively used, which have been repeatedly held on various important issues.

343. In addition, the 2022-2024 strategy for raising the level of awareness of existing and potential taxpayers operating in the field of tax and customs, as well as of individuals crossing the border was developed in 2021, within the framework of which several new projects will be implemented in the coming years. The strategy has a stated vision - "to ensure complete and timely information of current and potential taxpayers, as well as individuals crossing the border by using the systematic approaches to raising the level of awareness in the field of taxation and customs." Along with the important projects, the concept emphasizes the important principles on which the projects implemented by the service in this area should be based.

344. In 2019, the project - "Pay Taxes for a Better Future" - was implemented in the field of education. Within the framework of the project, a meeting was held in 68 public schools of Tbilisi. About 2,000 students attended the trainings. Also, in 2019, in the framework of the information campaign organized by the Office of the State Minister to raise tax awareness, the presentation of changes related to tax legislation was held in 4 administrative units; In 2021, at the initiative of the GRS, 17 meetings were held with representatives of the Georgian Business Association, professional organizations, and entrepreneurs to get acquainted with the innovations and planned reforms in the tax legislation.

345. The GRS also prepares manuals on individual cases on how to use tax legislation and prepares preliminary decisions as a guide in specific tax cases. 61 preliminary decisions were issued in 2019, 58 in 2020, and 65 in 2021.

Publicity of Service Fees and Production of Records

346. Service fees are determined in accordance with the Resolution №96 of the Government of Georgia of March 30, 2010 "On Approval of Fees and their Rates for the Provision of Services by a Legal Entity under Public Law – the GRS." This is available on all relevant pages of the GRS website. In addition, when using electronic applications, information on the fee of a specific application (service) is defined.

347. The law has provisions for a three-stage appeal process should a taxpayer not agree with an assessment or ruling. The first stage is with the Council of Dispute Resolution (CDR) of the GRS,

the second stage is with the MoF Council of Dispute Resolution (which has representatives from the private sector as members) and the final recourse is with the judicial system. There is a disputes manual that sets out the process and procedures clearly and accessibly. This is available on the GRS website and from any of its offices. There is also a Tax Ombudsman appointed by the Prime Minister (in coordination with the Chairman of the Parliament) who is responsible for monitoring the protection of taxpayers' rights and their legitimate interests, disclosing violations, and taking remedial action. Of the 9,262 disputes in 2021, 7% were fully satisfied in favor of the taxpayer, 40% partially satisfied, 45% not satisfied, and 7% still to be considered. Of the 279 disputes settled in the judiciary in 2021, 73% were settled in favor of the GRS.

348. GRS collects all revenues. It uses multiple updated channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, at a minimum, redress processes and procedures. The score for this dimension is A.

19.2. Tax Revenue Risk Management

349. *Dimension 19.2 assesses at the time of assessment the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing compliance risks.*

350. The Georgian taxation system is a self-assessment system under which taxes are calculated, paid, and reported in accordance with prevailing tax legislation. Each taxpayer has a unique taxpayer identification number which is issued when a company is registered. Each taxpayer has secure access to the GRS's electronic services page (payer portal), which displays real-time information about its operations.

351. In 2021, in order to strengthen the process of revenue tax risk management, new compliance risk management programs were fully implemented in the GRS, which involves informing them of possible inconsistencies related to taxpayer activities at an early stage and effective implementation of current control measures. The following programs were introduced:

- **Completeness of the registration database**, aimed at providing timely and complete reflection in the registration database of persons carrying out entrepreneurial activities, as well as informing interested parties about their registration obligations.
- **Determining the status of qualified VAT payers**, aimed at timely response to risks and reducing the number of unauthorized registrations as VAT payers.
- **Employee Registry Program**, aimed at controlling the accuracy of information about employees provided by employers.
- **Validation of information submitted in the form of a declaration**, aimed at validating the register of taxpayers according to taxes and ensuring timely declaration.
- **Automatic VAT refund validation risk module**, aimed at reducing errors made by taxpayers in the VAT declaration process.
- **Management of taxable tax documents**, aimed at reducing the number of subscribed and tax-free documents.

- **Data quality control**, aimed at ensuring the accuracy and completeness of data on taxpayers in the database of the GRS.
- **Stock management**, aimed at reducing the growth rate of the number of taxpayers at risk of undeclared stocks.

352. As of 2021, a Memorandum of Understanding on receipt / exchange of information was signed among more than ten government agencies, within the framework of which information is received / exchanged on a regular basis. The banking sector requires a Tax Identification Number before an account can be opened and the procurement agency is able to see the tax status of a potential contractor.

Risk Management

353. The risk management process is based on the methodological reference - "Tax Risk Management System" approved by the order of the head of the GRS. The risk management cycle is a permanent process that helps the GRS achieve its goals, make decisions, and avoid the negative effects caused by uncertainty. This process covers all stages of the risk management cycle. There is also an annual "Compliance Improvement Plan" that outlines the priorities for high tax risk in the country, covering all categories of taxpayers.

Identification of Risks

354. Risk identification is performed using the "ascending" and "descending" approaches defined by the ISO standard. In the context of these approaches, the following methods are used in the identification process:

- Generalization of tax losses research;
- Population survey and statistical analysis;
- Trend analysis in terms of dimensions;
- Detection of anomalies in terms of dimensions;
- Generalization of tax audit results;
- Analysis of legislation / changes in legislation,
- Brainstorm;
- Delphi method;
- Analysis of experiences and data from other countries; and
- Other methods described in ISO 31010, 2009.

Risk assessment and analysis

355. The purpose of the compliance risk analysis process is to determine the probability of occurrence of identified risks, risk outcome, and cause-effect relationships. The analysis process is formulated in accordance with the rules established for risk profiling, which includes:

- A list of existing risk control mechanisms and an assessment of their effectiveness;
- Description of the methodology used in the analysis process;

- Diagrams and drawings used;
- Description of the existing methodology and mechanism for risk detection;
- Means of improvement if necessary;
- Results of cause-and-effect analysis;
- Diagrams;
- A list of factors affecting the occurrence of a risk and its consequences;
- Opinions of stakeholders;
- Outcome of the risk, its approximate / expected magnitude;
- Qualitative indicator of risk outcome;
- Probability of risk, its approximate / expected magnitude; and
- Level of confidence that results from the risk analysis process.

356. Risk analysis is performed using quantitative and qualitative approaches. At the risk analysis stage, each identified risk is analyzed in accordance with a 4-stage compliance model (registration, declaration, correctness, payment).

Determination of Risk Priority

357. Identified and analyzed risks are submitted to the Risk Management Board in the form prescribed for the risk profile. The Risk Management Board may make the following decisions on the submitted risk:

- Request an additional risk study based on the circumstances presented in the risk profile;
- Consider the circumstances and the control mechanisms for reducing the risk, presented in the risk profile, to be acceptable;
- Agree with the circumstances presented in the risk profile, the risk score and determine the appropriate severity and priority of the risk (very low, low, medium, high or very high) according to which the resources are allocated;
- Identify the risk holder who will be responsible for developing and implementing the risk reduction strategy, monitoring the risk, and properly using the allocated resources;
- Allocate appropriate human, financial and technical resources to respond to risks;
- Change the risk priority based on the results of the assessment process, and identify or reduce additional resources to eliminate the risk; and
- Consider the risk eliminated based on the results of the assessment process and stop actions.

Risk Mitigation and Risk Response

358. Risk response measures involve selecting one or more actions that change the risk, reduce the likelihood of its occurrence or its outcome. Risk response measures are developed in the form of an action plan, a risk elimination strategy. Risk response measures may include the operation of GRS operating departments in the areas of tax control, payment assurance, or taxpayer services. A risk response measure could also include a new tax program, initiation of a legislative change, or other actions.

359. Risk response measures are planned to eliminate sources of risk, establish control mechanisms prior to the risk occurrence, eliminate or mitigate the negative outcomes of the risk. A risk elimination strategy is developed by the risk holder together with the Risk Working Group. Risk elimination strategies are approved by the Risk Management Board. The change in the measures envisaged by the strategy is carried out in agreement with the Risk Management Board.

Assessment / Monitoring of Outcomes

360. Risk monitoring is performed by the risk holder and the Risk Working Group. The risk monitoring process includes all aspects of risk response measures, analysis of the effectiveness of risk control mechanisms in the process of establishing and operating of mechanisms. Relevant monitoring report shall be submitted to the Risk Management Board at least once a quarter. Risk response measures are assessed by the Tax and Customs Methodology Department of the GRS and the Risk Working Group.

361. Assessment of risk response measures includes analyzing the effectiveness of existing control mechanisms. Risk response measures are assessed annually, and the assessment report is submitted to the Risk Management Board.

Risk Groups of Taxpayers and Response Strategies

362. Based on the risk management methodology, the analytical department develops a Tax Compliance Improvement Plan, which is approved by the Risk Management Board. The 2021-2022 Tax Compliance Improvement Plan includes 7 priority risk groups: excise tax, monthly profit tax, withholding taxes, property tax, value added tax, construction sector, and large taxpayers. Response strategies are defined for each risk group, which in turn include actions planned to improve compliance and actions taken against dishonest taxpayers. These are summarized by individual taxes as follows:

Excise Tax

Actions planned to improve compliance:

- Establishment of a registration system for excise taxpayers;
- Establishment of a single registration system for excise stamps;
- Program of logical validation mechanisms in the declaration; and
- "Open Door Days" program for focus groups.

Actions planned against dishonest taxpayers:

- Detection and systematic solution of fraudulent and smuggling schemes;
- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Monthly Profit Tax

Actions planned to improve compliance:

- Program for controlling accuracy of the profit declaration;
- Stock management program;
- Systematization of quality control following the declaration; and
- "Open Door Days" program for focus groups.

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Withholding Taxes

Actions planned to improve compliance:

- Program for controlling accuracy of the withholding tax declaration;
- Employee Registry Program;
- Program of logical validation mechanisms in the declaration;
- Automation of notifications about preferences; and
- "Open Door Days" program for focus groups.

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Property Tax

Actions planned to improve compliance:

- Automatic receipt of information on the value of property (including land) from the public register;
- Program of logical validation mechanisms in the declaration;
- Establishment of an automatic control system for declarations;
- Automation of property taxation on land; and
- Legislative changes.

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Value Added Tax

Actions planned to improve compliance:

- Improvement of the automatic VAT refund system;
- Introduction of the concept of Qualified VAT Payer;
- Stock management program;
- Tax-free document control program; and
- Continuous communication with taxpayers.

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Construction Sector

Actions planned to improve compliance:

- Accurate identification of the construction site in the information card;
- Increase risk modules and control mechanism (construction industry indicators); and
- Continuous communication with taxpayers.

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and

- Tax audit (desk, comprehensive).

Large Taxpayers

Actions planned to improve compliance:

- Improving/ establishing the large taxpayers selection process; and
- Communication with selected taxpayers;

Actions planned against dishonest taxpayers:

- Ongoing control procedures; and
- Tax audit (desk, comprehensive).

Risk Management by the Customs Service

363. The Customs Service uses ASYCUDA World and its risk module to select importers by control lanes. The risk module captures data related to the importer, type of import and country of origin, which have their own risk profile based on previous history.

Large Taxpayer Office

364. Since 2019, a structural unit "Large Taxpayers Office" has been established in the Audit Department, which will study selected large taxpayers in accordance with the procedural guidelines that have been developed. An important element in the criteria for selecting large taxpayers and identifying risk is the volume of turnover, as well as the field of activity (e.g., construction) and tax compliance in the past.

365. The PRIVÉ service of the GRS is a personal type of product, which means the service of taxpayers through a personal tax advisor. A personal tax advisor is a specially selected, highly qualified, experienced tax officer who individually studies taxpayer-specific issues, assists them in defining their obligations, and focuses on the taxpayer's requirements and areas of activity. To use the PRIVÉ service, a taxpayer must sign a 1-year contract and pay the service fee. The vast majority of users of this service are large taxpayers. In 2021, the PRIVÉ service package was expanded, fees were removed, and it became the part of the Large Taxpayer Office. Services tailored to large taxpayers include analysis of the needs of business processes and provision of various services related to tax administration.

Sanctions for Non-Compliance with Tax Obligations

366. Sanctions and fines for non-compliance of tax obligations are defined by the Tax Code of Georgia.

Rule for Calculating Fines and Penalties for Late Submission of Tax Declaration

Article 274. Violation of the Time Limit for Filing Tax Return / Tax Calculations

1. Violation of the time limit determined by the tax legislation for filing a tax return/tax calculation with the tax authority if the delay period does not exceed 2 months, shall entail the imposition of a fine in the amount of 5% of the sum of a tax to be assessed for payment on the basis of the tax return/tax calculation for each overdue complete/incomplete month.
2. Violation of the time limit determined by the tax legislation for filing a tax return/tax calculation with the tax authority if the delay period exceeds 2 months, shall entail the

imposition of a fine in the amount of 10% of the sum of a tax to be assessed for payment on the basis of the tax return/tax calculation.

3. If the sum of a tax to be assessed for payment under a tax return/tax calculation equals zero, the fine under this article shall not be imposed on a person.

Rule for Calculating Fines and Penalties for Late Payment of Tax

Article 272. Penalty Interest

1. Penalty interest is a tax penalty imposed upon a person for failure to pay the payable tax amount within the time limit fixed by the tax legislation.

2. Penalty interest shall be assessed on the payable tax amount and shall be the difference between the taxpayer's outstanding tax liability and the sum of overpaid taxes. Unless otherwise provided for by this code, the penalty interest shall be assessed for each day of overdue payment, from the day following the day of the expiry of the due date.

4. Penalty interest shall account for 0.05% of the outstanding tax liability for each overdue day of payment. If the tax payment is overdue, the day when the tax is paid shall be deemed as an overdue day.

Understating Taxes in Declaration

Article 275. Understating Taxes in a Tax Return / Tax Calculation

1. Understating payable taxes in a tax return/tax calculation by a person, if caused by tax control authority changing the moment (period) of origin of the person's tax liability - shall entail the imposition of a fine on the person in the amount of 10% of the understated sum of payable taxes.

2. Understating payable taxes in a tax return/tax calculation, except in the cases provided for by paragraphs 1, 2.1 and 2.2 of this article., shall entail the imposition of a fine in the amount of 50% of the understated sum of payable taxes.

3. Understatement of a tax in a tax return/tax calculation if the amount of the understated tax does not exceed 5% of the tax amount specified in the tax return/tax calculation, shall entail the imposition of a fine in the amount of 10% of the understated tax amount.

4. Understatement of a tax in a tax return/tax calculation if the amount of the understated tax is more than 5% and does not exceed 20% of the tax amount specified in the tax return/tax calculation, shall entail the imposition of a fine in the amount of 25% of the understated tax amount.

5. Overstating a deductible/refundable amount in a tax return/tax calculation shall be considered as an understatement of the payable tax amount in a tax return/tax calculation and it shall, in a respective case, entail the liability under paragraphs 1-2.2 of this article.

6. Understating payable taxes in a tax return in excess of GEL 100,000 shall be deemed a tax evasion in large amounts and entail responsibility under the procedure established by the criminal legislation of Georgia.

7. The total amount of the fines imposed under this article as a result of a tax audit must not exceed the sum of the tax amounts assessed for payment a result of the tax audit.

Understating Payable Taxes due to Violation of the Declaration Period

See Article 275. Understating Taxes in a Tax Return / Tax Calculation and Article 272. Penalty Interest.

Tax Deduction based on Fictitious Transactions or Contracts or Forged VAT Documents

Article 280. Illegal Tax Deduction

1. Obtaining a deduction as a result of a non-commodity transaction or a fictitious transaction, or a deduction based on a fake VAT deduction document shall entail the imposition of a fine on the person in the amount of 200% of the deducted tax amount.

367. In 2021, 48,329 cases of violations were revealed by the Customs Authority, of which the amount accrued for 41,388 tax offences amounted to GEL 85,152,900. The amount accrued for 6,941 administrative offences amounted to GEL 2,118,216.

368. Discussions with the Business Association by the assessment team did not reveal any cause for concern with the risk assessment or the information systems of the GRS. Indeed, it supported the GRS's ability to pursue those that violated the tax laws.

369. The GRS uses a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for *all* categories of revenue and has a focus on large taxpayers and their needs. There is an extensive penalty system for noncompliance with the tax laws. The score for this dimension is A.

19.3 Revenue Audit and Investigation

370. *Dimension 19.3 assesses whether sufficient controls are in place in 2021 to deter evasion and ensure that instances of noncompliance are revealed.*

371. One of the operational departments of the GRS is the Audit Department. Based on 2021 data the Audit Department has 474 staff. 395 are qualified auditors. The staff are distributed as follows: 10 in Tax Audit Divisions; 71 in Declaration Control Divisions; 47 in the Large Taxpayers Office; and 8 in the Transfer Pricing Division. In 2017, a field tax audit regulation was developed. At this stage, the process of developing a procedural guide on conducting a tax audit in the electronic Case Management System (CMS) is underway. The Auditors Code of Ethics was developed in 2020.

Case Selection Principle for Audit

372. Cases are selected for the Audit Department based on a variety of selection tools:

Automatic programs: The Audit Department has established automatic control divisions for VAT, profit tax and withholding tax declarations. Cases for these divisions are selected automatically through a risk-based program. In case of high risk detection as a result of verification by the relevant divisions, cases selected by the automatic programs will be directed to the tax audit divisions of the Audit Department for further tax (comprehensive, desk, thematic) audits.

Plan: The Analytical Department develops a quarterly plan of entities to be audited, which mainly includes comprehensive field or desk audits of taxpayers.

Separate thematic audits: Periodically, in accordance with the operational plan, certain thematic analyzes are carried out by the Analytical Department, therefore, the mentioned risky cases are redirected to the Audit Department for the purpose of conducting further tax audits.

Large Taxpayers: The Large Taxpayers Office established within the Audit Department analyzes large taxpayers and conducts tax audits of high-risk large taxpayers identified through the analysis.

373. The resource of the Audit Department is determined by the operational plan reviewed by the GRS Risk Management Board and approved by the head of the GRS at the beginning of each year.

374. In the case of both field and desk audits, it is possible to conduct a comprehensive or thematic inspection of the taxpayer's activities which will also uncover fraud. Audit reports address the taxpayer's compliance with the assessment and subsequent payment of taxes due. In case of comprehensive inspection, all taxes are audited, and in case of thematic inspection, only one or more types of taxes or specific issues are audited. In 2021, the Audit Department conducted 553 field audits, as a result of which the accrued tax was GEL131.63 million and 5,299 desk audits, as a result of which the accrued tax was GEL 923.51 million. A total of 5,312 audits were planned to be conducted in 2021. 5,852 were performed. Accordingly, actual audits conducted exceeded the number planned by 10%.

375. In 2021, the Customs Department completed 85 desk audits as per its plan in addition to the inspections following the ASYCUDA procedures of green (no check), yellow (document check only), red (full inspection) and blue (post clearance) lanes.

Table 19.2: Number of inspections by type of ASYCUDA lane

2019										
Regime	Total		Green		Blue		Yellow		Red	
Export	52 167	16,7%	48 228	15,43 %			3 399	1,09 %	540	0,17%
Import	228 566	73,1%	177 142	56,68 %	2 042	0,65 %	38 563	12,34 %	10 819	3,46%
Other	31 794	10,2%	30 585	9,79 %			787	0,25 %	422	0,14%
Total	312 527	100,0%	255 955	81,90 %	2 042	0,65 %	42 749	13,68 %	11 781	3,77%
2020										
Regime	Total		Green		Blue		Yellow		Red	
Export	53 479	19,3 %	52 095	18,81%			782	0,28%	602	0,22%
Import	193 635	69,9 %	154 037	55,62%	2 078	0,75%	29 403	10,62%	8 117	2,93%
Other	29 841	10,8 %	28 641	10,34%			753	0,27%	447	0,16%
Total	276 955	100,00%	234 773	84,77%	2 078	0,75%	30 938	11,17%	9 166	3,31%
2021										
Regime	Total		Green		Blue		Yellow		Red	
Export	71 006	21,34%	69 341	20,84 %			895	0,27 %	770	0,23%
Import	229 291	68,90%	153 992	46,28 %	2 800	0,84 %	62 056	18,65 %	10 443	3,14%
Other	32 477	9,76%	31 362	9,42 %			692	0,21 %	423	0,13%
Total	332 774	100,00%	254 695	76,54 %	2 800	0,84 %	63 643	19,12 %	11 636	3,50%

Source: GRS

376. GRS has an audit plan for both domestic taxes and import taxes which are determined by a comprehensive audit plan based on a risk assessment. The actual audits conducted exceeded what

was planned. The audit investigations are managed and are reported on according to a documented compliance improvement plan, and all planned audits and investigations were completed. Score A

19.4 Revenue Arrears Monitoring

377. Dimension 19.4 assesses for 2021 the extent of proper management of arrears within the revenue entities by focusing on the level and age of revenue arrears.

378. In order to improve the tax arrears management system, a structural debt management unit has been established in the GRS, the main function of which is the effective administration of tax arrears. In 2021, the GRS's Debt Management Strategy 2022-2024 was approved, aiming at improving the timely payment of tax arrears and reducing the amount of accumulated tax arrears.

379. According to the GRS's Debt Management Strategy, the reduction of recognized debt depends on the strengthening of debt recovery measures and the write-off of uncollectible debt. The amount of actually recovered debt in 2021 is higher than in previous years. As Table 19.3 shows greater arrears were recovered in 2021 than in the previous two years.

Table 19.3: Tax arrears recovered

Year	Recovered Debt (GEL)	Change	Forecasted and Actually Recovered (%)
2019	1,405,398,810	▼ - 13.5%	97%
2020	1,395,470,177	▼ - 0.7%	113%
2021	1,760,972,994	▲ + 26.2%	112%

Source: GRS

380. The share of new debt (debt arising during the year) in relation to annual revenue is declining over the last 3 years.

Table 19.4: Tax arrears

Tax Arrears (GEL)	2019		2020		2021	
	Cases	Amount	Cases	Amount	Cases	Amount
Secured debt by the end of the year	282,090	4,392,885,386	353,103	3,96,635,113	376,452	4,811,419,539
Including debts more than 12 months old	221,498	3,777,831,227	248,223	3,508,089,299	297,193	4,290,681,059
Revenues		11,417,838,803		10,964,412,546		13,379,960,578
% of debt in relation to the gross revenue		38%		36%		36%
% of debt of more than 12 months old in relation to the total debt		86%		88%		89%
Debts arising during the year	60,592	615,054,159	10,880	461,545,814	79,259	520,738,480
% of debts arising during the year in relation to the actual revenue		5.4%		4.2%		3.9%
Write Off the Debt						
		2019		2020		2021
Amount of uncollectible written-		1 849 611		0		10 162 301

Tax Arrears (GEL)	2019		2020		2021	
	Cases	Amount	Cases	Amount	Cases	Amount
off debt						
Number of taxpayers whose uncollectible debts have been written off	1		0		5	
Temporarily uncollectible tax debt	0		1 059 194 000		0	
Temporarily uncollectible tax debt - number of taxpayers	0		595		0	

Source: GRS

381. The stock of total arrears at the end of 2021 is 36 per cent of total tax revenue collected in 2021 but the arrears older than 12 months is 89 per cent of total revenue arrears. The score for this dimension is D.

PI-20. Accounting for Revenue

382. PI-20 assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts at the time of assessment. It covers both tax and nontax revenues collected by the central government. This indicator contains three dimensions and uses M1(WL) for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-20: Accounting for revenue	A	A	
20.1 Information on revenue collections	A	A	GRS produces a report on revenue data daily basis and is part of the budget execution report that is consolidated monthly. This information is broken down by revenue type.
20.2 Transfer of revenue collections	A	A	Payments are made into a treasury account in commercial banks by the taxpayer. The bank transfers these payments to the TSA daily.
20.3 Revenue accounts reconciliation	A	A	Accounts of taxpayers can be reconciled daily with respect to assessments and taxes paid and arrears. Reconciliation of transfers to the TSA is made daily.

20.1 Information on Revenue Collections

383. Dimension 20.1 assesses the extent to which a central ministry, i.e. MoE or a body with similar responsibilities, coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue covered in PI-19.

384. As a result of the reform implemented in 2016, all revenues are transferred to the TSA. The Treasury code defines the type of revenues transferred to the TSA, which is registered in the Treasury service information system. The GRS prepares the budget performance report for the management daily; a more detailed report is produced with analysis monthly. The performance report for December 31, 2021 is presented in Table 20.1.

Table 20.1: 2021 performance by tax type

As of December31		(GEL)		
	Type of Tax	Day	Month	Year
1	Value Added Tax	2 137 311	572 293 891	6 029 546 995
	Paid on-site	-2 629 025	139 153 626	1 695 451 664
	Paid on imports	4 766 336	433 140 266	4 334 095 331
2	Excise	157 787	240 147 430	1 868 783 716
	Paid on-site	67 557	13 964 296	152 284 250
	Paid on imports	90 230	226 183 134	1 716 499 466
3	Profit tax	-411 543	80 734 958	1 015 296 083
4	Income tax	-131 020	368 728 701	3 775 673 772
5	Other taxes (undeclared payments)	4 219 440	108 896 660	93 568 393
	Paid on-site	4 219 440	108 896 660	93 568 393
6	Import tax	31 038	6 789 903	86 361 935
7	State budget tax revenues in total	6 003 013	1 377 591 542	12 869 230 893
	Paid on-site	1 115 408	711 478 240	6 732 274 161
	Paid on imports	4 887 605	666 113 302	6 136 956 731
8	Local and autonomous budget tax revenues in total	153 641	2 520 441	510 729 685
	Property tax	153 641	2 520 441	510 729 685
9	Total tax revenues	6 156 654	1 380 111 984	13 379 960 578
	Paid on-site	1 269 049	713 998 681	7 243 003 846
	Paid on imports	4 887 605	666 113 302	6 136 956 731

Source: GRS

385. GRS produces a report on revenue data daily which is part of the budget execution report that is consolidated monthly. This information is broken down by revenue type. The score of this dimension is A.

20.2 Transfer of Revenue Collections

386. *Dimension 20.2 assesses the promptness of transfers to Treasury other designated agencies of revenue collected at the time of the assessment.*

387. Both tax and non-tax payments are recorded to the Treasury single code opened for the appropriate revenue item in the TSA. The taxpayer pays the tax amount due into a commercial bank which operates on behalf of the Treasury. The bank completes the transfer order to the TSA within 24 hours, otherwise it will be fined. Information on transfers from banking institutions to the budget is reflected in the Treasury systematically during the working day and on average at one-hour intervals. The amount paid by the taxpayer is reflected in the Treasury Single Account and, accordingly, on the taxpayer's personal registration card in the GRS electronic system.

388. Payments are made into a treasury account in commercial banks by the taxpayer. The commercial bank transfers these payments to the TSA daily. The score for this dimension is A.

20.3 Revenue Accounts Reconciliation

389. *Dimension 20.3 assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears and transfers to (and receipts by) finance or designated other agencies take place regularly and are reconciled in a timely manner at the time of assessment.*

390. Each taxpayer has an individual account in e-Revenue Service system, reflecting assessed, declared and paid taxes (including fees administered by the tax authority), as well as information about operations carried out by the tax authority (accrual, fines, penalties, etc.) chronologically indicating the date and content of each operation. Accordingly, the tax paid by the taxpayer is reflected on individual account (first the tax amount is covered, then the fine, and finally the interest). The GRS can control revenue in real time. The GRS reconciles paid taxes with a single treasury account daily.

391. Accounts of taxpayers can be reconciled daily with respect to assessments and taxes paid and arrears. Reconciliation of transfers to the TSA is made daily. The score for this dimension is A.

PI-21. Predictability of In-Year Resource Allocation

392. The PI-21 indicator assesses the extent to which the MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores and covers BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-21: Predictability of in-year allocation	A	A	

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
21.1 Consolidation of cash balances	A	A	The consolidated information about all bank and cash balances is available at the official website of the Treasury on a daily basis.
21.2 Cash forecasting and monitoring	A	A	A cash flow forecast is prepared annually, broken down by month and is updated at least monthly on the basis of actual inflows and outflows. The Treasury prepares a daily projection of cash flow for the month to come.
21.3 Information on commitment ceilings	A	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations.
21.4 Significance of in-year budget adjustments	A	A	Adjustments to budget allocations were made twice in 2021 in accordance with the rules established by law. Information is available on the website of the MoF ¹¹⁴

21.1. Consolidation of Cash Balances

393. *Dimension 21.1 assesses the extent to which MoF can identify and consolidate cash balances as a basis for informing the release of funds at the time of assessment.*

394. Cash flow management mechanisms have been introduced as part of the cash flow management reform to mobilize additional revenues. The Treasury deposits temporary free cash in the commercial banks. The reform was implemented in 2017, in particular, the relevant regulations were approved, and a technical platform was prepared for the implementation of deposit auctions. After the entry into force of the regulation, the active transactions have started on the financial market. Also, the employees of the Treasury have been trained on investments and risk management issues and active operations began on the financial markets. Three systems are employed to implement fund management:

- Bloomberg platform for conducting auctions which are transparent and competitive;
- Central depository system as security;
- Placement Operations.

The reforms attracted attention from other countries. Treasury representatives have shared the experience in various countries. The subject was also treated in an IMF PFM Blog (blog-pfm.imf.org).

395. According to the Budget Code, all revenues of the budget are immediately transferred to the TSA. The Treasury, on the basis of its cash inflows and outflows forecasts, and in order to receive additional revenues from the state budget, deposits all temporarily free cash in commercial banks

¹¹⁴ <https://mof.ge/5355>

through weekly auctions. The consolidation of cash balances in TSA and commercial banks is made daily and published on the Treasury website.¹¹⁵

396. All budgetary units provided by the Budget Code transfer their revenue in the TSA except for public schools and kindergartens, which are deposited in commercial banks. On average, these deposits amount to less than 5% of the cash balance in TSA.

397. Accordingly, all (95%) bank and cash balances are consolidated on a daily basis. The score for this dimension is A.

21.2. Cash Forecasting and Monitoring

398. *Dimension 21.2 assesses the extent to which budgetary unit commitments and cash flows are forecast and monitored by MoF in 2021.*

399. Within the Treasury, the Department of Cash Forecasting and Management is in charge of forecasting and managing the cash flows. This unit was established in 2015. In addition to the cash flow forecast, this unit is responsible for:

- Analyzing the financial market;
- Selecting and monitoring financial tools and instruments for optimizing cash management; and
- Collecting, processing and analyzing the historical data of cash balances, revenues and expenditures.

400. A cash flow forecast is prepared through statistical analysis and econometric models which are based on historical data, forecasts of revenues and expenditures, as well as data on quarterly distribution of payment liabilities and information obtained from the budgetary units. A cash flow forecast is prepared annually for the year to come and broken down by month. It is updated at least monthly on the basis of actual inflows and outflows. In addition, each month the Treasury prepares a daily projection of cash flow for the month to come.

401. A cash flow forecast is prepared annually, broken down by month and is updated at least monthly on the basis of actual inflows and outflows. The Treasury prepares a daily projection of cash flow for the month to come. The score for this dimension is A.

21.3. Information on Commitment Ceilings

402. *Dimension 21.3 assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods for 2021.*

403. After the annual state budget law is approved, its allocations are included in the Public Financial Management Information system for each budgetary unit and broken down by quarters. Commitment ceilings become automatically accessible to the budgetary units which have full authority to commit expenditure within the limits of the quarterly budget allocations. In effect they

¹¹⁵ www.treasury.gov.ge

can plan their expenditures for the full year. The under-consumption of commitment in a quarter is automatically carried over to the following quarter and the information is provided in the information system. As there was not any cash flow problem, there was not any reduction of the commitment ceilings.

404. In 2021, budgetary units were able to plan and commit expenditure in accordance with the annual budget, within the framework of budgeted appropriations and commitment releases. The score for this dimension is A.

21.4. Significance of In-Year Budget Adjustments

405. *Dimension 21.4 assesses the frequency and transparency of adjustments to budget allocations in 2021. Governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures.*

406. Rules and procedures for amendments to the Law of Georgia on the state budget are regulated by the Budget Code.¹¹⁶

407. According to articles 31, 40 and 40¹ of the Budget Code, amendments shall be made to the budget under the following circumstances, namely:

- Reallocation is made from a budget unit to another budget unit;
- Distribution of budget allocations between the individual programs of budgetary units shall not exceed 5% of the budgetary unit's allocation. (PI-18.4); and
- Issuance of a guarantee / financing of the resolution process.

408. The 2021 budget law was amended twice during the year as shown in Table 21.1.

Table 21.1: Amendments made to the 2021 budget law

	Original budget	Amended budget N1 (22.07.2021)	Amended budget N2 (02.12.2021)	Difference (Amended N1 -original)		Difference (amended N2 - amended N1)	
	GEL million	GEL million	GEL million	GEL million	%	GEL million	%
Revenue	16.758	17.933	18.099	1.175	7.0%	166	0,9%
Expenditure	18.384	19.498	19.769	1.114	6.1%	271	1,3%

Source: Ministry of Finance

409. The first amendment¹¹⁷ to the 2021 state budget law (July 22, 2021) was implemented in July. The proposed amendments were focused on achieving three main goals:

- **Deficit reduction** - Due to the pandemic, the budget deficit increased significantly in 2020 reaching 9.3% of GDP. The 2021 budget was also planned with a high deficit (7.6%). The high deficit for 2 years led to an increase in government debt which subsequently reached 60% of GDP. To maintain high reliability of the country's fiscal discipline and stable

¹¹⁶ <https://matsne.gov.ge/document/view/91006?publication=51>

¹¹⁷ <https://matsne.gov.ge/ka/document/view/5220468?publication=0>

economic growth in the coming years, it was important to direct part of the increased revenues at reducing the deficit, in parallel with economic recovery.

- **Promotion of economic recovery** - Given that the 2021 original budget was mainly focused on financing anti-crisis measures, the proposed amendments provided for increased funding for programs promoting economy recovery. Amendments to the budget provided for an increased funding of infrastructure projects, as well as programs aimed at supporting the agricultural and economic sectors.
- **Management of COVID-19 and related healthcare measures** - According to the proposed amendments, funding for pandemic-related health care expenditures was increased, so the draft budget amendments provided additional funds to cover the costs required for treatment, and for general management of the pandemic.

410. The second amendment¹¹⁸ to the 2021 state budget law (December 12, 2021) was implemented in December. Revenues and expenditures for the 2021 state budget were adjusted, after which pandemic-related healthcare costs (COVID-19) were completely funded.

411. In 2021, one of the important contributing factors to the rapidly progressing economic recovery was the minimization of economic constraints. However, even though constraints were minimized, a low vaccination rate helped the spread of the virus to remain high. This fact resulted in the need to raise additional funding to treat the population, despite the fact that in July, an additional GEL 450.0 million had been allocated for pandemic-related health expenditures.

412. From the aforementioned amount, an average of 4,500 hospital beds were provided to manage the pandemic in the second half of the year. In some cases, the number of beds exceeded 9,000, which made it necessary to allocate additional funds.

413. The difference between the original budget and the amended budget is measured according to the methodology of PI-2.1 for the main budgetary units. The variance in expenditure composition was 9.5%.

414. The adjustments were compliant with the rules of the Budget Code, which require the consideration and approval by the Parliament. The draft law on amendments to the annual budget is submitted to the plenary session by the Prime Minister. The Parliament also hears the reports of the State Audit Office, the NBS, and the Finance and Budget Committee of the Parliament. The draft amendments and / or additions to the state budget law shall be published in accordance with the rules established by Parliament.

415. The budget adjustments were transparent and predictable throughout the year. The budget law was amended twice in 2021. The score for this dimension is A.

¹¹⁸ <https://matsne.gov.ge/ka/document/view/5296300?publication=0>

PI-22. Expenditure Arrears

416. The PI-22 indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores and covers BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-22: Expenditure arrears	A	C+	
22.1 Stock of expenditure arrears	A	A	Amount of expenditure arrears did not exceed 2% during 2019–2021.
22.2 Expenditure arrears monitoring	A	C	In the e-Treasury System, it is possible to generate data on overdue debt of any budgetary units in real time. In addition, payments that are not processed before the due date specified in the contract are monitored.

22.1. Stock of Expenditure Arrears

417. Dimension 22.1 assesses the extent to which there is a stock of arrears in 2019, 2020 and 2021.

418. According to the PEFA definition, arrears are overdue debt, liabilities, or obligations. Arrears are regulated by the Budget Code and the annual budget law. In the e-Treasury System, through the module for recording invoices, data on the overdue debt (debt volume, types / categories, etc.) of any budgetary units is generated in real time. The stock of arrears at the end of 2019, 2020 and 2021 is shown in Table 22.1.

Table 22.1 Stock of arrears

(GEL)	2019	2020	2021
Arrears	27,071,798	107,710,377	76,970,266
Total state budget expenditure	13,469,688,954	16,174,636,083	19,807,502,502
Arrears as a % of total expenditure	0.20%	0.67%	0.39%

Source: Ministry of Finance

419. The stock of arrears was less than 0.7% of expenditure in each of the assessment years. The score for this dimension is A.

22.2. Expenditure Arrears Monitoring

420. Dimension 22.2 assesses the extent to which any expenditure arrears are identified and monitored at the time of the assessment.

421. In the e-Treasury System, through the module for recording invoices, it is possible to generate data on the overdue debt (debt volume, types / categories, etc.) of any budgetary units in real time. Invoices are inputted with their date. Reports by Treasury containing the above information are prepared and are available daily. Payments that are not processed before the due date specified in the contract are thus monitored. It is the responsibility of individual budgetary units to control their own arrears and if the payment is not made within one month, there is the opportunity for the contractor to enforce the matter in court.

422. The e- Treasury system allows for the recording and monitoring of arrears in real time which is carried out. The score of this dimension is A.

PI-23. Payroll Controls

423. PI-23 is concerned with the payroll for public servants only and covers CG: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of nonsalary internal controls, PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-23: Payroll controls	A	A	
23.1 Integration of payroll and personnel records	A	A	The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.
23.2 Management of payroll changes	A	A	Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E- Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
23.3 Internal control of payroll	A	A	Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the labor legislation. The changes are certified and then approved by the relevant authorities. In addition, for remuneration changes, these have to be approved by the Treasury. The system allows tracking of changes in payroll records (audit trail). This is possible as long as changes are documented and saved. In addition, access to the e-Treasury system is controlled through using a "DJ-pass" / telephone code and password. Internal and external auditors assess payroll risk as low hence accuracy of payroll data is high.
23.4 Payroll audit	A	A	The State Audit Office conducts payroll audits in all budgetary organizations operating at the central government level. This is a mandatory audit procedure to be performed during the financial and compliance audit process.

23.1. Integration of Payroll and Personnel Records

424. *Dimension 23.1 assesses at the time of assessment the degree of integration between personnel, payroll, and budget data.*

425. The annual budget law provides information on the number of employees and the budget for salaries. The budgetary units maintain and recruit staff within the parameters of this law. Payroll records for budgetary units are maintained by their human resource personnel using the E-Treasury system that has a payroll module. The payroll module has a human resource management system that captures an employee's start date, position, identification number, department name, bank account, salary amount, tax and insurance payments, promotions and salary changes. Payroll records can be accessed and reviewed by the Treasury, but they only have read only access. This restricts alternations to the records. Upon the issuance of an appointment letter to an employee, before the records are entered into E-Treasury (payroll module), they are reconciled with the employee's records in the Civil Registry database managed by the Ministry of Justice. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. There is also a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system. Salary payments are mechanically processed through the "Green Corridor" which is an automated system that does not require human intervention as the parameters are in-built. Transaction processing through the green corridor implies automatic processing of the payment document registered in the treasury information system by the budgetary organization (without the intervention of the treasury operator) and real-time settlement. More specifically, during the payment of wages within one specific program code (organization), a package consisting of individual requests corresponding to a specific article to be transferred to a specific employee is presented to the treasury, which is processed through the green corridor, automatically.

426. Data on salary packages processed in the green corridor of state budget organizations during the years 2019-2021 are presented in Table 23.1.

Table 23.1: The number of transactions in the green corridor

Year	Number of packets	Number of requests in packets	GEL
2019	24 393	1 908 903	1 249 737 383.08
2020	20 426	1 656 207	1 253 943 744.57
2021	19 572	1 413 288	1 089 385 933.82

Source: Ministry of Finance

427. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. The score for this dimension is A.

23.2. Management of Payroll Changes

428. Dimension 23.2 assesses the timeliness of changes to personnel and payroll data at the time of assessment.

429. Whenever required, the budgetary units update the records of employees prior to the monthly payroll payments. These updates are reflected in real time in the E-Treasury (payroll module) and taken into consideration in the month's payroll payments. Retroactive changes to the existing payroll records are not allowed in the E-Treasury system.

430. Real time updates are made in the personnel and payroll date as required. The score for this dimension is A.

23.3. Internal Control of Payroll

431. Dimension 23.3 assesses the controls that are applied to the making of changes to personnel and payroll data at the time of assessment.

432. There is a strong system in place that monitors payroll changes at the budgetary units and it has an audit trail (tracking changes) system. At the budgetary units, there is a two-level authorization process, the so-called four-eye principle, with respect to payroll changes. For any change, the system automatically generates a unique number with a status of "to be certified". The certification is done by an authorized person of the entity and the certified payroll record is then approved by the head of the unit, taking into consideration the requirements of the labor legislation. If the changes are being made to the employee's remuneration, these have to be authorized by the Treasury under a three-level authorization process. This approval process leaves an audit trail as each approver accesses the E-Treasury system using a unique password and "DJ-pass". The accuracy of payroll data is high, as both internal and external auditors who conduct regular payroll audits, consider the risk to be low.

433. The control system through the payroll module in the e-Treasury system is high and has an audit trail. The score for this dimension is A.

23.4. Payroll Audit

434. *Dimension 23.4 assesses the degree of integrity of the payroll covering 2019, 2020 and 2021.*

435. Payroll audit of budgetary units, revealing existing control weaknesses in payroll and issuing relevant recommendations is a mandatory audit procedure within the framework of regular financial and compliance audits conducted by the State Audit Office. The State Audit Office provides an average of 92% coverage of the state budget annually through its financial and compliance audits. Consequently, over the past three years, the audit has examined the payroll system of almost all budgetary units operating at the central level, revealed, any control weaknesses, and issued relevant recommendations. The State Audit Office follows up on recommendations to ensure that they are implemented.¹¹⁹

436. The State Audit Office conducts annual payroll audits as part of its financial and compliance audits that covers ministries. The score for this dimension is A.

PI-24. Procurement

437. PI-24 examines key aspects of procurement management, focusing on transparency of arrangements, the degree of open and competitive procedures, monitoring of procurement results and access to appeal and redress arrangements in 2021. This indicator contains four dimensions and uses the M2 (AV) method for aggregating dimension scores and covers CG for 2021.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-24: Procurement	A	B+	
24.1 Procurement monitoring	A	A	Databases or records are maintained for all procurement transactions, for all tenders or contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods as well as for all procured goods, services and construction works. All government contracts are procured through E-Government Procurement System (Ge-GP).

¹¹⁹ As evidenced in PI-30.3

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
24.2 Procurement methods	B	A	As per public procurement legislation, for the procurement of homogenous goods / services worth up to 5000 GEL (equivalent to approximately USD 1600) an open competition / tender is conducted, which is a default method of procurement. 82% of contracts (by value) procured in 2019 were conducted through competitive selection, while in 2020, this figure was 79%. In 2021 this fell to 72%.
24.3 Public access to procurement information	A	A	All the key procurement information is made available to the public. These include but are not limited to: (1) legal and regulatory framework for procurement; (2) Annual public procurement plans; (3) bidding opportunities; (4) contract awards; (5) data on resolution of procurement complaints; (6) annual procurement statistics, etc.
24.4 Procurement complaints management	A	D	<p>The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on „Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only twice. The board member is a public servant. The activities of the Board are carried out on the basis of the equality of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board.</p> <p>The principles of the Board are:</p> <ul style="list-style-type: none"> a) legality; b) objectivity and impartiality; c) professionalism; and d) protection of confidentiality. <p>The Board is separate from all bodies / persons, is independent in its activities and obeys only the law.</p> <p>It is not allowed to influence the board or a member of the board in order to influence the decision-making process. The Board is guided in its activities by the Constitution of Georgia,</p>

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
			international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board and other normative acts.

438. A number of amendments were made to the public procurement legislation in 2019-2021, in order to improve the legal framework, refine public procurement procedures, and fulfill international obligations. These are:

- Order №3 of the Chairman of the State Procurement Agency “On Approval of the Rules and Conditions for the Use of Monetary Thresholds Established by the EU Directives in the Field of Public Procurement” was issued on August 2, 2019. The rule reflected the monetary thresholds set by the EU directives in the field of public procurement. According to the rule, if the value of homogeneous goods, services, and works is or exceeds the thresholds in a specific procurement, the procuring entities must specify at least 30 days for reviewing the electronic tender announcement and tender documents, and for submitting the tender proposal, of which at least the first 25 days are for reviewing the tender announcement and tender documents, and the remaining 5 days for submitting the tender proposal. To ensure this, the agency has taken a number of measures to adapt the new regulations to the Unified Electronic System of Public Procurement.
- Order №5 of the Chairman of the State Procurement Agency “On Amendments to the Order №2 of the Chairman of the State Procurement Agency of February 10, 2011, “On Approving the Rules of Reporting of Procuring Entities” was issued on August 23, 2019. According to the amendments, the procuring entities shall upload the contract concluded as a result of the consolidated tender, the documents related to the conclusion of the contract, as well as the document reflecting the change of this contract (including termination of the contract) in the new module corresponding to the consolidated tender, instead of the CMR module. It should be noted that the Agency has ensured the modification of the unified electronic system of public procurement in accordance with these changes, so that the procuring entities will be able to carry out the procurement in full compliance with the requirements of the legislation.
- Order №6 of the Chairman of the State Procurement Agency “On Amending the Order №12 of the Chairman of the State Procurement Agency of June 14, 2017 On Approval of the Rules for Conducting Electronic Tenders” was issued on September 23, 2019, under which the Annex 12 to the order of the Chairman of the State Procurement Agency of June 14, 2017 was amended and it was established that the electronic tender for CPV45200000 code can be conducted on the basis of price list only if it provides only disaster relief work and/or current and/or periodic rehabilitations of road and/or artificial structures on it and/or works to be performed in the Historic Development Protection Zone and the Historic Development Regulation Zone.

439. During 2020, a number of important legal acts were prepared and issued by the State Procurement Agency, in particular:

- The Law of Georgia №6730-RS on Amendments to the Law on State Procurement adopted by the Parliament of Georgia on July 2, 2020 (which provides for the approximation and implementation of the Public Procurement Directives [2014/24 / EU; 89/665 / EEC] in the National Procurement Agreement with the European Union in national legislation) was prepared as a result of coordinated work with the government, the National Competition Agency, the MoF, and the Budget Office of the Parliament of Georgia.
- A new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined, as a result of which there was a need to develop a regulatory act for the council, which was also prepared by the agency. At the same time, draft amendments required as a result of above-mentioned law were prepared, which were reflected in the relevant by-laws of the Chairman of the State Procurement Agency.
- According to the amendment, the Court or the Council established for this purpose has the right to review public procurement disputes. The procuring entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the law, as it is related to a number of practical problems. In particular, according to the General Administrative Code of Georgia, an administrative complaint is reviewed by a higher official or higher administrative body. Due to the fact that public procurement is conducted by tender / competition commissions, it is impossible for the decisions made by them collectively to be reviewed and revised on the basis of an administrative complaint by a single superior official or body.

440. As a result of the implemented changes, the council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences. In addition, the list of disputes to be challenged in the council has been amended, in particular, decisions on entering into a simplified procurement contract may also be appealed to the council if the estimated value of the goods, services or works to be procured is equal or exceeds the monetary thresholds set by EU directives in the field of public procurement.

441. The amendment allowed the council to extend the decision-making period by maximum 10 working days, due to several factors, including the fact that the issues subject to appeal have increased and the council has become a specialized body whose members can no longer perform other remunerative activities.

442. These legislative changes have led to amendments to a number of by-laws approved by the Chairman of the State Procurement Agency. In order to comply with these legislative requirements, the order №13 of August 17, 2015, of the Chairman of the State Procurement Agency “On Approval of Procedure for Determining Simplified Procurement Criteria and Rules for Conducting Simplified Procurement” was significantly amended.

- If the value of the simplified procurement is or exceeds the monetary thresholds set by the EU directives in the field of public procurement, the procuring entity shall, in accordance

with the annex to the above order, publish the decision on the simplified procurement contract in the publication / agreement module created in the system;

- The procuring entity is obliged not to enter into a simplified procurement contract within 10 calendar days after the publication of the decision on concluding the simplified procurement contract in the publication / agreement module created in the system (unless there is an urgent need);
- If the decision on concluding the simplified procurement contract is appealed to the Public Procurement-related Dispute Resolution Council and the council fully or partially satisfies the submitted complaint, the procuring entity shall, within a reasonable time after the decision of the council, review or cancel the decision on concluding the simplified procurement contract;
- In addition, during 2020, the agency continued to work in an online mode with European experts (EU Twinning Project "Strengthening the Georgian Public Procurement System") on the draft Law on Public Procurement, its improvement, as well as on by-laws, within the framework of the mentioned project.

443. The agency also cooperates with the LEPL "Center for Environmental Information and Education" of the Ministry of Environment and Agriculture and the United Nations Environment Program (UNEP). As a result of this cooperation, relevant norms related to the concept of "sustainable public procurement" were reflected in the Draft Law on Public Procurement of Georgia. Within the framework of this international project, cooperation also continues in terms of the development of by-laws regulating sustainable public procurement, the preparation of relevant materials and manuals, as well as the selection and analysis of the nomenclature of goods covered by the concept (including CPV codes, according to UNEP International Methodology).

444. In 2021, a number of important amendments were made to the legislation regulating the public procurement, in particular: Order №24 of February 23, 2021, of the Chairman of the State Procurement Agency "On Amending the №13 of August 17, 2015, of the Chairman of the State Procurement Agency "On Approval of Procedure for Determining Simplified Procurement Criteria and Rules for Conducting Simplified Procurement" was issued:

- In the case of simplified procurement, a different rule of decision-making and publication / agreement was established for the procuring entity, according to which, if the simplified procurement includes several procurement objects and, together with the goods and / or services, provides for the procurement of construction work for the purpose of procurement of the work, the procuring entity shall make a decision on the implementation of the state procurement through simplified procurement and, accordingly, shall publish the decision on concluding the simplified procurement contract / submit the application separately. The change is due to the different monetary thresholds set by EU directives in the field of public procurement. This change ensures that the system generates information in such a way that it determines what status should be granted to each specific decision and whether the procuring entity should follow the so-called "Waiting Period", which, in turn, provides an opportunity to appeal the decision on concluding the simplified procurement contract to the Public Procurement-related Dispute Resolution Council.

- In order to increase competition in the field of public procurement and ensure registration of suppliers in the system, it was determined that if the value of simplified procurement is or exceeds GEL 5,000, the simplified procurement contract can be concluded only with a person registered as a supplier in the system, in accordance with the rules established under by-laws. However, this requirement does not apply to a simplified procurement contract with a non-resident entity.
- In order to maintain the continuity of the contract, when agreeing the relevant change with the agency, the procuring entity shall take into account the deadline for the agency to make the decision specified in Articles 5 and 7 of the "Simplified Procurement Criteria and Simplified Procurement Rule". If, by the decision of the procuring entity, the term of performance of the contract is increased and the mentioned change in the relevant decision on simplified procurement is subject to agreement with the agency.
- The Orders №28, №29, №30 and №31 of the Chairman of the State Procurement Agency were issued on August 6, 2021, amending the Order №2 of February 26, 2016 of the Chairman of the State Procurement Agency "On Approval of the Terms and Conditions of Production of the White List", the Order №12 of June 14, 2017 of the Chairman of the State Procurement Agency "On Approval of the Rules for Conducting Electronic Tenders", Order №7 of May 22, 2015 of the Chairman of the State Procurement Agency "On Approval of the Rules and Conditions of State Procurement of Project Services through Competition" and the Order №11 of July 28, 2016 of the Chairman of the State Procurement Agency "On Approval of the Rules for Conducting a Two-Step Electronic Tender". The amendments set out a number of obligations to be performed by the Procuring Entities as well as by suppliers, including a whitelisted supplier is exempted from the obligation to submit the document(s) containing the registration rights data to the procuring entity, which must be submitted to the agency for extension of the registration / registration in the whitelist. Accordingly, the authority of the procuring entity has been determined - to require the whitelisted supplier to submit only the document containing the registration / legal data, which, according to the legislation, will not be submitted to the agency for extension of the registration / registration in the whitelist.
- The grounds for disqualification are not only non-compliance of the registration / legal data submitted by the bidder with the tender conditions, but also, in general, non-compliance of the registration / legal data and the registration / legal data document(s) with the tender conditions. Thus, the Procuring Entities are given the opportunity to disqualify the bidder if the fact of non-compliance of the bidder's registration / legal data with the tender conditions is established within the administrative proceedings.
- The Supplier is released from the obligation to submit an extract from the Register of Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities to the agency for extension of the registration / registration in the whitelist within the administrative proceedings. The supplier is obliged to update the extract and the agency itself checks the information on the update of the extract, as well as on the reorganization / liquidation / insolvency proceedings.
- A higher standard of substantiation of the tender / competition termination protocol was established, according to which the termination protocol should indicate the specific circumstances and arguments that necessitated the termination of the tender / competition.

445. In terms of fulfilling the international obligations of the country, Decision №2/2021 of October 8, 2021, of the Association Committee on Trade "On Positive Assessment of the First Stage of Annex XVI-B to the Association Agreement between Georgia and the European Union and the European Atomic Energy Union and their Member States" is especially noteworthy, according to which:

- The completion of the first stage of the Annex XVI-B of the Association Agreement by Georgia was positively assessed.
- The Comprehensive Roadmap was approved by Resolution №536 of the Government of Georgia on March 31, 2016, with consideration of changes made in it under the Resolution №154 of January 22, 2018, and the Resolution №974 of June 12, 2020, on "Approval of the Guidelines for the Implementation of Commitments under the Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the European Union on Changes in Public Procurement."

446. Regarding the implementation of the regulations established in II and IV stages of approximation in the national legislation, it should be noted that during 2021 the agency continued to work actively on the draft Law of Georgia on Public Procurement in order to improve and harmonize it with the current legislation. To ensure this, the agency has identified and prepared an accompanying legislative package, which provides for the implementation of both substantive and technical changes in a number of legislative acts. The agency has also prepared the compliance tables with the directives contained in the association agreement and in force in the field of public procurement [2014/24/EU; 89/665/EEC]. In addition to the above, the agency has identified a number of by-laws based on the draft Law on Public Procurement. The agency continues to work actively to implement the draft normative acts to be adopted by the Chairman of the agency in accordance with the draft Law on Public Procurement based on the best international and European practices provided by the draft law.

24.1. Procurement Monitoring

447. *Dimension 24.1 assesses the extent to which prudent monitoring and reporting systems are in place within government for ensuring value for money and for promoting fiduciary integrity.*

448. Information on the complete cycle of procurement is kept in the database of the E-Government Procurement System (Ge-GP). This information is transparent and fully accessible for all. In particular, the following information is maintained on the system: type of procurement, number of the application, status of procurement, procuring organization, date of procurement announcement, date and time of start of the bidding, date and time of the end of the bidding, estimated cost of procurement, CPV classifier code and the specific object of procurement, quantity or volume of procurement, date of supply, date of first and last offer, winner, commission protocols, term of validity of the contract, number and amount, amendments to the contract, etc.

449. The E-Government Procurement System provides data on all aspects on procurement. The score for this dimension is A.

24.2 Procurement Methods

450. Dimension 24.2 analyzes the percentage of the total value of contracts awarded with and without competition.

451. The main determinant of compliance for this dimension is to assess the actual use of open and competitive means / methods. As per public procurement legislation open competition above GEL 5,000 (equivalent to USD 1,600), is the default method of procurement.¹²⁰ In 2019, 82% of all contracts procured through the central government budget were procured through competitive methods, while in 2020 this figure was 79%. However, this has dropped to 72% in 2021. There are a variety of reasons for this decline. Fifty percent of non-competitive purchases are National Health Agency purchases which are correlated to the pandemic. A further systemic reason for the decline is that the threshold has been the same since 2010 and is therefore now smaller in real terms both in GEL and USD.

452. Table 24.1 compares competitive and non-competitive procurements above the threshold.

Table 24.1: Procurements of central budget organizations by value - 2021

Total procurement in GEL	competitive procurement		non-competitive procurement	
	GEL	percent	GEL	percent
2,522,608,524	1,809,956,518	72%	712,652,006	28%

Source: GPA

453. There are 11 different procurement tools / methods / procedures in the electronic system. Each of them works with a different logic and principle and is focused on rational spending of public finances. Their characteristics in shown in Table 24.2.

Table 24.2: Characteristics of procurement methods

Procedure	Abbreviation	Basis	Availability of E-Service
Simplified Procurement (Direct/Single-source Procurement)	CMR	<ul style="list-style-type: none"> - Procurement of homogenous goods / services worth up to 5000 GEL - In special cases permitted by law 	No e-System is available, but it is published in a special module of the e-Procurement system. Operates since March 2012.
Electronic Tender: Open Tender			
Electronic Tender	SPA	Procurement of homogenous objects <ul style="list-style-type: none"> • For goods and services from 5000 to 150 000 	e-Service.

¹²⁰ The threshold is very low in monetary terms relative to most countries. It is also notable that spending on defence is included in the requirement for competitive tendering.

Procedure	Abbreviation	Basis	Availability of E-Service
		GEL and / or 150 000 and more. <ul style="list-style-type: none"> For construction works from 5000 to 300 000 GEL and / or 300 000 GEL and more. 	Operates since December 2010.
Consolidated Tenders	CON	Procurement of certain homogeneous goods on the basis of aggregated demand: fuel, computer hardware, A4 papers, mobile (cell) communication service, tires TV and broadcasting service. Uninterruptable Power Supplies (UPS), printers and cartridges.	e-Service. Operates since December 2010.
Competition	CNT	Procurement of design-related objects / projects under the decision of the procuring organization, like architectural, engineering, planning, design projects.	e-Service. From July 1, 2015, the State Procurement Agency transferred the competition procedure 100% to the e-system.
Two-Stage Electronic Tender	MEP	Procurement of goods, services and construction works on the basis of price and other quantitative criteria. The best bidder is identified on the basis of price-quality ratio, calculated via the unique algorithm incorporated into the system, the so-called MEAT (Most Economically Advantageous Tender) method.	e-Service From August 1, 2016, the State Procurement Agency launched the so-called "two-stage" or as European legislation refers to "the most economically profitable electronic tender."
Electronic Tender Without Reverse Auction (Sealed Bid Auction)	NAT	Open E-Tender, which operates like so-called Sealed Bid Auction. All procedures are the same as in the case of reverse auction, however, instead of 3 additional rounds, the proposal is submitted only once. All the proposals, except for the best one, remain sealed (are not accessible for CA) until the tender is awarded the final status (except for the "tender terminated" status).	e-Service On July 1, 2016, the State Procurement Agency launched a new procedure: Electronic Tender Without Reverse Auction
Different Acquisition Procedure for the Construction Works	DAP	The E-procedure is conducted according to the so-called prequalification procedure. The bidders submit tender proposals, qualification documents, and financial proposals. After the evaluation of all the bidders, if tender terms and conditions are met, CA will invite the bidder with the lowest proposal price, in accordance with the established procedure, for the performance of the contract.	e-Service On December 1, 2016, a different procedure of tenders announced for the procurement of construction works came into

Procedure	Abbreviation	Basis	Availability of E-Service
			force.
Electronic Tender with Prequalification	TEP	Electronic tender with prequalification through reverse auction. After bidders submit tender documentation and qualification documents, procuring organization evaluates all documents. If the bidder fulfills all requirements it is considered as a prequalified. All prequalified bidders participate in a three-stage reverse auction. At this stage, the winner is identified according to the best price.	e-Service From September 2017, a new means of procurement was introduced, which applies to all objects of procurement (goods, services, construction works).
Procedure	Abbreviation	Principle of Operation	
GEO Tender (electronic procedure of procurement)	GEO	<ul style="list-style-type: none"> Procurement of goods/services through special procedure established by the government, the validity period of which cannot exceed 2 years. It is also used for secret (classified) procurement. Is regulated by the special decree of the government. 	
DEP Tender (electronic procedure of procurement through donor resources)	DEP	Procurement procedure through donor resources (World Bank - WB, European Investment Bank - EIB, Millennium Challenge Account Georgia - MCA Georgia, Japan International Cooperation Agency - JICA, United Nations High Commissioner for Refugees - UNHCR and etc.).	
Grant Contest	GRA	Procurement procedure used to conduct grant contests announced by public agencies / organizations.	

Source: GPA

454. 82% of contracts (by value) procured in 2019 were conducted through competitive selection, while in 2020, this figure was 79%. In 2021 this fell to 72%. The score for this dimension is B.

24.3. Public Access to Procurement Information

455. Dimension 24.3 reviews the level of public access to complete, reliable and timely procurement information.

456. All procurement information is public and available online. Procuring entities are required to publish their annual procurement plan through the electronic system by November 20 of the current fiscal year. Any information related to public procurement is available on the website of the Procurement Agency,¹²¹ including for unregistered users.

457. The public procurement monitoring process is not limited to the participation of public servants and may be carried out by any interested party. Various analytical tools have been

¹²¹ <http://procurement.gov.ge/>

developed. In addition, the special website¹²² provides important information about public procurement, including quarterly updates of published tenders, the cost of tenders, average number of tender participants, number of registered users, etc.

458. The changes to the procurement law and supporting regulations are applicable. Table 24.3 summarises the information provided in the procurement process.

Table 24.3: Publicly available information on procurement processes

Publicly available	Yes / No	Location
Law on Procurement and relevant regulatory acts	Yes	http://procurement.gov.ge/ka/page/legalacts62ea792f-daaf-4102-ade8-f35b9885aa54
Public procurement plan	Yes	https://tenders.procurement.gov.ge –ePlan-module
Bidding opportunities	Yes	https://tenders.procurement.gov.ge
Winner of the tender (goal, contractor and amount)	Yes	https://tenders.procurement.gov.ge
Information on the results of review of complaints	Yes	https://tenders.procurement.gov.ge/dispute
Annual Procurement Statistics	Yes	http://procurement.gov.ge/ka/page/AnalyticalStudiesReports

459. All the key procurement information is made available to the public Score. The score for this dimension is A.

24.4. Procurement Complaints Management

460. *Dimension 24.4 assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.*

461. As outlined in the introduction to the indicator a number of significant amendments were made to the legislative acts regulating the Public Procurement Related Dispute Resolution Council and its regulations. The Law of Georgia №6730-RS on Amendments to the Law on State Procurement was adopted by the Parliament of Georgia on July 2, 2020. Under the law, a new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined, as a result of which there was a need to develop a regulatory act for the council, which was also prepared by the agency. At the same time, draft amendments were prepared, which were reflected in the relevant by-laws of the Chairman of the State Procurement Agency. According to the amendment, the Court or the council established for this purpose has the right to review public procurement disputes. The procuring entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the law

462. As a result of the implemented changes, the council is composed of five members. Qualification requirements established for board membership are identical of those established for

¹²² www.stats.spa.ge

judges of common courts, with only minor differences. In addition, the list of disputes to be challenged in the council has been amended, in particular, decisions on entering into a simplified procurement contract may also be appealed to the council if the estimated value of the goods, services or works to be procured is equal or exceeds the monetary thresholds set by EU directives in the field of public procurement. The amendment allowed the council to extend the decision-making period by maximum 10 working days, due to several factors, including the fact that the issues subject to appeal have increased and the council has become a specialized body whose members can no longer perform other remunerative activities. The mentioned amendments came into force on January 1, 2021.

Table 24.4: Criteria of the complaint resolution mechanism

Complaint resolution criterion	Achieved	Comment / Applicable statute
(1) Is not involved in procurement transactions or decision making processes	Yes	<p>The Law №6730-RS on Amendments to the Law on State Procurement was adopted by the Parliament on July 2, 2020. Under the Law, a new Institutionally Independent Council of Dispute Resolution was established and new regulations for appealing a number of public procurement decisions were defined. According to the amendment, the Court or the council established for this purpose has the right to review public procurement disputes. The procuring entity (administratively) itself is no longer considered as one of the dispute resolution bodies under the Law</p> <p>As a result of the implemented changes, the council is composed of five members. Qualification requirements established for board membership are identical of those established for judges of common courts, with only minor differences.</p>
(2) Does not impose fees for disputing parties	Yes	Submission of complaints is free of charge. Article 2, paragraph 1 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.
(3) Processes after submitting and solving complaints are clearly defined and publicly available	Yes	Article 6, paragraph 2 and Article 9, paragraph 8 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.
4) Uses the power to suspend the procurement process	Yes	<p>Article 7, subparagraph “d²” of paragraph 2 and Article 23, paragraphs 2² and 11 of the Law on State Procurement.</p> <p>Article 6, subparagraph “c” of paragraph 2 and paragraph 6 of the same Article of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.</p>
(5) Issues rules / regulations in the specified timeframes,	Yes	Article 7, paragraph 4 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency.

Complaint resolution criterion	Achieved	Comment / Applicable statute
(6) Issues decisions which are mandatory for all parties (without access of external upper body)	Yes	Article 10 of the Rule for Operations of the Procurement related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency. Article 23, paragraph 14 of the Law on State Procurement.

Source: GPA

463. Statistics on complaints in 2021 are summarized in Table 24.5 which demonstrates that the process and procedures are robust and are applied given that all possible outcomes have been realized.

Table 24.5 Procurement complaints - 2021

Complaint tenders Total	was satisfied		was not satisfied		partially satisfied		was considered inadmissible		complaint was dismissed	
	No	%	No	%	No	%	No	%	No	%
375	75	20	113	30	137	37	37	10	13	3%

Source: SPA

464. The procurement complaints system meets every related criterion. The score for this dimension is A.

PI-25. Internal Controls on Non-Salary Expenditure

465. PI-25 measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. It covers CG at the time of the assessment.

Indicator/Dimension	2022 Self-Score	2018 Score	Brief Justification for Score
PI-25: Internal controls on non-salary expenditures	A	A	

Indicator/Dimension	2022 Self-Score	2018 Score	Brief Justification for Score
25.1 Segregation of duties	A	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the Public Financial Management Information System (PFMIS), in accordance with Order of the Minister of Finance of July 6, 2012, on the approval of instructions for the Treasury Electronic Service System.
25.2 Effectiveness of expenditure commitment controls	A	A	Commitment control applies to all payments made from the Treasury single account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.
25.3 Compliance with payment rules and procedures	A	A	Compliance with payment rules and procedures is very high.

466. Effectiveness of internal controls for non-salary expenditures is ensured by the established Public Financial Management Information System (PFMIS). The system covers the whole process of non-salary expenditures and sets the levels of control in the system according to the functions of different employees. Payment procedures for non-salary expenditures are determined by the Order №424 of December 31, 2014, of the Minister of Finance on the approval of instruction about the rule of payments by organizations in the state Treasury, which is executed by all spending units.

25.1. Segregation of Duties

467. *Dimension 25.1 assesses the existence of the segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.*

468. Functions are clearly segregated by the provisions of the spending unit, internal regulations, job descriptions and other internal documents. Levels of admission of the relevant person at all stages of payment in the Public Financial Management Information System (PFMIS) are determined by the Order №225 of the Minister of Finance of July 6, 2012, on the approval of instruction for the state Treasury Electronic Service System. For the purpose of obtaining the right to access the system, the spending unit requests the Treasury for access to the system (or cancellation) and submits an annex filled in accordance with the relevant rights. Levels of admission to authorization on accounting and payment documents differ by the functions of employees, in terms of authorizing, recording / editing, examining, etc.

469. There are three types of access to the Treasury Electronic System:

- Entering data / preparing document in electronic form (performed by a responsible person);

- Confirmation after the electronic document has been filled out (performed by a responsible person); and
- Submission of the electronic document to the State Treasury Service.

All of these types of access are performed by a responsible person and that person is different for each of the type of access. The management of admissions of authorized persons at all stages of the payments process is carried out through the electronic passport of respective module. The module will include the personal number, name and surname, place of work, position, and contact information of an authorized person. Personal information is verified in the database of the Civil Registry.

470. Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the Public Financial Management Information System. The score for this dimension is A.

25.2. Effectiveness of Expenditure Commitment Controls

471. *Dimension 25.2 assesses the effectiveness of expenditure commitment controls,*

472. Payments of spending units are processed through the E-Treasury System, within the quarterly commitments specified in the approved budget and entered into the system. They are paid from the TSA. Payment procedures in the E- Treasury System are determined by the Order №424 of December 31, 2014, of the Minister of Finance on the approval of instruction about the rule of payments by organizations of the Treasury, which is executed by all budgetary units.¹²³

473. The commitment control mechanism applies to all payments made from the TSA. Annual plan with a quarterly annotation will be reflected in the Treasury system from the Budget Planning and Assignments Management Module. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.

474. Commitment control applies to all payments made from the TSA. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources. The score for this dimension is A.

25.3. Compliance with Payment Rules and Procedures

475. *Dimension 25.3 assesses the extent of compliance with the payment control rules and procedures based on available evidence.*

476. As part of the reform implemented on January 1, 2019, the modules of contracts and commitments have been integrated in the e-treasury. In order for the budget unit to make payments through the Treasury Electronic System, first of all, the commitment document is registered, which includes information / data on the signed contract. Then the initial documents and invoices are created / confirmed, and finally the payment is made (in case of standard non-advance payment).

¹²³ <https://matsne.gov.ge/ka/document/view/2665096>

There is a three-level mechanism of authorization in the system, which consists of the following stages:

- Creation of the document;
- Document verification / validation; and
- Submission of the document to the Treasury.

The system also provides a safe mechanism for authentication and signature confirmation, which prevents unauthorized access to the database. A green corridor similar to that used for salaries has been in place for regular payments such as utilities but was suspended due to COVID and is due to be reinstated. This system is active and applied in full which ensures compliance. There have not been adverse comments by external and internal auditors.

477. Compliance with payment rules and procedures is very high and is designed to eliminate exceptions. The score for this dimension is A.

PI-26. Internal Audit

478. PI-26 assesses the standards and procedures applied in internal audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores and covers CG.

Indicator/Dimension	2022 Score	2018 Score	Brief Justification for Score
PI-26: Internal Audit	A	B+	
26.1 Coverage of internal audit	A	A	Internal Audit Unit covers all central ministries (11 ministries) and all LEPLs defined by the decree of the government, where the internal audit was to be established. The coverage of revenue and expenditure is almost 100%.
26.2 Nature of audits and standards applied	A	B	System and performance audits have been added to the audits of compliance and effectiveness of internal controls. External evaluations of the quality of activities of internal auditors, conducted during the reporting period, revealed that the level of general compliance with the standards is high.
26.3 Implementation of internal audits and reporting	A	A	All internal audit entities implement strategic and annual planning that is agreed upon by the institution. The subjects also draw up an annual report and submit it to the head of the institution as well as to the Harmonization Center of the MoF. Based on the analysis of the reports, the internal audits follow the annual plan, however, in some cases, unplanned audits are also carried out.
26.4 Response to internal audits	A	A	There is a comprehensive follow up on recommendations made in all internal audit reports which are summarized in an annual internal audit report. All the entities produce an annual report.

26.1. Coverage of Internal Audit

479. Dimension 26.1 assesses the extent to which government entities are subject to internal audit at the time of assessment.

480. At present, internal audit covers all central ministries (11 ministries) and all LEPLs¹²⁴ defined by Resolution №391 of the Government of Georgia of 12 August 2016 "On Approval of the List of Legal Entities under Public Law and the Strategy for the Introduction and Development of the Internal Audit System in Them." This coverage is for both expenditure and revenue. Prior to having its own Internal Audit Department, the GRS was covered by the Internal Audit of its parent Ministry of Finance. At the time of the assessment GRS has its own Internal audit Department, which ensures full coverage of revenue.

481. With respect to expenditure, Table 26.1 and the data annex shows that the coverage of internal audit is in excess of 95% of the budget in the period covered by the assessment.

Table 26.1 Internal Audit Coverage GEL

	2019	2020	2021
Covered budgetary institutions	12,969,017.60	15,701,237.60	19,279,962.40
Total state budget:	13,469,689.00	16,174,636.10	19,796,128.40
%	96.3	97.1	97.4

Source: CHU

482. According to the Law of Georgia on State Internal Financial Control, the authority of the internal auditor extends to the system of the institution where it is established. The subject of study and analysis by the internal auditor within its competence can be all the processes and areas of activity in the system of the institution. As a rule, there is no restriction on the coverage of internal auditor's activities and each operating internal auditor is authorized to carry out internal audit activities without hindrance.

483. The activities of a public institution include a number of processes, programs, functions, structures, different geographical locations and initiatives that jointly contribute to the achievement of the strategic goals of the institution. The combination of the list of these elements covers the role of internal audit. The scope of internal audit is defined and periodically updated by the internal auditor in order to identify in the planning process the facilities where the audit services will be conducted in the future. The coverage of internal audit is based on both the legislation and the existing practice. Internal auditors in this process are independent and objective.

484. Internal Audit Unit covers all 11 central ministries and all 13 LEPLs where the internal audit was to be established. The coverage of revenue and expenditure is almost 100%. The score for this dimension is A.

¹²⁴LEPL: Social Service Agency; David Aghmashenebeli National Defense Academy of Georgia; Giorgi Abramishvili Military Hospital of the Ministry of Defense of Georgia; State Military Scientific-Technical Center "Delta"; National Center for Teacher Professional Development; National Center for Assessment and Examinations; Service Agency of the Ministry of Internal Affairs of Georgia; Security Police Department; National Food Agency; National Agency of Public Registry; Public Service Development Agency; House of Justice; Revenue Service.

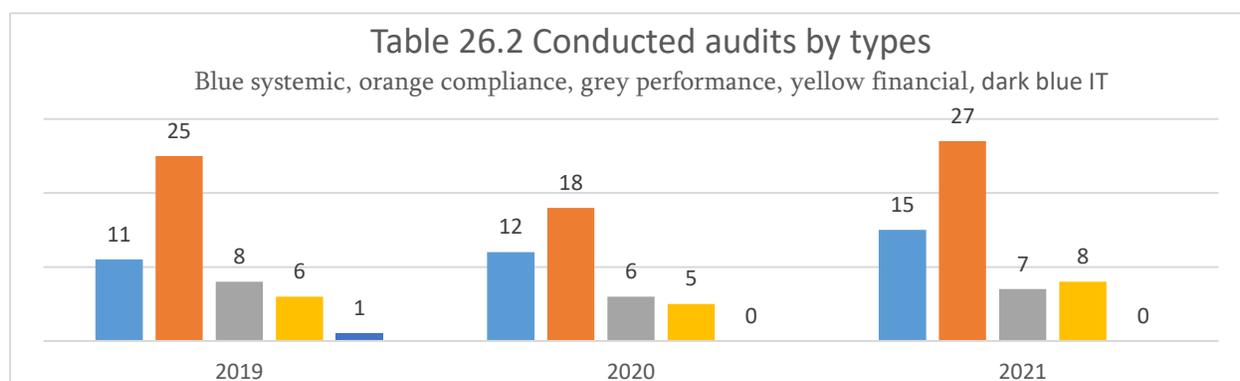
26.2. Nature of Audits and Standards Applied

485. Dimension 26.2 assesses the nature of audits performed and the extent of adherence to professional standards at the time of assessment.

486. Financial and regulatory compliance is the cornerstone of the internal audit function. The CHU of the MoF has implemented a number of pilot projects to develop less commonly used types of internal audits, in particular, system and performance audits. Methodological documents were also developed for both types of audits. In addition, International Professional Practices Framework (IPPF) for Internal Audit Effectiveness was developed in the Georgian language. In addition, the Georgian-language manual of the International Standards of Professional Practice of Internal Auditors (IPPF) was developed.

487. There is a growing trend of performance and system audit at the central level. There is also a noticeable improvement in the quality of these audits. Through them, in addition to financial and regulatory compliance, internal auditors assess the adequacy and effectiveness of the internal control system and / or its individual component. As a result, they develop recommendations to increase economy, efficiency and productivity. The assessment team met with the head of Internal Audit in the Ministry of Regional Development and Infrastructure who confirmed the operational basis of internal audit and the role of the CHU in ensuring international standards are applied.¹²⁵

488. The legislation envisages five types of internal audits, namely: 1) systematic audit; 2) compliance audit; 3) efficiency audit; 4) financial audit; and 5) IT audit. In accordance with the strategic and annual plans of internal audit based on risk assessment, in 2019, 2020 and 2021, internal audit entities of central institutions conducted a total of 149 internal audit inspections (122 of which were planned). In some cases, there were unplanned (ad hoc) audits, which were due to the emergence of new risks and/or the initiative of the head of the institution. At the central level, there is a growing tendency to implement efficiency and systematic audits. The table shows that although compliance audits have the largest share of the total, this is followed by system audits and performance audits with financial audits just below. There was one IT audit in 2019. The internal audit in addition to financial and regulatory compliance, assess the adequacy and effectiveness of the internal control system and/or its individual components. As a result, recommendations are developed to increase economy, efficiency, and productivity.



¹²⁵ MRDI has 8 internal auditors including the head. Efficiency and Compliance Audits covered Departments responsible for water supply, solid waste, roads and municipal development plan and incorporated recommendations and follow up monitoring. Some 80% of expenditure was covered.

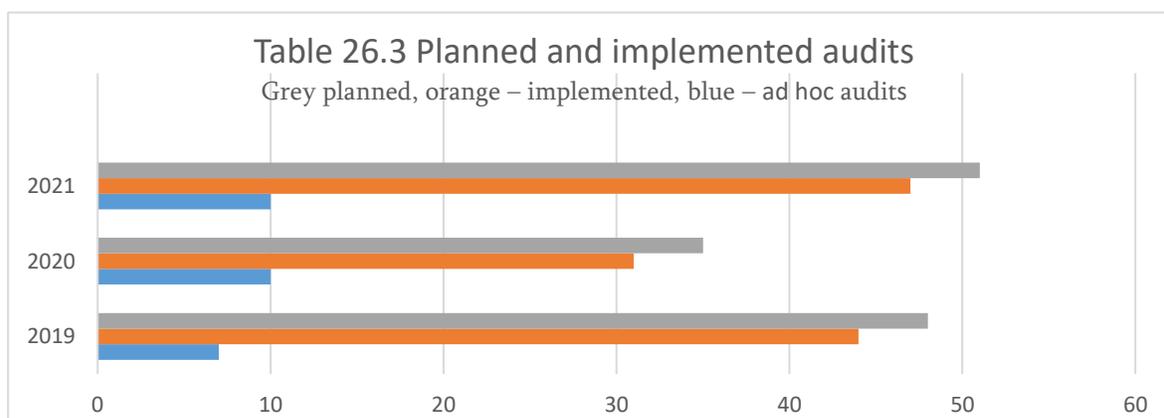
489. In terms of compliance with the standards of internal auditors, during the reporting period, the external quality assessment of the internal audit activity of all central ministries¹²⁶ was coordinated by the CHU. Its role is to ensure general compliance with the performance standards of internal auditors. The improvement of the quality of implementation of these types of audits has been noticeable and verified by the operations of the CHU.

490. System and performance audits have been added to the audits covering compliance and effectiveness of internal controls. External evaluations of the quality of activities of internal auditors, conducted during the reporting period, revealed that the level of general compliance with the standards is high. The score of this dimension is A.

26.3. Implementation of Internal Audits and Reporting

491. *Dimension 26.3 assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports in 2021.*

492. In accordance with the requirements of international standards, all internal auditor departments in budgetary units prepare strategic and annual plans based on risk assessment and with consideration of the goals and mission of the institution. The Internal Audit Strategic Plan defines the coverage of internal audit activity and the distribution of working time among all the internal auditors of the institution. The sequencing and the distribution of resources is based on risk assessment. Strategic and annual plans of internal audit, which include specific internal audits, are developed by the head of the internal audit entity and approved by the head of the institution. The annual plan details the list of audited entities that, based on professional judgment, are considered to be relatively high risk by the internal auditors and, therefore, it is necessary to conduct an audit in them. In each of the years from 2019 to 2021 implemented audits were just below planned audits but when ad hoc audits are added the number of actual audits surpassed the number planned.



Source: CHU

¹²⁶ CHU assessment of the performance quality of the internal auditor of the Ministry of Culture, Sports, and Youth, separated because of a reorganization of the Ministry of Education, Science, Culture and Sports, has not been carried out, as, according to the standard, such assessment should be carried out once in five years, and the division of ministries took place in 2021. Consequently, assessment was not considered appropriate for the current stage.

493. Internal audit activity standards and according to the legislation of Georgia.¹²⁷ It is based on strategic and annual plans developed because of risk assessment. The strategic plan of internal audit reflects the long-term plans of the institution, it covers 3 years and describes the strategic directions of the development of internal audit. The internal audit strategic plan determines the scope of the internal audit and the distribution of work time among all potential internal audit objects of the institution, the order of which and the allocation of resources to them is based on the risk assessment. After the internal audit environment is defined and a risk-based internal audit 3-year strategic plan is drawn up, an annual internal audit plan is prepared, outlining specific internal audit checks, based on the three-year strategic plan. Based on the analysis carried out within the framework of the annual reports of the internal audit and the external assessment of the quality of the activities of the internal audit subjects, the conclusion is that the internal auditors maintain their independence in their audit activities, since there is no interference in their activities by the high-level management and they are focused on the implementation of the annual plan. In case of non-fulfilment of the plan, the annual report contains a reasoned explanation of the non-fulfillment of the annual plan and the deviation from it. The reason for deviating from the annual plan is mainly the notion of conducting unscheduled audits or changes in risks assessed by internal auditors and, accordingly, concentrating resources on relatively high risk centers.

494. The internal audit process is divided into three stages, as illustrated below.

Table 26.4: Three stages of the internal audit process



495. The purpose of risk assessment is to determine the risk level of a particular system/process/unit. After determining the audit universe and the entities grouped as audit objects, the internal audit ensures the identification of risk factors and the prioritization of the entities subject to internal audit according to this sign. Internal auditors decide on the importance of risk factors and assign them appropriate relativity. Risk factors are conditions that have the effect of creating or increasing risks. Internal audit subjects have created a list of risk factors that are best suited to the institution's fields of activity. Risk factors can be selected at the discretion of the internal audit entity. Risk assessment of a specific system may include the following risk factors that affect the operation of the institution:

- Quality of internal control;

¹²⁷ Law of Georgia "On State Internal Financial Control"; Resolution No. 593 of the Government of Georgia of December 26, 2016 "On approval of internal audit methodology".

- Changes/reorganization within the institution;
- System complexity;
- Connection with other systems;
- Control environment;
- Types of processes;
- Expenditure volume or budget impact;
- External or third party influence;
- Doubt/opinion of the head of the institution;
- Probability of violations;
- Impact on future decisions and operations;
- Public interest;
- Number of users;
- Impact and complexity of legislative requirements;
- Duration and results of previous audits;
- Qualifications/experience of employees;
- Knowledge/awareness of management and employees about internal control systems;
- Assessment of compliance of internal control mechanisms;
- Skills and abilities of management and employees;
- Number of transactions/transfers and other substantive influence having risk factors.

496. After risk factors are determined for a specific audited entity, the factors are ranked and weighted using one of two methodologies: cumulative or relative (comparative) risk assessment.

Cumulative method

497. Based on an institution's activities, each risk factor is assigned a weight based on the severity of the impact and consequence on the institution. The best practice is "normalization", that is, the case when their sum is 1.00 or 100%.

498. Each risk factor is assigned a value, which determines the level of risk for each specific audit object. When assessing the impact of a risk factor in relation to a specific system (process subject to internal audit), an appropriate value from 1 to 3 is selected. 1 is used for the lowest risk level and 3 for the highest risk level. The assigned values are multiplied by the weight of the risk factor and a score for each risk factor is determined. Then the points of each risk factor are summed according to the relevant criteria for each internal audit object and the structural risk level of the internal audit object is determined.

Relative (comparative) method

499. Each risk criterion is assigned a value from 1 to 3 depending on the impact and importance on the institution's activities and the relevant risk criterion. 1 is used for lower exposure levels and 3 for higher exposure levels. Vulnerability is also assigned a value of 1 to 3 depending on the severity of the risk, according to the relevant criterion. 1 is used in the case of less mobility, and 3 - in the case of greater mobility. The probability value is then multiplied by the impact value to obtain a risk factor score for each criterion. Finally, the risk factor scores of all criteria are summed up to get the structural risk level in relation to the internal audit object which are:

- Failure to conduct effective and efficient policies and prepare plans and procedures;
- Failure to comply with laws and regulations;
- Negative public opinion towards the organization and damage to the reputation;
- Failure to achieve goals;
- Making wrong decisions based on wrong information at the wrong time;
- Data storage errors, incomplete documentation and fraudulent financial documents.

500. Prioritization of internal audit objects according to the magnitude of risk is the final stage of risk assessment, as each internal audit object is evaluated according to the risk criteria assessment. As a result of the ranking sequence, the internal audit objectives should be displayed on the appropriate scale, as simple and easy to understand as possible.

501. In the next step, the total numerical value of the system risk (total risk score) is calculated by summing the numerical values of all the risks in the system. Systems will be sorted by numerical values in descending order of magnitude, and further sorted into the following categories:

- Systems at high risk;
- Medium risk systems;
- Low risk systems.

502. The analysis performed in the annual reports of internal audit and the analysis carried out in the framework of external evaluation of the quality of activities of internal auditors, indicates that internal auditors maintain independence in audit activities. Senior management does not interfere in their activities, and they are focused on the annual plan. The annual plan of some internal auditors may be supplemented as unscheduled audits have been carried out. In case of non-compliance with the plan, the annual report provides a reasoned explanation for non-compliance with the annual plan and deviation from it. The reasons for deviating from the annual plan are mainly non-scheduled audits or changes in the risks assessed by internal auditors and, consequently, concentrating resources on those relatively high-risk objects.

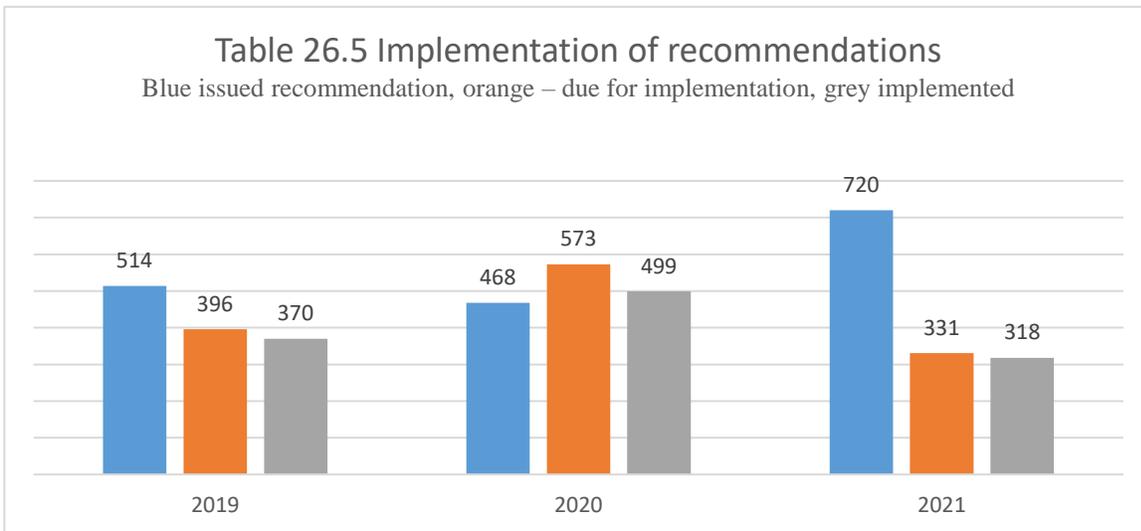
503. After an internal audit has been carried out, the main findings and recommendations are discussed with the audited administration whose view is expressed in the final internal audit report. Final reports are distributed to the head of the audited entity and the CHU in the Ministry of Finance.

504. All internal audit entities implement strategic and annual planning that is agreed upon by the institution. The subjects also draw up an annual report and submit it to the head of the institution as well as to the CHU of the MoF. Based on the analysis of the reports, the internal audits follow the annual plan, however, in some cases, unplanned audits are also carried out. There are more audits in total carried out than planned. The score for this dimension is A.

26.4. Response to Internal Audits

505. *Dimension 26.4 assesses the extent to which action is taken by management on internal audit findings from audits reports issued in 2019, 2020 and 2021.*

506. Monitoring the implementation of the recommendations issued during the internal audit is also one of the most important stages. The head of the internal audit unit develops an action plan for the implementation of the recommendations issued by the internal audit. Prior to the development of the action plan, at the review stage of the draft of the internal audit report, the management of the audit unit, as well as the management of the institution, have the opportunity to share their positions. The internal audit report and the action plan for the implementation of the recommendations presented and sent to the head of the institution, who in turn confirms the need to implement the recommendations; this action allows them to proceed.



Source: CHU

507. As a result of monitoring the implementation of the recommendations, the internal audit subject provides the head of the institution with information about the implementation or non-implementation of the recommendations.

508. The results of the internal audit examination and the corresponding recommendations to improve the management quality and control environment are reflected in the internal audit report. The report reflects the internal auditor's independent and objective opinions regarding the activities of the internal audit facility. The internal audit report is the final result of the internal audit, which is provided to all interested parties in the cases defined by the Georgian legislation. The purpose of an internal audit report is to find ways to solve problems rather than simply uncovering problems. The internal audit report will also reflect the opinions of the internal audit entity, if they differ significantly from the internal auditor's opinions.

509. Each internal audit entity will prepare an annual internal audit report every year. The annual report covers various issues that describe the activities, progress and results of the internal audit entity, for example:

- Implementation of the annual plan: the difference between the planned and actually performed internal audits;

- Summary of the results of the work of the internal audit entity, description of the main activities, important findings, conclusions and recommendations made during the audit of various systems of the institution;
- Information about the level of independence and objectivity of the internal audit entity;
- If there were any limitations during the implementation of the internal audit, identifying their causes and potential risks;
- Results of monitoring: implementation of given recommendations in the accounting period and correction of deficiencies indicated in the recommendations;
- Significant recommendations based on the views of the internal auditor, which were rejected by the management and the potential risks associated with its non-implementation;
- Opinion on the state of the institution's internal control system;
- Weaknesses found, risk factors and recommendations given or measures taken.
- Statistical and qualitative information;
- The process of implementing quality control recommendations;
- Cooperation with the State Audit Service and other audit or control organizations;
- Allocation of personnel and material resources for internal audit purposes;
- Raising the qualifications of the internal audit subject's staff;
- The results of internal and external reviews or assessments of the internal audit entity;
- Proposals for the development of internal audit or internal control, as appropriate;
- Other important information from the perspective of the internal audit entity

510. There is a comprehensive follow up on recommendations made in all internal audit reports which are summarized in an annual internal audit report. All the entities produce an annual report. The score for this dimension is A.

Difference in Comparison to the Previous Assessment

511. There are some quality differences in the Internal Audit function since the previous PEFA.

- Internal auditors are more focused on conducting system and performance audits, unlike the previous period, when mainly financial and compliance audits were conducted in government institutions.
- Internal auditors are result-oriented and add value to the institution. Some internal auditors also provide information in their annual report on what value has been added to the institution as a result of its recommendations and activities.
- In recent years, the introduction of the state internal financial control system was in line with the 2017-2019 strategy and action plan. Important projects were implemented through this strategy.

To ensure a coherent approach to system development, the Central Harmonization Unit has developed the system development strategy for 2021-2024 and the action plan for 2021-2022 in accordance with the policy planning, monitoring and evaluation standards and on the basis of the gap analysis of the implementation of the reform in cooperation with the OECD / SIGMA.

Current and Planned Reforms and Measures

512. It is planned to develop and implement a national certification system for internal auditors. Significant measures are also planned to strengthen the IT audit.

PILLAR SIX: Accounting and Reporting

513. Timely, relevant, and reliable financial information is required to support fiscal and budget management and decision-making processes.

PI-27. Financial Data Integrity

514. PI-27 assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores and covers CG.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-27: Financial data integrity	A	A	
27.1 Bank account reconciliation	A	A	Treasury under Ministry of Finance reconciles all its balances daily with the TSA sub-accounts and other bank accounts in the NBG.
27.2 Suspense accounts	NA	A	There is neither expenditure nor revenue suspense accounts under the TSA. During fiscal years 2019-2021, revenue deposits were properly coded and accounted for, with no suspense accounts arising.
27.3 Advance accounts	A	A	All advance accounts are cleared in a timely manner. Amounts paid in advance are controlled in real time. The existence of unverified advance accounts limits the organization's subsequent payments. The only exceptions are salaries and related payments (according to Article 9 of the Payment Instruction).
27.4 Financial data integrity processes	A	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office also conduct audits to verify financial data integrity.

27.1. Bank Account Reconciliation

515. *Dimension 27.1 assesses the regularity of bank reconciliation at the time of assessment covering 2021.*

516. The Treasury reconciles all its balances with the TSA sub-accounts and other bank accounts in the NBG. TSA is maintained in GEL. Account turnovers and daily account balances are monitored through the Real-Time Gross Settlement System (RTGS). The RTGS is fully automated. Data transfers are instantaneous.

517. The Treasury reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia. The score for this dimension is A.

27.2 Suspense Accounts

518. *Dimension 27.2 assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in a timely way at the time of assessment covering 2021.*

519. In accordance with Ministry of Finance order №424 dated December 31, 2014 “On approval of payment rules instruction by organizations of State Treasury Service” and established internal rules and regulations, the Treasury Service has no right to transfer resources to the account(s) of the budget organizations for uncertain purposes. Therefore, there are no suspense accounts linked with expenditure accounts as enabled by Treasury system functions. Financial reports that are produced monthly do not contain any expenditure suspense accounts.

520. In the past some few revenue deposits were not properly coded and accounted for. However, there were historical revenue suspense accounts that arose before fiscal years 2019-2021. These are included for monitoring purposes of their accountability in the Statement of Financial Position under the line item of cash and cash equivalents and their materiality is insignificant.

521. As there are no operational suspense accounts this dimension is Not Applicable.

27.3. Advance Accounts

522. *Dimension 27.3 assesses the extent to which advance accounts are reconciled and cleared at the time of assessment covering 2021.*

523. Advance payments to vendors under public procurement contracts are allowed in accordance with terms and conditions agreed in each contract. Article 3 of the Payment Instructions issued under Order №424 of December 31, 2014, of the Minister of Finance to all budgetary units, states that advance payments should be made against contracts registered and commitments created in the Treasury system via bank transfers (implying that no cash payments are allowed). These advances are made against bank guarantees and clearing timelines are in accordance with contractual arrangements. In case of advance payment, the budgetary unit shall indicate the date of the economic event in accordance with the terms of the contract and the bank guarantee in the electronic system of the treasury.

524. The bank guarantee date is entered into the Treasury system and monitored. In situations where the expiry date of the bank guarantee matures and agreed services and goods are not delivered, or the expiry date is not extended accordingly, no further payments are allowed under

the registered contract and advances are recovered, where necessary, against the bank guarantees.

525. Travel advances or any other payments to employees (that include operational advances) must be cleared within 65 days after the completion of the business trip. In case an organization that is supposed to recover the advances from employees does not submit (clear) advance payment accountability within the predetermined deadline, the system automatically blocks the organization's ability to make other payments; the only exception is salary and salary related payments (in accordance with Article 9 of Payment Instructions).

526. A report on all advance payments (travel advances, operational advances and advance payments to vendors with registered contracts) is generated by the Treasury in real time. The report is detailed and includes information on organization's name, employee's name, advance request numbers, advance amount, due date and date when it was cleared.

527. All advance accounts are cleared in a timely manner. Amounts paid in advance are controlled in real time. The existence of unverified advance accounts limits the organization's subsequent payments. The score for this dimension is A.

27.4. Financial Data Integrity Processes

528. *Dimension 27.4 assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data (ISO/IEC, International Standard, 2014) at the time of assessment.*

529. Records cannot be created or modified without leaving an audit trail. Audit trails enable individual accountability, intrusion detection and problem analysis. Audit trails generated from the TSA provide information on who accessed the data, who initiated the transaction, who approved the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files were updated.

530. Financial data integrity is carried out by the Treasury. The Treasury Service Department reviews financial data integrity on a daily basis related to budgetary units. The Financial Analytical Service Division monitors unauthorized accounting system access. Internal auditors and State Audit Office conduct audits to verify accuracy and completeness financial data.

531. Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done by Treasury and its operational departments review financial information from budgetary units and its IT department and monitor unauthorized systems access. The score for this dimension is A.

PI-28. In-Year Budget Reports

532. PI-28 assesses the comprehensiveness, accuracy and timeliness of information on budget execution. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. It covers BCG and 2021.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-28: In-year budget reports	B+	B+	
28.1 Coverage and comparability of reports	A	A	Coverage and classification of data in the budget performance reports allows direct comparison to the original budget or budgets of previous years. Information includes all central government budget estimates for the budgetary units.
28.2 Timing of in-year budget reports	B	B	Budget performance reports are prepared quarterly and submitted to Parliament and published on the website of the Ministry of Finance within four weeks of the end of the quarter, while monthly reports are prepared within 20 days of the end of the month and published on the Treasury website.
28.3 Accuracy of in-year budget reports	A	A	Integrated electronic systems and unified budget classification ensure data accuracy at both the commitment and payment stages and are contained in in-year reports. There are no substantive comments regarding the accuracy of the data in the reports of the State Audit Office.

28.1. Coverage and Comparability of Reports

533. *Dimension 28.1 assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget.*

534. Quarterly budget performance reports are prepared on a cash basis in accordance with Articles 53 and 54 of the Budget Code and posted at the Ministry of Finance website. Monthly budget performance reports are also prepared mainly for management purposes. These reports cover all central government budgetary units. Within one month after the completion of each quarter, the Ministry of Finance submits a Parliament quarterly budget performance report that includes:

- Macroeconomic Overview;
- State budget performance reports on revenue, program expenditure, expenditure by function of government, and changes in financial assets and liabilities; and
- Information on state debt, performance of investment projects, court decisions' execution fund, payment of arrears from previous period, targeted grants, consolidated balances of Legal Entities of Public Law and non-commercial legal entities, and State budget performance indicators.

535. In addition to the quarterly report, the Ministry of Finance prepares an interim six-month budget performance report that includes a medium-term review of budget performance in addition to the above information contained in the quarterly reports.

536. The classification in the e-budget system is based on GFSM 2014. The e-budget system has since January 1, 2015, been integrated to e-Treasury system where budgeted expenditure is captured and accounted for. These integrated systems enable the consolidation and preparation of in-year monthly, quarterly and annual reports to be prepared.

537. Coverage and classification of data in the budget performance reports allows direct comparison to the original budget or budgets of previous years. Information includes all central government budget estimates for the budgetary units. The score for this dimension is A.

28.2. Timing of In-Year Budget Reports

538. *Dimension 28.2 assesses whether this information is submitted in a timely manner and accompanied by an analysis and commentary on budget execution.*

539. Budget performance reports are prepared quarterly (3, 6 and 9 months) and submitted to the Parliament within four weeks, in accordance with the rule established by the legislation.¹²⁸ These reports are also published in the Ministry of Finance website. The annual budget performance report is prepared within 6 weeks after the end of the year, submitted to the Parliament of Georgia and posted on the website of the MoF.¹²⁹ The Treasury prepares a consolidated monthly budget performance report within 20 days after the end of the month,¹³⁰ which is published on its website. The monthly timing is adhered to by Treasury.

540. Monthly reports are prepared within 20 days of the end of the month and published on the Treasury website. The score for this dimension is B.

28.3. Accuracy of In-Year Budget Reports

541. *Dimension 28.3 assesses the accuracy of the information submitted, including whether expenditure for both the commitment and the payment stage is provided.*

542. The electronic public financial management systems, which include electronic budgeting and treasury systems, provide accurate accounting of data at the most detailed level of budget classification. Budget planning and execution is done through an electronic system. Since 2015, municipalities have been integrated into the electronic treasury system. This system allows information to be received and processed in real time. The information is at both the commitment and payment stage of the process.

543. Quarterly and annual budget performance reports are also based on this information and the data prepared through the electronic system. In this regard, no substantive comments were made regarding the accuracy of the budget performance report data in the reports prepared by the State Audit Office.

¹²⁸ <http://mof.ge/4951>

¹²⁹ <https://mof.ge/4564>

¹³⁰ <http://treasury.ge/5535>; <http://treasury.ge/5274>

544. Integrated electronic systems and unified budget classification ensure data accuracy at both the commitment and payment stages and are contained in mid-year reports. There are no concerns regarding the accuracy of the data. The score for this dimension is A.

PI-29. Annual Financial Reports

545. PI-29 assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores and covers BCG.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-29: Annual financial reports	C+	D+	
29.1 Completeness of annual financial reports	A	B	Consolidated financial statements for state and local budgets mainly include information on revenues, expenditures, nonfinancial assets, financial assets and liabilities (including guarantees and long-term liabilities), equity, as well as reconciled cash flows and balances.
29.2 Submission of reports for external audit	C	D	The Treasury annually prepares consolidated financial statements at the state budget level, which, for accountability purposes, are published on the Treasury's website www.treasury.ge within 6 months of the end of the reporting year. These have been submitted to the State Audit Office within 7 months of the end of the relevant financial year.
29.3 Accounting standards	B	C	The current Accounting and Financial Reporting Guidelines on the Chart of Accounts and Financial Reporting Forms are in line with both the GFSM 2014 methodology and the Georgian Budget Classification, and include the requirements of the following accrual based standards: IPSAS 1, IPSAS 2, IPSAS 3, IPSAS 4, IPSAS 5, IPSAS 9, IPSAS 12, IPSAS 13, IPSAS 14, IPSAS 16, IPSAS 17, IPSAS 19, IPSAS 20, IPSAS 21, IPSAS 23, IPSAS 24, IPSAS 26, IPSAS 31, IPSAS 32, IPSAS 34, IPSAS 35, IPSAS 36, IPSAS 37 and IPSAS 39.

Description of the Current Situation

546. Annual budget performance reports are prepared in accordance with Articles 53 and 54 of the Budget Code. The Government of Georgia shall submit the annual budget performance report to the Parliament of Georgia upon receipt of notification from the State Audit Office on the completion of audit opinion on annual budget performance report, but no later than 5 months after the end of the fiscal year.

547. The State Audit Office shall, within 45 days of the receipt of the annual budget performance report from the Government of Georgia, notify the Government of Georgia of the completion of audit opinion on the annual budget performance report and submit it to the Parliament of Georgia. After reviewing the annual budget performance report and hearing the audit opinion of the State Audit Office on this report, the Parliament of Georgia shall adopt a resolution on the approval of the annual budget performance report before the end of the spring session.

548. Entities financed by state and local budgets prepare financial statements in accordance with 24 IPSASs. The Ministry of Finance prepares a consolidated financial statement for central budget entities. Consolidated financial statements for central budget entities as well as financial statements of individual ministries are sent to the State Audit Office. These statements include information on revenues, expenditures, nonfinancial assets and financial assets / liabilities, which is presented in the following components of the annual financial statements:

- Statement of Financial Position;
- Statement of Financial Performance;
- Cash Flow Statement;
- Statement of Changes in Equity;
- Statement of Comparison of Budget and Actual Amount; and
- Notes for the financial statements

29.1. Completeness of Annual Financial Reports

549. *Dimension 29.1 assesses the completeness of the 2021 annual financial reports in terms of their coverage.*

550. The annual budget performance report contains the following information:

- a) Balance Sheet of the budget-by-budget classifiers;
- b) Macroeconomic overview;
- c) Comparison of actual budget revenues and expenditures by budget classifiers with projections of the respective period;
- d) Balances on TSA by the beginning and end of the year;
- e) Explanation of nonconformity between the budget allocations approved and specified according to the programs of spending institutions, if such inconsistency exceeds 30%;
- f) Explanation of nonconformity between the budget allocations approved and specified according to the programs of spending institutions, if such inconsistency exceeds 15%;
- g) Information on the execution of budget expenditure of general state significance (including the information on equalization transfers between municipalities and unpaid public debt at the end of the fiscal year);

- h) Description of programs / sub-programs implemented by spending institutions within the priorities defined in the annual budget and achieved results; and
- i) Annual indicators of budget execution for legal entities of public and private law defined under this code.

551. The above information reflects the data on the funds received by the ministries and agencies in the form of cash grants / targeted financing during the year, which are accounted / spent during the budget year in accordance with the rules approved by the Minister of Finance.

552. Budgetary units, as well as municipalities and autonomous republics, submit their own consolidated financial statements to the Treasury annually, from the end of the fiscal year until April 1 of the following year. These financial statements also contain financial data of their subordinate entities (subdivisions, LEPLs and NPOs). The Treasury prepares consolidated financial statements at the level of the state budget on the basis of the consolidated financial statements of the state budgetary units, which together with the consolidated financial statements of municipalities and autonomous republics are published on the Treasury website¹³¹ from the end of the fiscal year until July 1.

553. The consolidated financial statement prepared in 2021 for 2020 at the state budget level contains complete information on the assets owned,¹³² liabilities accrued, revenues received, and expenditures incurred by the budget organizations. In addition, for the purposes of completeness and comprehensiveness of financial information, it additionally provides data on categories administered by the Ministry of Finance on behalf of the government. It also includes a reconciled cash flow statement

554. In addition, the consolidated financial data of municipalities and autonomous republics are attached to these financial statements.¹³³

555. Consolidated financial statements for state and local budgets mainly include information on revenues, expenditures, nonfinancial assets, financial assets and liabilities (including guarantees and long-term liabilities), equity, as well as reconciled cash flow and balances. The score for this dimension is A.

¹³¹ www.treasury.ge

¹³² While there are weaknesses in nonfinancial and financial assets as assessed in PI-12.1 and 2, these categories are presented in the financial statements as they are recorded. The weakness is reflected in the scores of PIs 12 and 29.3. PEFA does not score the same weakness and strengths in more than one dimension.

¹³³ The financial information for 2020 for municipalities and autonomous republics has been prepared in accordance with the Instructions on the Accounting of Budgetary Organizations approved by the Order №1321 of the Minister of Finance of Georgia on December 24, 2007 and the Order №364 of the Minister of Finance of Georgia issued on April 16, 2008 on the Approval of Financial Reporting Templates for Budgetary Organizations. In addition, from January 1, 2021, municipalities, autonomous republics and their subordinate entities (LEPLs and NPOs) use the same accrual-based IPSAS method for accounting purposes as budgetary units.

29.2 Submission of Reports for External Audit

556. Dimension 29.2 assesses the timeliness of submission of the last reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system.

557. The budgetary units of state and local governments submit annual financial statements to the Treasury within 3 months (before April 1) after the end of the reporting period (year). The Treasury has the right to suspend all types of funding to the relevant organization in case of failure to submit financial statements within the established period. The Treasury analyzes the financial reporting data submitted by the state budget-spending institutions, comparing the information with the budget cash performance data, as well as the Treasury's reports regarding cash and equivalents. The Treasury Department also reviews the submitted financial statements to ensure compliance with accounting and reporting methodology requirements, reliability and accuracy. In case of inconsistencies with the data on budget execution, financial resources and equivalents, as well as deviations from the requirements of the accounting and financial reporting methodology, the management of the organization shall be notified in writing to take appropriate measures to correct inconsistencies and inaccuracies. Once the financial statements have been verified, the consolidated financial statement is prepared for the state budget. In order to ensure accountability and transparency, this consolidated financial statement, together with the consolidated financial statements of municipalities and autonomous republics are published on the Treasury's website from the end of the reporting year by July 1 of the following year and submitted to the State Audit Office. The SAO, in turn, reviews the financial statements of budgetary units individually, in accordance with the established rules of the State Audit Office.

558. The consolidated financial statement for 2020 financial year was submitted to the State Audit Office on 30/07/2021¹³⁴ by the Ministry of Finance. Individual ministries submitted their financial statements to the State Audit Office as shown in Table 29.1.

Table 29.1: Submission of financial reports for audit

N	Name of the audit	Audit period	Audit type	Fin. Date of receipt of report	Budget, GEL million
1	Audit of the 2020 financial statements of the Ministry of Economy and Sustainable Development of Georgia	2020	Financial audit	4/28/2021	759.4
2	Audit of the 2020 financial statements of the Ministry of Regional Development and Infrastructure of Georgia	2020	Financial audit	6/30/2021	2202.4

¹³⁴ Due to the COVID-19 pandemic, Consolidated Financial Statement of Central Budget Entities for 2020 financial year was submitted to the SAO one month late. The 2021 Consolidated Financial Statement for 2021 was sent to the SAO on 1 July 2022

N	Name of the audit	Audit period	Audit type	Fin. Date of receipt of report	Budget, GEL million
3	Audit of the 2020 financial statements of the Ministry of Justice of Georgia	2020	Financial audit	5/5/2021	238.8
4	Audit of the 2020 financial statements of the Ministry of IDPs from the Occupied Territories of Georgia, Ministry of Labor, Health and Social Protection	2020	Financial audit	6/18/2021	5631.1
5	Audit of the 2020 financial statements of the Ministry of Defense of Georgia	2020	Financial audit	6/18/2021	842.4
6	Audit of the 2020 financial statements of the Ministry of Internal Affairs of Georgia	2020	Financial audit	4/29/2021	765.8
7	Audit of the 2020 financial statements of the Ministry of Environment Protection and Agriculture of Georgia	2020	Financial audit	4/29/2021	496.8
8	Audit of the 2020 financial statements of the Ministry of Education, Science, Culture and Sports of Georgia	2020	Financial audit	6/3/2021	1551.2
				Total	12487.9
				Total Central Budget	16174.6
				%	77.2%

Source: SAO

559. A consolidated financial statement for the 2020 is prepared for the central government budgetary units. The financial data of the municipalities and the autonomous republics and their subordinate units (LEPLs and NPOs) is attached to this financial statement.

560. The consolidated financial statements and individual ministry financial statements are submitted to the SAO within 7 months after the end of the financial year. The score for this dimension is C.

29.3. Accounting Standards

561. Dimension 29.3 assesses the extent to which annual financial reports for 2019, 2020 and 2021 are understandable to the intended users and contribute to accountability and transparency.

562. Organizations funded by the budgets of the central and local governments are guided by the following instructions approved by the orders of the Minister of Finance:

- Instruction approved by the Order №108 of the Minister of Finance of May 5, 2020 "Financial Accounting by Budgetary Units on the basis of International Public Sector Accounting Standards (IPSASs)";

- Instruction approved by the Order N17 of the Minister of Finance of January 15, 2020 "Chart of Accounts of Budgetary Units and its Use";
- Instruction approved by the Order N289 of the Minister of Finance of December 2, 2020 "Accounting for Depreciation/Amortization by Budgetary Units and Reflection in the Financial Statements";
- Instruction approved by the Order N24 of the Minister of Finance of February 4, 2021 "Rules for Preparation and Submission of Financial Statements by Budgetary Units"; and
- Instruction Approved by the order N364 of the Minister of Finance of December 31, 2021 "Inventorization of Assets and Liabilities by Budgetary Units and Accounting and Reporting of Inventorization Results Based on International Public Sector Accounting Standards (IPSASs).

563. These instructions set out the rules and principles on an accrual basis for accounting and reporting of financial assets, nonfinancial assets, liabilities, equity, revenues and expenditures. These instructions are in line with the GFSM 2014 methodology and the Budget Classification of Georgia, as well as with the requirements of the accrual based IPSASs. There are 39 IPSAS standards in total (there were 44, but 5 were canceled/replaced) and currently 3 new ones are to be added in the future. Out of the current 36 standards, 3 are not relevant to Georgia. Currently 24 are applied representing 73% of all valid relevant standards.

Table 29.2 IPSAS standards applied to Georgia

	IPSAS	Status
1	IPSAS 1 Presentation of Financial Statements	Implemented
2	IPSAS 2 Cash Flow Statements	Implemented
3	IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	Implemented
4	IPSAS 4 The Effects of Changes in Foreign Exchange Rates	Implemented
5	IPSAS 5 Borrowing Costs	Implemented
6	IPSAS 6 Consolidated and Separate Financial Statements	Superseded
7	IPSAS 7 Investments in Associates	Superseded
8	IPSAS 8 Interests in Joint Ventures	Superseded
9	IPSAS 9 Revenue from Exchange Transactions	Implemented
10	IPSAS 10 Financial Reporting in Hyperinflationary Economies	Not implemented
11	IPSAS 11 Construction Contracts	Not implemented
12	IPSAS 12 Inventories	Implemented
13	IPSAS 13 Leases	Implemented
14	IPSAS 14 Events After the Reporting Date	Implemented
15	IPSAS 15 Financial Instruments: Disclosure and Presentation	Superseded
16	IPSAS 16 Investments Property	Implemented
17	IPSAS 17 Property, Plant and Equipment	Implemented
18	IPSAS 18 Segments Reporting	Not implemented
19	IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	Implemented
20	IPSAS 20 Related Party Disclosures	Implemented
21	IPSAS 21 Impairment of Non-Cash-Generating Assets	Implemented
22	IPSAS 22 Disclosure of Financial Information About the General Government Sector	Not implemented
23	IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	Implemented
24	IPSAS 24 Presentation of Budget Information in Financial Statements	Implemented
25	IPSAS 25 Employees Benefits	Superseded

	IPSAS	Status
26	IPSAS 26 Impairment of Cash-Generating Assets	Implemented
27	IPSAS 27 Agriculture	Not implemented
28	IPSAS 28 Financial Instruments: Presentation	Not implemented
29	IPSAS 29 Financial Instruments: Recognition and Measurement	Not implemented
30	IPSAS 30 Financial Instruments: Disclosures	Not implemented
31	IP S AS 31 Intangible Assets	Implemented
32	IP S AS 32 Service Concession Arrangements: Grantor	Implemented
33	IPSAS 33 First-time Adoption of Accrual Basis IPSASs	Not implemented
34	IPSAS 34 Separate Financial Statements	Implemented
35	IPSAS 35 Consolidated Financial Statements	Implemented
36	IPSAS 36 Investments in Associates and Joint Ventures	Implemented
37	IPSAS 37 Joint Arrangements	Implemented
38	IPSAS 38 Disclosure of Interests in Other Entities	Not implemented
39	IPSAS 39 Employees Benefits	Implemented
40	IPSAS 40 Public Sector Combinations	Not implemented
41	IPSAS 41 Financial instruments	Not implemented
42	IPSAS 42 Social Benefits	Not implemented
43	IPSAS 4 3 Leases	Not implemented
44	IPSAS 4 4 Non-current Assets Held for Sale and Discontinued Operations	Not implemented

564. The current Accounting and Financial Reporting Guidelines on the Chart of Accounts and Financial Reporting Forms are in line with both the GFSM 2014 methodology and the Budget Classification. They also include other requirements of the majority of IPSAS standards based on the accrual method to be disclosed in the notes to the Financial Statements. The score for this dimension is B.

Difference in Comparison to the Previous Assessment

565. Important measures have been taken in the direction of accounting reform in the public sector, as a result of which the given indicator has been significantly improved.

Current and Planned Reforms and Measures

566. To ensure the transparency and credibility of public finances, the International Public Sector Accounting Standards reform has been actively introduced since 2009, aiming to ensure the full introduction of accrual based IPSAS standards in the public sector. Initially, this reform was carried out only in the state budgetary units. Since 2017, the reform of the introduction of IPSAS standards has been also implemented in the municipalities, autonomous republics, and their subordinate units - LEPLs and NPOs. In parallel with the introduction of IPSAS standards, an electronic accounting system based on the accrual method is being developed - Treasury General Ledger. In order to ensure the completeness and comprehensiveness of the information on public finances, as well as to prepare the consolidated financial statement of the government, from January 1, 2021, accounting and reporting of municipalities, autonomous republics, and their subordinate units (LEPLs and NPOs) is carried out in accordance with the relevant accrual-based IPSAS standards, using the same methodology as the state budgetary units. According to this methodology, municipalities and autonomous republics have prepared consolidated financial statements for the 2021 financial year and submitted them to the Treasury.

PILLAR SEVEN: External Scrutiny and Audit

567. Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

PI-30. External Audit

568. PI-30 examines the characteristics of external audit. It has four dimensions and uses M1 (WL) method for aggregating dimension scores.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-30: External audit	A	B+	
30.1 Audit coverage and standards	A	A	The financial statements of all central government budgetary units (including revenue, expenditure, assets and liabilities), as well as the annual report on state budget performance are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years. The audits identify / highlight all relevant material issues and systemic or control risks.
30.2 Submission of audit reports to the legislature	A	A	During the last three completed fiscal years, the State Audit Office submitted the annual report on state budget performance to the legislative body within 3 months after receipt of the report by the State Audit Office.
30.3 External audit follow-up	A	B	There is an effective system for monitoring and follow up of recommendations. According to the organic law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided to the Parliament and the public through the annual reports on the activities of the SAO and the implementation of the recommendations.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
30.4 Supreme Audit Institution independence	A	A	The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the State Audit Office is assured by the Constitution and the law on State Audit Office. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The State Audit Office has the right to appeal directly to the Constitutional Court of Georgia.

30.1. Audit Coverage and Standards

569. *Dimension 30.1 assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards in 2019, 2020, 2021.*

570. The State Audit Office (SAO) is guided in its auditing activities in accordance with the International Standards of Supreme Audit Institutions (ISSAI)¹³⁵ and Financial (ISSAI 2000-2899), Compliance (ISSAI 4000-4899) and Performance (ISSAI 3000-3899). The audit methodologies have been created by the SAO based on them and these are applied in the conduct of audits by the SAO. In the process of selecting audit topics, the State Audit Office uses a risk-based approach to identify areas of importance to the public financial management system and to concentrate on increased risks in selected audits.

571. The State Audit Office also has a Quality Assurance Department that has been functioning since 2011. The quality control and quality assurance systems implemented in the SAO are the basis of its high-quality auditing activities. The Quality Assurance Department examines the audit planning and processes / procedures, summarizes best practices and identifies areas that need improvement. The SAO has introduced an Audit Management System in 2018, which fully integrates all types of audit methodology. Audit quality control procedures are built into the processes that at each stage of the audit procedure, the audit team receives feedback from quality reviewers.

¹³⁵ Article 5 of the Organic Law of Georgia on the State Audit Office.

572. The audit coverage for the state budget is an average of 92% over the fiscal years 2019-2021 and is included in the report of the State Audit Office on the annual report on state budget performance.¹³⁶

Table 30.1: Audit coverage 2019 -2021(GEL, thousand)

	2019	2020	2021
State budget¹³⁷	11,348,474	12,875,730	15,536,797
Audited amount	10,274,452	11,872,265	14,630,153
Coverage %	91%	92%	94%

Source: State Audit Office

573. The report of the State Audit Office aims to assess the completeness and accuracy of the information on the state budget performance that is presented in the government’s report. Unlike in individual financial audits of ministries, this report focuses on identifying systemic deficiencies in the public financial management process and makes appropriate recommendations to address them. The report thus reflects important issues in the areas of medium-term state budget planning, budget preparation and approval, resource management, public debt, program budget, internal control and accounting.

574. The number of audits conducted at the individual ministries at the central level according to the Audit Activity Plan of the State Audit Office for 2019-2021 are shown in Table 30.2. At present there is no legal obligation to audit the consolidated financial statement of the central government which the SAO receives from the Ministry of Finance.

Table 30.2: Number of audits by type

	2019	2020	2021
Financial audit	11	8	8
Compliance audit	11	9	6
Performance audit	15	9	14
Total	37	26	28

Source: State Audit Office

575. The financial statements of all central government budgetary units (including revenue, expenditure, assets and liabilities), as well as the annual report on state budget performance are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years. The audits identify / highlight all relevant material issues and systemic or control risks. The score for this dimension is A.

¹³⁶ Article 31 of the Organic Law of Georgia on the State Audit Office.

¹³⁷ Without transfers to municipalities.

30.2. Submission of Audit Reports to the Legislature

576. *Dimension 30.2 assesses the timeliness of submission of the audit reports in 2019, 2020 and 2021 on budget execution to the legislature, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the executive to the legislature and the public.*

577. Submission of the report of the State Audit Office on the annual performance of the state budget to the Parliament is regulated by the Budget Code.¹³⁸ The Government of Georgia is to submit the annual state budget performance to the State Audit Office within 3 months of the end of the fiscal year. The State Audit Office in turn is to submit the audit report on the annual state budget performance report to the Parliament of Georgia within 50 days of its receipt.¹³⁹

578. The reports for fiscal year 2019-2021 were all submitted in accordance with the regulation. Table 30.3 presents the timetable achieved for the state budget performance report.

Table 30.3: Dates of submission of audit report

	Performance of the 2018 state budget	Performance of the 2019 state budget	Performance of the 2020 state budget
Date of submission of the report to the State Audit Office by the government	29.03.2019	31.03.2020	19.04.2021
Date of submission of the report prepared by the State Audit Office to the Parliament.	20.05.2019	20.05.2020	20.05.2021

Source: Ministry of Finance

579. During the last three completed fiscal years, the State Audit Office submitted the annual report on state budget performance to the legislative body within 3 months of its receipt by the State Audit Office. The score for this dimension is A.

30.3. External Audit Follow-Up

580. *Dimension 30.3 assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity for 2019, 2020 and 2021.*

581. The main function of the State Audit Office, as of the Supreme Audit Institution, is to improve the management of public finances and create value for the citizens. To perform this function, the State Audit Office conducts financial, compliance and performance audits, and issues recommendations to the auditee, which may also be submitted to a superior body of the auditee or to the state body, autonomous republic, or local self-government to which the auditee is accountable.

582. In the process of developing recommendations and monitoring their implementation, the State Audit Office is guided by the International Standards on Supreme Audit Institutions (ISSAIs),¹⁴⁰ international best practices and experiences. According to the Organic Law on the State

¹³⁸ Budget Code of Georgia, Article 55.

¹³⁹ Budget Code of Georgia, Article 57.

¹⁴⁰ INTOSAI-P - 10 – Mexico City Declaration; INTOSAI-P - 12 – The Value and Benefits of Supreme Audit Institutions; ISSAI 100-129 – Fundamental Principles of Audit; ISSAI 200; ISSAI 300; ISSAI 400.

Audit Office,¹⁴¹ within 30 calendar days after the approval of the audit report, the auditee shall submit to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons).

583. The State Audit Office provides constant monitoring of the implementation of the recommendations issued within the audit. In 2018, the service developed the "Guidelines for Development of Recommendations and Implementation Monitoring", which was further updated in 2020. The manual defines the procedure and criteria for developing the recommendation, as well as the procedures for monitoring the implementation process and assigning status to the recommendation. Through the manual, the service ensures high quality of recommendations, uniformity of the process and procedural fluency, transparency of monitoring the implementation of recommendations.

584. The monitoring process is carried out through the electronic system.¹⁴² This monitors the implementation of recommendations in accordance with the procedures defined by the State Audit Office's "Guidelines for the development and implementation of recommendations". The electronic system for monitoring the implementation of recommendations - ARIS ¹⁴³ was developed by the State Audit Service . The system was created in 2019 and it fully transfers the monitoring process to the electronic space, provides proactive communication with audit objects, processes automation and implementation of an effective monitoring mechanism . In particular, the system defines the person responsible for the implementation of each recommendation issued within the scope of the audit (from both the audit object and the audit service). Using the functionality built into the system, the audit facility prepares an action plan for the implementation of the recommendation. The action plan indicates the measures/activities to be carried out by the budget organization with the respective specific target dates. The action plan prepared by the audit object is confirmed by the audit service if it meets all the criteria established by the system. The reporting of information related to the implementation of the recommendation (maximum once in 6 months), with the presentation of relevant supporting documentation, is done through the system. The highest level of management of the auditee ensures effective communication and timely receipt of information on the implementation of recommendations.

585. Based on the evaluation of the information/documentation submitted by the audit object, the State Audit Service recommends the appropriate status.¹⁴⁴ Monitoring is carried out on all recommendations issued by the service. After assessing the status of performance, based on professional judgment, it is possible to plan a follow-up audit.

586. The manual and the introduction of the ARIS system significantly increased the quality of the issued recommendations and improved the monitoring process. The audit service carries out in-depth procedures on the information provided by the audited entity about the implementation of the recommendation and, if necessary, requests additional documentation. Accordingly, the system

¹⁴¹ Article 24 of the Organic Law of Georgia on the State Audit Office.

¹⁴² <https://aris.sao.ge/>

¹⁴³ <https://aris.sao.ge/>

¹⁴⁴ Completed, partially completed, ongoing, incomplete.

ensures a realistic assessment of the current situation and assigning the most accurate status for the recommendation.

587. The number of recommendations issued by the State Audit Service has increased significantly compared to the previous period. In particular, in 2019-2021, the service issued more than 2,500 recommendations (in 2014-2016, about 1,500 recommendations were issued). In addition, along with the increase in the number of efficiency audits (38 efficiency audits were conducted in 2019-2021, while only 15 in 2014-2016) the number of important category recommendations also increased substantially. According to the "Recommendations development and implementation monitoring guide" of the State Audit Service, important recommendations refer to the priority directions of the country and their implementation can have a significant impact on the public finance management system. Failure to comply with such recommendations may increase the risks of fraud, corruption, misappropriation of state property and budgetary resources. It should be noted that the implementation of important recommendations requires more efforts from the budgetary organizations, although the benefits/effects obtained from their implementation are much higher.

588. The average rate of implementation of the recommendations issued in 2019-2021 is 54%. It should be taken into account that more than a third of the recommendations are newly issued (in 2021) and the planned date for their final implementation by the organizations has not yet been set. Therefore, in the current situation, the rate of implementation of the recommendations issued in the past years is much higher than that of the recommendations issued in 2020-2021, the status of most of which is "current." It is also worth noting the effect of the pandemic, which in 2020-2021 had a significant impact on the trend of implementation of the recommendations.

Table 30.4 SAO Recommendations

	2019	2020	2021
Number of recommendations	839	592	1,140
Implementation rate of recommendations %	78%	59%	25%

Source: State Audit Office

589. In order to inform the Parliament and the public about the state of implementation of the recommendations, a separate sub-chapter is devoted to the reporting of the state of implementation of the recommendations in the annual activity report of the service. In addition, the service annually prepares a separate detailed report on the implementation of recommendations, which is submitted to the Parliament of Georgia.

590. There is an effective system for monitoring and follow up of recommendations. According to the Organic Law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided to the Parliament and the public through the annual reports on the

activities of the SAO and the implementation of the recommendations. The score of this dimension is A.

30.4. Supreme Audit Institution Independence

591. *Dimension 30.4 assesses at the time of assessment the independence of the SAI from the executive. Independence is essential for an effective and credible system of financial accountability, and should be laid down in the constitution or comparable legal framework.*

592. The State Audit Office is independent as stipulated under Article 69 (3) of the Constitution of Georgia. The authority, structure, rules of activity and organization of the SAO are defined by the Organic Law of Georgia on the State Audit Service, which sets out all the principles of independence of the Supreme Audit Institution. As a result, the State Audit Office has operational, financial, functional and organizational independence.¹⁴⁵ In addition, the independence of the Audit Office is ensured in terms of designing an annual audit action plan,¹⁴⁶ setting audit deadlines, publishing the results of the activities of the State Audit Office,¹⁴⁷ appointment / dismissal of the Auditor General. Administrative autonomy¹⁴⁸ of the Audit Office is also ensured in terms of freedom of organization and management of the SAO. The submission of the budget of the State Audit Office for the upcoming year to the Government of Georgia shall be ensured by the Parliament of Georgia and it may not be less than the corresponding volume of the previous year.¹⁴⁹

593. The Auditor General is appointed for a term of 5 years by Parliament after being nominated by the Chairperson of the Parliament. The Auditor General may be removed through impeachment by the Parliament (in accordance with Article 48 of the Constitution of Georgia).¹⁵⁰ In addition, the SAO has the right to appeal directly to the Constitutional Court of Georgia.¹⁵¹

594. The State Audit Office is mandated to conduct financial, compliance and performance audits. The audit authority of the State Audit Office, within the scope of its powers, shall extend to the legislative, executive and judiciary branches of government, legal entities under public law, local self-government bodies, the National Bank of Georgia, enterprises in which 50 per cent or more shares are owned by the state, by the autonomous republics and/or by local self-government unit, also to other legal or natural persons, organizations and institutions.¹⁵²

595. Auditees shall submit complete information and/or documents within the time frames and in the manner determined by the State Audit Office.¹⁵³

596. The financial audit of the State Audit Office¹⁵⁴ is carried out by one of the four largest private audit companies in the world. The SAO received an unconditional report as part of a financial audit conducted by Deloitte in 2019-2020 and by PwC in 2021.

¹⁴⁵ Organic Law of Georgia on the State Audit Office, Article 3 (3).

¹⁴⁶ Organic Law of Georgia on the State Audit Office, Article 17 (3).

¹⁴⁷ Organic Law of Georgia on the State Audit Office, Article 25.

¹⁴⁸ Organic Law of Georgia on the State Audit Office, Article 10 and Article 32.

¹⁴⁹ Organic Law of Georgia on the State Audit Office, Article 34.

¹⁵⁰ Organic Law of Georgia on the State Audit Office, Article 9 and Article 11.

¹⁵¹ Constitution of Georgia, Article 60 (4).

¹⁵² Organic Law of Georgia on the State Audit Office, Article 17.

¹⁵³ Organic Law of Georgia on the State Audit Office, Article 23.

597. The State Audit Office is independent from the executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO’s budget. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the State Audit Office is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The State Audit Office has the right to appeal directly to the Constitutional Court of Georgia. The score for this dimension is A.

PI-31. Legislative Scrutiny of Audit Reports

598. PI-31 focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has four dimensions and uses the M2 (AV) method for aggregating dimension scores. It covers 2019, 2020 and 2021.

Indicator/Dimension	2022 Score	2018 Score	Brief justification for score
PI-31 Legislative scrutiny of audit reports	A	A	
31.1 Timing of audit report scrutiny	A	B	The Audit Group under the Budget and Finance Committee scrutinized the audited budget execution report annually. It reported to a plenary parliamentary session within 3 months of receipt of the reports from the State Audit Office
31.2 Hearings on audit findings	A	A	All audit reports that have a qualified or adverse or disclaimer audit opinion are subject to in-depth hearings and are attended by responsible officers as appropriate.
31.3 Recommendations on audit by legislature	A	A	There is systematic follow up of recommendation issued on actions which endorses the position of the SAO.
31.4 Transparency of legislative scrutiny on audit reports	A	A	All hearings are conducted in public. The budget execution reports and qualified audit reports are debated in the full chamber. All reports are published.

¹⁵⁴ Organic Law of Georgia on the State Audit Office, Article 35.

31.1. Timing of Audit Report Scrutiny

599. *Dimension 31.1 assesses the timeliness of the legislature’s scrutiny, which is a key factor in the effectiveness of the accountability function.*

600. The Permanent Audit Group reviewing the reports of the State Audit Office conducts its activities within the framework of the powers defined by the Constitution of Georgia, the Rules of Procedure of the Parliament, other legislative acts, the Statute of the Committee and the Statute of the Audit Group.

601. The Audit Group is a group established under the Budget and Finance Committee of the Parliament of Georgia to ensure the control function of the management of public funds by the Parliament through the State Audit Office.

602. Pursuant to paragraphs 6 and 7 of Article 165 of the Rules of Procedure of the Parliament, a permanent audit group is established with the Finance and Budget Committee to review the reports of the State Audit Office. Following the recognition of the powers of the Parliament of the X Convocation, based on the decision of the Finance and Budget Committee of December 22, 2020, a new audit working group was set up from among the members of the same committee. The working group currently has 7 members, including 2 from the Parliamentary opposition.

603. According to the Rules of Procedure of the Parliament of Georgia, the activities of the Audit Group include the review of the reports¹⁵⁵ submitted to the Parliament of Georgia by the State Audit Office. The Audit Group reviews audit reports prepared at the central level and submits the relevant draft recommendations to the Finance and Budget Committee of the Parliament of Georgia, which approves the recommendations and submits them to the Auditee for implementation.

Table 31.1: Report of the State Audit Service on the annual performance of the state budget

	2019	2020	2021
The date of submission of the report to the Parliament by the State Audit Service	20.05.2019	20.05.2020	20.05.21
Date of approval of the report considered by the Parliament	27.06.2019	24.06.2020	26.07.2020

604. In addition to the annual budget execution report, twenty-three financial audits reports were submitted to the Parliament by the State Audit Office in 2019-2021. The meetings of the Audit Group and the Finance and Budget Committee of the Parliament are held periodically with many reports considered together given the Parliamentary timetable. Financial audit reports submitted to the Parliament in 2019-2021 are reviewed in compliance with the 6-month period from the date of their receipt and discussed at the meeting of the Audit Group as shown in Table 31.2.

¹⁵⁵ The report types are related to financial, compliance and effectiveness audits. The annex provides details which demonstrate the extent of the related work by the Audit Group.

Table 31.2 Financial Audit Reports Submitted and Scrutinized

Fiscal year	2019	2020	2021
Total financial statement audit reports for central government budgetary units plus compliance and performance audits by the SAO.	8	7	8
Scrutinized by Parliament	8	7	8
Percentage of scrutinized audit reports	100%	100%	100%
Average timing of scrutiny of audit reports from time of receipt by Parliament.	4 months	4 months	3.5 months

605. The Audit Group under the Budget and Finance Committee scrutinized the audited budget execution report annually. It reported to a plenary parliamentary session within 3 months of receipt of the reports from the State Audit Office. The score for this dimension is A.

31.2. Hearing on Audit Findings

606. *Dimension 31.2 assesses the extent to which hearings on key findings of the SAO take place.*

607. Hearings on audit reports are held where a qualified or adverse or disclaimer audit opinion is issued by the SAO. All meetings of the Audit Group are attended by members of the Standing Audit Group, Deputy Auditor General and responsible officials of the State Audit Office, as well relevant Deputy Ministers and other responsible officials of the Auditees. Members of the relevant committees of the reviewed reports are invited to and attend the meeting. The meetings are also attended by interested members of parliament, employees of the committee and other stakeholders of the community.

608. In the "in-depth-hearing" session of the audit group, representatives of the State Audit Service involved in the audit presented the findings and recommendations revealed within the scope of the audit to the participants of the session. The audit objects recorded relevant explanations regarding the revealed findings, as well as presented information about the deadlines for the implementation of the recommendations and the measures to be taken. The members of the audit team and all the interested persons participating in the sessions had the opportunity to discuss, ask questions and state their positions.

609. Table 31.3 shows that all reports where a qualified or adverse or disclaimer audit opinion is issued by the SAO have been subjected to the scrutiny process.

Table 31.3 Scrutiny of audit reports with qualified opinion

Fiscal year	2019	2020	2021
Number of audit reports with a qualified or adverse or disclaimer audit opinion	8	7	8
Scrutinized by Parliament	8	7	8

Source: State Audit Office

610. All audit reports that have a qualified or adverse or disclaimer audit opinion are subject to in-depth hearings and are attended by responsible officers as appropriate. The score for this dimension is A.

31.3. Recommendations on Audit by the Legislature

611. *Dimension 31.3 assesses the extent to which the legislature issues recommendations and follows up on their implementation.*

612. The recommendations of the SAO (see PI-30.3) are supported by Parliament which does not issue additional recommendations.

613. The Audit Group is constantly monitoring the follow-up of the recommendations issued. For the current period, all the agencies to which the recommendations have been submitted are required to provide written information to the Parliament of Georgia on the follow-up of the issued recommendations. According to the information provided, most of the recommendations have been followed-up or are in the process of implementation by state agencies.

614. In exceptional cases where the recommendations approved by the committee are not followed-up, the Audit Group, shall, for monitoring purposes, invite the relevant agencies to a meeting and consider the unfulfilled recommendations. The Parliament of Georgia, in accordance with the current legislation, has significant leverage to monitor the implementation of recommendations. The Parliamentary Resolution may reflect the recommendations developed by the Audit Group of the Finance and Budget Committee and adopted by the decision of the committee, which indicates the deadlines for their implementation. The Finance and Budget Committee of the Parliament oversees the implementation of this resolution through the Audit Group and, if necessary, submits information on the enforcement to the Parliamentary Bureau. According to the decision of the Parliamentary Bureau, this information can be submitted to the plenary session of the Parliament and become the subject of its discussion.

615. There is systematic follow up of recommendations issued on actions which endorses the position of the SAO. The score of this dimension is A.

31.4. Transparency of Legislative Scrutiny of Audit Reports

616. *Dimension 31.4 assesses the transparency of the scrutiny function in terms of public access.*

617. Meetings are convened by the Audit Group in full compliance with the requirements set out in the Rules of Procedure of the Parliament and the Statute of the Audit Group. Also, under the Economic Governance and Fiscal Accountability program, the Audit Group conducted its activities in a public and transparent manner. In particular, 3 days before a meeting of the Audit Group, information on the venue, time and agenda of the meeting was publicly announced on the website of the Parliament of Georgia. In addition, the Audit Group meetings are broadcast live and are publicly available to interested parties.

618. The Finance and Budget committee of the Parliament provides its reports to the full chamber of Parliament and its reports are published on Parliament's official website. The website links to the hearings of the Annual Budget Performance Reports for fiscal years 2019-2021 are below:

- FY 2019 Budget Performance Report: <https://info.parliament.ge/#law-drafting/20394>
- FY 2020 Budget Performance Report: <https://info.parliament.ge/#law-drafting/22075>
- FY 2021 Budget Performance Report: <https://info.parliament.ge/#law-drafting/20989>

619. All hearings are conducted in public. The budget execution reports and qualified audit reports are debated in the full chamber. All reports are published. The score for this dimension is A.

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment across the performance indicators

Budget Reliability

620. The challenges in producing accurate revenue projections have been challenged in recent years due to the COVID-19 pandemic, as demonstrated by the scores which indicated that actual revenue deviated from projections. The actuals in 2020 were 93.4% of projections but in 2021 were 114.1% which indicated the difficulty of making accurate forecasts during those years. The pre-pandemic actual was close to the forecast at 101.7%. As a result of these deviations the overall score was C. The composition scored B which indicates the deviations from forecasts was relatively evenly spread. As a result, the aggregate expenditure side of the budget also scored C, but the expenditure composition both by function (score B) and by economic type (score B) reflecting the efforts of the government in making the adjustments relatively evenly across the budgets categories. This overall result has been achieved in the context of strengths in virement (score A) and the existence of supplementary budgets (score A) which reflects the strong budget process. These additional strengths have been reflected in composition scores. The process of controlling budget allocations to match the availability of cash has been supported by good cash forecasting processes (score A) with budgetary units having certainty in the availability of funds to execute their budgets as planned within the limitations imposed by the vicissitudes of the COVID-19 pandemic (score A). There has also been a COVID-19 impact on procurement given that health supplies have often had to bypass competitive tendering which may have increased costs.

621. The stock of arrears is negligible (score A) and is capable of being monitored daily. Commitment control is strong which ensures that a buildup of arrears does not become an issue in Georgia.

Transparency of Public Finances

622. Georgia has an impressive array of information regarding the finances of the budgetary central government. The budget classification which underpins budget preparation, execution and reporting, is comprehensive and consistent with government finance statistics standards (score A). The transfers to sub-national government are transparently determined for both capital and current transfers. However the introduction of a transfer system based on VAT was stymied due to a COVID-19 related reduction in VAT receipts that necessitated emergency transfers. This reduced the score relating to the system for allocating transfers to B. Information is included in the budget on a timely basis. As a result, the budget documents include all of the basic, and most of the supplementary information, required to support a transparent budget process (score A). Completing the work on tax expenditures and presenting information on financial assets in the budget documentation will complete the full list of the required elements.

623. There is complete data regarding operations for public bodies as these are included in the budget information technology system and documentation. Taken together with estimates of revenue and expenditure for spending units and their supported agencies, the whole of government is included in the

budget documents. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is very good (score A).

624. Public access to fiscal information is strong (score A) with all required elements made available.

Management of Assets and Liabilities

625. A comprehensive and inclusive process has been introduced in recent years in managing the public investment program. These processes are operational and all dimensions scored A. Reporting of risks associated with public corporations (score C), and local government authorities (score C) and would benefit from more timely audits in the case of public corporations and audits of local authorities. Nonetheless unaudited financial statements are timely after the end of the preceding financial year. There is a report on contingent liabilities and other fiscal risks and the coverage has been widened (score A). All aspects of debt management score A, with the debt management strategy updated annually and approved. As a result there is a strong focus on managing debt.

Policy-based Fiscal Strategy and Budgeting

626. Good progress has been maintained in having a comprehensive medium-term expenditure framework based on a program budgeting for results approach. There is an effective budget calendar (score A) which provides budgetary units adequate time to prepare their budgets as well as the legislature to carry out its scrutiny function. A medium-term approach is taken to expenditure budgeting, with baseline multi-year ceilings based on the forward estimates of the most recently approved prior budget. The budget is presented for the up-coming year and the following two fiscal years (score A) with a focus on determining medium term ceiling aligned to strategic plans and medium-term budgets (score A). Difference from previous fiscal forecasts (score A) and explaining any changes from previous expenditure estimates (score A) are included on the budget documentation. Improvements in fiscal strategy are reflected in the estimates of the fiscal impact of policy changes in revenue and expenditure (score D as this was not done in 2019 but has since been implemented) and adoption of the fiscal strategy scores A as does reporting on fiscal outcomes.

Predictability and Control in Budget Execution

627. Revenue administration is very strong, but the stock of arrears (score D) in particular is a constraint where historical arrears remain significant. The taxation system is based on comprehensive legislation providing information on the tax liabilities of taxpayers. This is supported by information leaflets that can be accessed on-line and at departmental offices, as well as media broadcasts, training and awareness events. The appeals mechanisms are clearly defined by law, with a second tier tax tribunal in place with recourse to the courts (score A). The GRS has adopted a risk-based approach to administering revenues and this is backed up with legally codified penalties and fines. It stratifies taxpayers based on turnover and links it to other systems such as procurement. The tax audit program covers all taxes and comprises both desk and field audits based on an audit plan which is implemented (score A) with resultant tax yield measured.

628. Revenue collected is well managed in terms of the flow of funds to the Treasury and recording of transactions. All revenues are transferred from the receiving commercial banks daily to the Treasury account (Score A) within penalties imposed if not fulfilled. All accounts are reconciled on a timely

basis (score A) as all taxpayers have their own electronic account. GRS can monitor revenues in real time. GRS reconciles payments to the TSA and this is carried out on the 15th of each month (score A). A revenue report is prepared monthly for management purposes (score A).

629. The Treasury, based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made on a daily basis and published on the Treasury website (score A). A cash flow forecast is prepared annually for the year to come and broken-down month by month. It is updated at least monthly on the basis of actual inflows and outflows. In addition, each month, the Treasury prepares a projection of daily cash flow for the month to come (score A). Budgetary units are able to plan and commit expenditure for one year in advance on the basis of quarterly ceilings, in accordance with the budgeted appropriations and commitment releases. Management of budget releases has been successful in controlling arrears (score A) and these are able to be monitored in real time (score A).

630. All elements of the payroll system score an A. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts using a Green Corridor (automatic payment system). Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. Personnel records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. Changes to the payroll records, are restricted to authorized persons in the budgetary units. The changes are certified by an authorized person and approved by the head of the unit. There is a strong system of annual payroll audits conducted by the State Audit Office that exposes any control weaknesses and accountability issues.

631. All government contracts are procured through the E-Government Procurement System (Ge-GP). Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services, and works (score A). Seventy-two per cent of the value of contracts in 2021 was procured through competitive procurement methods which reflect the impact of COVID-19 in emergency health procurement. However the decline in this percentage over the years also reflects the constant low threshold which has been lowered by inflation and exchange rate changes (score B). All the key procurement information is made available to the public (score A). The appeals process has been made wholly independent as a result on the implementation of legislation with a new resolution process in place (score A).

632. Internal controls on non-salary expenditure scores an A in all dimensions with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. This achievement is ensured by the established PFMIS. The internal audit function has been further strengthened (score A) with the process of harmonizing systems and processes amongst all budgetary units. Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls with performance and system audit being rolled out across ministries. The focus is on high risk areas. Internal audit activities are guided by the internal audit methodology and system audit manual/instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors (score A). There is a comprehensive follow up on recommendations made

in all internal audit reports which is summarized in an annual internal audit report. All the entities produce an annual report. (Score A).

Accounting and Reporting

633. Accounts reconciliation and financial data integrity are areas of strengths. The bank reconciliation for all active central government bank accounts takes place on a daily basis through the RTGS (score A). There are no longer any suspense accounts. Advances are reconciled in a timely manner (score A). Data integrity is very good (score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

634. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all central government budget estimates for the budgetary units. Expenditure made from transfers to extrabudgetary units are included in the report mainly because of the integration between e-Budget and e-Treasury systems that contains the accountability of these related expenditures (score A). The Treasury prepares a consolidated monthly budget performance report within 20 days after the end of the month, which is published on its website. Consolidated budget execution reports are also prepared quarterly and issued to Parliament as well as published within four weeks from the end of the quarter (score B). There are no material concerns regarding data accuracy. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system (score A).

635. The situation with respect to the annual financial reports is mixed (overall score of C+). The consolidated budget execution report for central government budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements generally contain full information on revenue, expenditure, financial and nonfinancial assets, liabilities, guarantees and long-term obligations. They are supported by a reconciled cash flow statement (score A). The financial statements of central government budgetary units are audited by the State Audit Office and are submitted for audit within 7 months. The state's annual financial statements are not yet required to be externally audited though they are submitted within 7 months. The annual execution report for state budget is submitted for audit within 3 months but does not have the content required of a financial statement (score C). IPSAS is the disclosed accounting standards applied to all budgetary units' financial reports in line with the instructions on the accounting and financial statements of budgetary organizations. Currently, 24 of IPSAS standards are applied representing 73% of all valid relevant standards (score B).

External Scrutiny and Audit

636. External audit is an area of significant strength (score A). Legislative scrutiny of these accounts are also considered to be following good international practice (score A). The financial statements of all central government budgetary units include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions. The audits highlighted relevant material issues and systemic and control risks (score A). During the last three completed fiscal years, the State Audit Office submitted the annual report on the state budget Performance to the legislative body within 3 months after receipt of the report from the Ministry of Finance (score A). Audit recommendations for budgetary units are followed up and monitored using a new electronic monitoring system and annually reported on by the State Audit Office in their report to Parliament on the annual

execution of the state budget (score A). The independence of the SAO is assured by the Constitution of Georgia and the Law of Georgia on State Audit Office (score A).

637. Transparency of legislative scrutiny of audit reports is high (score A). The timing of audit report scrutiny, hearing of audit findings and follow up of audit recommendations issued by Parliament all score A.

4.2 Effectiveness of the internal control framework

638. An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the control objectives. The objectives of the internal control framework are: a budget executed in an orderly, ethical, economical, efficient and effective manner; accountability for results; compliance with applicable laws and regulations; and safeguarding of resources against loss, misuse and damage.

639. The effectiveness of the internal control framework in the government ministries and their agencies is scrutinized by the Ministry of Finance and State Audit Office. The Central Harmonization Unit in the Ministry of Finance annually collects, consolidates and analyzes the information based on the annual reports prepared by various Internal Audit Units that cover some 97% expenditure and all revenue. Under financial and compliance audits, the State Audit Office identifies/tests and evaluates the existence/functionality of the internal controls applied for the public expenditures, including salary and non-salary expenses. In order to understand the process and to have assurance that the entity has strong internal controls aimed to eliminate the risks of fraud, error or corruption, the State Audit Office evaluates the managerial internal control system, performs tests on the types of expenditures and tests if the key controls are in place. Also, the State Audit Office evaluates the clear delimitation and segregation of duties existent in the spending units. This assessment guides the application of substantive testing.

640. The internal control environment, as set out in Annex 2, is generally sound with respect to 1 Control Environment, 2 Risk Assessment, 3 Control Activities, 4 Information and Communication and 5 Monitoring . The PEFA scores in related indicators and dimensions relating to these 5 components reinforce the notion that controls associated with the day-to-day transaction of the budgetary central government are functioning and result in good data integrity regarding the activities of these entities. The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes. The system embeds access controls and audit trails that support the internal control framework.

641. The current compliance based approach supports continuous improvement in the control environment given the strengths in commitment controls and associated compliance with rules and procedures. The risk based approach supports a strong internal and external audit and oversight function. Risk assessment is an important part of the control framework that applies to both external and internal audit and analysis. Similarly, certain activities, such as advances, and payroll, receive a level of attention in the ex-ante control process. Control activities are generally strong, in particular with regard to segregation of duties and reconciliation of accounts. Budget rules for supplementary estimates and virement have been met even during the COVID-19 pandemic.

642. In addition to these controls on financial transactions, the budget execution reporting system provides information on performance relating to service delivery, which enhances the overall control environment. In addition, the State Audit Office conducts financial, compliance and performance audits, and makes recommendations on service delivery performance.

643. Information and communication of internal control awareness is continuously promoted through targeted and cross-cutting training. Monitoring is strong through the processes of internal and external audit, with strong follow-up embedded in the system. Internal and external auditors have made considerable contributions to assessment of the internal control systems at the central level through their individual engagement and annual reporting. The management response to the internal audit recommendations in the assessed period shows good performance. Parliamentary scrutiny of external audit reports provides support for the monitoring process.

644. Budget execution reporting system that provides information on performance relating to service delivery is very good. While internal and external audits are mainly financial and compliance focused, there is a significant expansion of the auditing process to performance audits and these provide independent evaluation and make recommendations on service delivery performance.

4.3 Strengths and weaknesses of PFM

645. An overriding feature of PFM during the assessment period covering the years 2019 to 2021 has been the maintenance and development of processes in Georgia in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services, and procurement. This has been achieved despite the impact of the COVID-19 pandemic on the country. This achievement has continued the application of the IT which was developed in-country based on business processes in each of the subject areas (redefined as necessary) and not on the reconfiguration of business practices to suit particular software. This adoption of IT solutions combined with the internet as a vehicle for its implementation by competent and trained personnel (with appropriate control) has been fundamental to the development of strengths in PFM. The continued integration and roll out of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency.

Aggregate Fiscal Discipline

646. Aggregate fiscal discipline has been impacted by the pandemic. Both revenue and expenditures forecasts have been not realized, downwards for revenue in 2020 and upwards in 2021, as the unpredictability of the pandemic on the economy was addressed in the public finances. Nevertheless control over spending during budget execution was maintained. Strong revenue administration ensured that revenues were efficiently collected. Given the need of flexibility in budget execution and that both virement and supplementary budgets were used, the rules and procedures relating to these processes were not circumvented. Treasury operations and cash management enabled expenditures to be managed within the available resources. Control of contractual commitments was effective and limited expenditure arrears. The strong internal and external audit function enhanced fiscal discipline.

647. The Georgian public financial management system includes clear rules and procedures for budget modification and flexibility in execution to meet national needs, and these proved their worth during the COVID pandemic and economic downturn. Georgia used its formal processes to amend the

budget and used formal virement processes to adjust spending to address the pandemic and economic priorities while maintaining fiscal control. Policy officials had in-year data to manage spending, and the Ministry of Finance had the necessary instruments to assure fiscal discipline within government-approved spending parameters.

Strategic Allocation of Resources

648. The Chart of Accounts caters to a multi-dimensional analysis of expenditure. There is a strong link between the medium-term perspective in expenditure budgeting and strategic plans in the program budget approach to achieving results that is consistent with a strategic allocation of resources. There is an emphasis on the overall fiscal framework which has been improved by analysis and reporting of changes in circumstances relating to fiscal strategy and implications of policy changes. The management of investments that were implemented has affected the strategic allocation of resources. Recurrent cost implication of investment is factored into the budget process and investments are also selected to generate the best return. Monitoring of the implementation of projects has ensured that what was planned is being delivered.

649. Overall, Georgia has developed the key tools for strategic allocation of resources by elected officials (fiscal strategy, functional and programmatic budget classification, regular in-year reports on expenditure according to policy priorities, regularized budget amendments and virement procedures), covering both tools for planning and tools for monitoring implementation and controlling to plan. Budget performance has been in alignment with plans, even considering the disruption of COVID. The past three years have been a challenge to fiscal management which tested the Georgian PFM system; the system performed as intended.

Efficient Use of Resources for Service Delivery

650. The previous weaknesses in competitive bidding in the procurement system with respect to the appeals and dispute process has been addressed which has positive implications for efficiency in service delivery. Although there has been a reduction in competitive bidding, this was as a result of health related expenditures in the main and ensuring a response to needs from COVID-19. Indeed, that the pandemic urgencies necessitated using other procurement methods is a positive response feature of the system. Getting urgent goods to address urgent social needs demonstrates that the current Georgian system is working properly. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The continued lack of audit of consolidated annual financial statements limit the impact of external audits which in turn limits the effectiveness of oversight. This is offset by the audit of individual ministerial financial statements and by the strength of the audited annual budget execution reports which includes information on the realization of annual targets for outputs and objectives. Publishing of performance targets and outcomes also supports the efficient use of resources in service delivery units. On the revenue side, operational efficiency continues to be compromised by the accumulation of tax arrears. Lack of effective tax debt collection undermines credibility of tax assessments and the principle of equal treatment of taxpayers. GRSs have established a structural debt management unit to address uncollectable arrears. The output would afford the opportunity to clean up tax arrears and make them current.

4.4 Performance changes since previous assessment

651. Both the 2018 and this PEFA assessment were performed using the 2016 methodology. Annex 1 provides a summary of both sets of scores as well as changes in scores. Across the 94 individual dimensions compared, there has been an improvement in 21 dimensions, deterioration in 7 and no change in the score in 66 dimensions. This overall improvement in scoring occurred over a relatively high baseline achieved in 2018.

652. A comparison of the assessments indicates that the following dimensions deteriorated.

Fiscal Discipline

- Aggregate expenditure outturn
- Expenditure composition outturn by function
- Expenditure composition outturn by economic type
- Aggregate revenue outturn
- Procurement methods

Strategic Allocation of Resources

- System for allocating transfers
- Monitoring of Public Corporations

653. Apart from the monitoring of public corporations, the deterioration can be explained by the impact of COVID-19 and the government's response to it. In the case of the monitoring of public corporations, it is likely that the score in the previous assessment should have been the same as the current assessment.

654. An improvement in scores occurred in the following areas:

Fiscal Discipline

- Contingent liabilities and other fiscal risks
- Transparency of assets disposal
- Investment project monitoring
- Debt management strategy
- Fiscal forecasts
- Fiscal strategy adoption
- Reporting on fiscal outcomes
- Consistency of budgets with previous year's estimates
- Expenditure arrears monitoring

Strategic Allocation of Resources

- Budget documentation
- Economic analysis of investment proposals
- Investment project selection
- Investment project costing
- Procurement complaints management

Efficient use of Resources for Service Delivery

- Nature of internal audits and standards applied
- Submission of reports for external audits

- Accounting standards
- External audit follow-up
- Timing of audit report scrutiny
- Hearing of audit findings
- Recommendations on audit by legislature

655. These improvements can be attributed to continued strong management of the PFM reform program in Georgia.

5. Government PFM reform process

5.1 Approach to PFM reforms

655. The history of the initial PFM reform process in Georgia is well documented in the publication Public Finance Management Reform in Georgia¹⁵⁶ and the Public Finance of Georgia Management Reform Strategy 2014-2017. These reforms have centered on the introduction and implementation of program and performance budgeting with the associated accounting and reporting requirements through the use of information technology. The former of these reports notes that since 2007 impressive progress has been made and many innovative components have been developed at the GRS. Important reforms were implemented at the Treasury. The Treasury Single Account was extended, which now includes local governments and all public entities. In addition, the web based PFMS was launched, which is one of the achievements of the PFM reforms in the country, as it was mainly developed in-house. Over the last 10 years the State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial and compliance audit in line with international best practice. The legal and methodological basis for internal audit and control has been established and is being rolled out throughout the government. The Academy of the Ministry of Finance has been developed into the key provider of training related to the PFM reforms and initiatives. Reform includes new approaches in the instruments and practices of Parliamentary scrutiny of the PFM system. Importance of independent fiscal institutions and the role of the Budget Office of Parliament is also understood and remains in the agenda of the PFM reform.

656. PFM reform in Georgia has delivered and continues to deliver tangible results, such as good progress in ensuring transparency of public finance in line with international standards, fiscal discipline and fiscal rules, sound program based budgeting system for all levels of the general government, strengthened inter-governmental fiscal relations, a well-structured and fully integrated in-house developed electronic system (ePFMS) for budgeting, Treasury and other related areas, and an impressive tax policy reform and sound tools for macroeconomic and fiscal analysis.

657. In recent years, the Ministry of Finance has developed the capabilities to assess the aggregated fiscal risk enterprises and has thereby improved its financial oversight of the public sector.

¹⁵⁶ This publication has been produced with the assistance of the European Union. Its contents are the sole responsibility of Louis Berger in association with PMCG, SAFEGE and BDO and can in no way be taken to reflect the views of the European Union. [Georgia PFM reform](#)

658. While the PFM reform agenda has been government driven and led, it has benefited from technical assistance from the EU as well as the World Bank and IMF for the whole of the reform period.

5.2 Recent and on-going reform actions

659. The third PEFA assessment, published in 2018 (conducted in 2017), showed huge improvements in scores in PFM reflecting the achievements at the time of the assessment. It was used to draft the Public Financial Management Reform Strategy of 2018 – 2021. An overriding feature identified in the 2018 assessment was the development and good use of information technology (IT) in budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue services and procurement. However despite these positive features there were still areas for improvement.

660. The Public Sector Financial Management Reform Action Plan 2018 to 2021 sets out a costed plan with targeted results. It also reflects the continued nature of the reform agenda building upon achievements from previous reform activities across the broad spectrum of the PFM agenda. The components of the Action Plan are set out in summary form in Annex 4. The areas where continued reforms were planned all had a timeline, performance indicators and a costed implementation plan.

661. Nevertheless due to the COVID-19 pandemic, a number of planned reforms were delayed, or cancelled. Due to the state of emergency active in the country from March 21, 2020 to May 22, 2020, a number of economic activities have been limited, as priority was placed on the expenditures for healthcare and business support. However, there are a number of reform initiatives that did make progress. As an example, as a result of the 2018 PEFA findings, the reform achievements in Public Procurement have been significant. Although the reform in this sector had been evolving steadily, the law on state procurement recently was modified considerably and made compatible with EU legislation and international good practice. Significant changes have been made with respect to the procurement complains procedures since the 2018 PEFA highlighted a weakness. Other areas include increased finance management support for some municipalities, development of a primary dealers pilot program regulation framework, SOE fiscal risk analysis and database, and the creation of a register of private and public partnerships.

662. These overall PFM reform achievements have also been recognized in the results of the Open Budget Survey 2021¹⁵⁷ published by the International Budget Partnership. In that survey, Georgia ranked first among 120 countries in the world. In the previous two evaluations in 2017 and 2019, Georgia took 5th place among 117 countries in the group of completely transparent countries. The past and ongoing public finance management reform in Georgia has been stated as the catalyst for this achievement. The results of the measures enacted and carried out have been central to this achievement with the results of 2021 emanating from the measures taken within the framework of the public finance management reform. The OBI report specifies such things as the improvement of medium-term planning, the introduction of a program budget, increasing the comprehensiveness of reporting, the introduction and improvement of electronic systems of public finance management, the

¹⁵⁷ <https://internationalbudget.org/open-budget-survey/rankings>

publication and publicity of budget documentation, and the preparation of citizen's guides and development of citizen engagement mechanisms.

663. All of the above indicates the ongoing commitment to reform in terms of its continuation and deepening across the whole range of the PFM cycle building on achievements and success to date. Reform is seen as an ongoing rather than a one-off activity. The 2022 PEFA assessment is to be used as the basis of an updated PFM Action Plan for the near future.

5.3 Institutional considerations

664. The PFM reform program has been implemented by successive governments and its institutions. The Ministry of Finance and its many implementing departments – budget, treasury, accounts, debt, internal audit and revenue has been the driving and coordinating force behind overall reform showing considerable leadership irrespective of which political party is leading the Government of Georgia. State Audit, the Procurement Agency as well as the Parliament have also actively participated in the reform process.

665. The overall aim of the reforms has been the desire to meet international best practice in each of subject areas with the aim of meeting international obligations and treaties. The building block of electronic processes (e-government) has ensured that there are linkages between all the different actors to provide information and control. The reform process is transparent fulfilling a desire for Georgia to be modern and viable state and its longevity has ensured its sustainability. This sustainability has been evidenced by the improvements in PEFA scores over time and the use of PEFA assessments as the building block for reform which provides a measurable benchmark for improvement.

Annex 1: Performance indicator summary

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
PI-1 Aggregate expenditure outturn	A		C		
1.1 Aggregate expenditure outturn	A	In all 3 years the deviation was less than 5 percent (1.2% 0.3% and 1.2%)	C	The expenditure outturn (current and capital) compared to the original budget was 103.7% in 2019, 113.7% in 2020 and 110.3% in 2021.	A significant increase in the actual compared to the budget in 2020 and 2021 was caused by the outbreak of COVID-19 worldwide in late 2019, which significantly changed the global and national economies. The deviation in these two years was different from that of 2019 which was similar to earlier years.
PI-2 Expenditure composition outturn	A		B+		
2.1 Expenditure composition outturn by function	A	In all 3 years the deviation was less than 5 percent (2.9% 2.53% and 1.9%)	B	The deviation in the expenditure composition outturn by functional classification was 5.6% in 2019 and 9.5% in 2021 but 13.7% in 2020.	The results have been affected by COVID-19
2.2 Expenditure composition outturn by economic type	A	In all 3 years the deviation was less than 5 percent (3.1% 4.0% and 3.8%)	B	The deviation in the expenditure composition outturn by economic classification was 6.2% in 2019 and 5.3% in 2021 but 12.6% in 2020.	The results have been affected by COVID-19
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency fund vote 1.5% in 2014, 1.7% in 2015 and 1.9% in 2016 and cannot exceed 2% of the budget by law.	A	Actual expenditure allocated from the contingency funds averaged 0.4% in the assessment period.	
PI-3 Revenue outturn	B+		C+		
3.1 Aggregate revenue outturn	A	Aggregate deviation was between 97 and 106 percent (less than 102 percent in each	C	Aggregate deviation was between 92% and 116% in two of the three years. 101.7% in	The results have been affected by COVID-19

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		year)		2019, 93.4% in 2020, 114.1% in 2021.	
3.2 Revenue composition outturn	B	Variance in revenue collection was less than 10 per cent in two of the three years (5.5%, 5.0%, and 13.3%.	B	Variance in revenue collection was less than 10% in two of the three fiscal years. 6.7% in 2019, 11.7% in 2020 and 5.9% in 2021.	
PI-4 Budget classification	A		A		
4.1 Budget classification	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification substitutes to the GFS administrative classification and provides, at least, the same level of detail.	A	Budget formulation, execution, and reporting are based on every level of economic and functional classification (10 functions) using GFS/COFOG standards. Program classification is derived from the administrative classification in Georgia.	Further improvements have been made. A separate chapter for state institutions and sectors was added to the budget classification, covering all state institutions and all non-market non-profit institutions controlled by state entities.
PI-5 Budget documentation	B		A		
5.1 Budget documentation	B	Budget documentation fulfills nine elements, including the four basic elements and five additional elements.	A	10 out of 12 applicable elements (four basic and six additional elements) are fulfilled.	The BDD reflects the fiscal impact of the new policy directions in the medium term. Work on evaluating for Evaluating Tax Expenditures within VAT for 2020.
PI-6 Central government operations outside financial reports	A		A		
6.1 Expenditure outside financial reports	A	All expenditures are included in financial reports	A	All expenditures are included in financial reports	
6.2 Revenue outside financial reports	A	All revenues are included in financial reports	A	All revenues are included in financial reports	
6.3 Financial reports of extrabudgetary units	NA	There are no extrabudgetary units	NA	There are no extrabudgetary units	
PI-7 Transfers to sub-	A		B+		

	2018		2022		
Indicator/Dimension	Score	Description of requirement met	Score	Description of requirement met	Explanation of Change (including comparability issue)
national governments					
7.1 Systems for allocating transfers	A	The horizontal allocation of some 92% of transfers to subnational governments from central government is determined by transparent, rule-based systems.	B	The horizontal distribution of 82.4% of the allocated by the central government to the local government is determined by transparent, rule-based systems.	A new rules-based transfer system based on VAT has been introduced. However, because of COVID-19 outbreak, a reduced distribution of value added tax necessitated allocations to municipalities to supplement their own revenues.
7.2 Timeliness of information on transfers	A	Local self-government bodies are provided with detailed information on the annual volume of transfers not less than 6 weeks prior to the completion of the planned budget	A	Local self-government bodies will be provided with detailed information on the annual volume of transfers not less than 6 weeks prior to the start of the year to be planned.	
PI-8 Performance information for service delivery	A		A		
8.1 Performance plans for service delivery	A	Information is annually prepared and published according to program objectives of most ministries (75%). It includes performance indicators, programs about intermediate and final results and outcomes.	A	Information is annually prepared and published according to program objectives of ministries. It covers performance indicators, outputs and outcomes.	
8.2 Performance achieved for service delivery	A	Information about intermediate and final results of the programs /subprograms implemented by most ministries (i.e. 75 percent in value) within the priorities and about their Performance Assessment Indicators are published annually in the	A	Information about intermediate and final results of the programs /sub-programs implemented by ministries relating to outputs and outcomes within the priority programs. Performance Assessment Indicators are published annually in the Annual Budget Reports.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		Budget Annual Reports;			
8.3 Resources received by service delivery units	A	The information on the resources received by the service providers is collected and recorded in case of programs implemented by not less than 2 major ministries based on the sources of funding. This information is prepared at least annually.	A	The information on the resources received by the service providers is collected and recorded in the TSA at the service delivery unit. This information is prepared on an annual basis in budget execution reports as well as monthly.	
8.4 Performance evaluation for service delivery	A	Assessment of efficiency and effectiveness of service delivery has been prepared and published in respect of activities of <u>most</u> ministries (i.e. 75 percent in value) in the period of at least the previous three years.	A	Assessment of efficiency and effectiveness of service delivery has been prepared and published by the State Audit Office in respect of activities of most ministries over the past three years.	
PI-9 Public access to fiscal information	A		A		
9.1 Public access to fiscal information	A	The government provides access to all types of listed fiscal information	A	The government provides access to all types of information listed.	
PI-10 Fiscal risk management	B		B		
10.1 Monitoring of public corporations	B	Audited annual financial statements for most public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually. The government's fiscal risk report addresses	C	Audited annual financial statements for most public corporations are published within ten months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector and on major SOEs in the annual Fiscal Risk Report.	It is likely that the 2018 score could have been C.

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		individual Public Corporations.			
10.2 Monitoring of sub-national government	C	Annual financial statements for subnational governments are published by end April but are not audited on an annual basis.	C	Annual financial statements for local governments are published within 4 months of the end of the year (end of April) but are not audited on an annual basis.	
10.3 Contingent liabilities and other fiscal risks	B	Central government entities and agencies quantify most significant contingent liabilities in their financial reports.	A	A report on central government contingent liabilities, including their quantification, and other fiscal risks is submitted to Parliament annually and published. It covers information/analysis on risks by public corporations, quasi-fiscal activities, PPP, PPA, COVID-19 and other risks such as from pandemic, disaster and climate change.	The coverage of other fiscal risks is now comprehensive.
PI-11 Public investment management	C		A		
11.1 Economic analysis of investment proposals	C	Economic analyses are conducted to assess <i>some</i> major investment projects.	A	New projects require economic analysis and this analysis to be independently reviewed. The new projects in the 2021 budget followed this process. These are published by the Ministry of Finance	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
11.2 Investment project selection	C	Prior to their inclusion in the budget, <i>some</i> of the major investment projects are prioritized by a central entity.	A	There is a process for selecting projects based on a defined criteria and procedures using feasibility studies and an inter-agency commission	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
11.3 Investment project costing	C	Projections of the total capital cost of major investment projects, together with the	A	The budget reflects the timetable for completing projects and the annual	There have seen significant changes with respect to investment processes and

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		capital costs for the forthcoming budget year, are included in the budget documents.		allocation of costs as well as the provision for recurrent cost of implementation if the project is completed during the MTEF period.	procedures since the previous assessment.
11.4 Investment project monitoring	C	The total cost and physical progress of major investment projects are not adequately monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually but only at a superficial level.	A	For each project there is an initial plan which covers project execution and its financing/payment schedule on a quarterly basis. Monitoring project implementation may use project consultants that report on physical progress that is linked to the invoicing for work completed. For smaller projects this may be done by an in-house team.	There have seen significant changes with respect to investment processes and procedures since the previous assessment.
PI-12 Public asset management	C+		B		
12.1 Financial asset monitoring	B	The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.	B	The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at real (market) value. Information on the performance of the major categories of financial assets is published annually. The financial information on these assets is based on the IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
12.2 Nonfinancial asset monitoring	C	The government maintains a register of its holdings of fixed assets and collects partial information on their usage and age.	C	The government maintains a register of its holdings of nonfinancial assets and collects partial information on their usage and age. Financial information on nonfinancial assets (initial cost, accumulated depreciation / amortization, accumulated impairment / impairment loss, carrying amount, etc.) is based on the IPSAS standards and the Government Finance Statistics Manual 2014 (GFSM 2014) and is reflected in the financial statements prepared by the units financed by the state and local budgets.	
12.3 Transparency of asset disposal	C	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established. The National Agency of State Property provides detailed information on every transaction. However, disposal of the remaining assets is implemented by the spending line agencies in non-centralized manner and detailed information on what is being disposed is not available in the format of a report.	A	Procedures for disposal / management / transfer of assets are established and the relevant information is registered in the LEPL National Agency for State Property.	Better information on disposal of assets.
PI-13 Debt management	B		A		
13.1 Recording and reporting of debt and guarantees	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated,	A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated,	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.		and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.	
13.2 Approval of debt and guarantees	A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.	A	Primary legislation grants authorization to borrow, issue new debt and issue loan guarantees on behalf of the central government to the Ministry of Finance (as represented by the Minister. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing is approved by the government or legislature.	
13.3 Debt management strategy	D	At the time of the Self-Assessment and its validation, the Debt Management Strategy 2016-2019 is being developed to reflect the measures and actions to be taken to ensure the implementation of effective debt management policy.	A	The MoF has developed, and the government approved the government Debt Management Strategy Document. The strategy defines the directions of the debt management policy, the main target indicators and sets the plan for their achievement. The strategy is available on the website of the Ministry of Finance and the results are included in budget documentation submitted to	An approved Debt Management Strategy is operational and updated annually.

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
				Parliament.	
PI-14 Macroeconomic and fiscal forecasting	A		A		
14.1 Macroeconomic forecasts	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections have been reviewed by the Parliament Budget Office (PBO).	A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the three following fiscal years. The projections are reviewed by the Finance and Budget Committee of the Parliament of Georgia, as well as by the Independent Fiscal Institution - the Parliament Budget Office (PBO) and the State Audit Office.	
14.2 Fiscal forecasts	B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), disaggregated expenditure, and the budget balance, for the budget year and three following fiscal years. These forecasts, together with the underlying assumptions are included in budget documentation submitted to the legislature.	A	The government prepares forecasts of the main fiscal indicators, including revenues (by type), disaggregated expenditure, and the budget balance, for the budget year and three following fiscal years. These forecasts, together with the underlying assumptions and explanation of differences are included in budget documentation submitted to the legislature.	The explanations of differences were not available at the time of the previous assessment which downgraded the score.
14.3 Macro-fiscal sensitivity analysis	A	The government prepares the scenarios of fiscal forecasts on the basis of alternative	A	The government prepares scenarios of fiscal forecasts on the basis of alternative	

	2018		2022		
Indicator/Dimension	Score	Description of requirement met	Score	Description of requirement met	Explanation of Change (including comparability issue)
		macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.		macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.	
PI-15 Fiscal strategy	D+		B		
15.1 Fiscal impact of policy proposals	D	The government has not prepared estimates of the fiscal impact of all proposed changes in revenues and expenditures policy for the budget year.	D	The government has prepared estimates of the fiscal impact of all proposed changes in revenues and expenditures (90% and more) for the planned and subsequent 3 years for 2020 and 2012 but not in 2019. This has been submitted to the Parliament together with the annual draft budget law.	Estimates of the fiscal impact of policy changes have been prepared for 2020 and 2021 only.
15.2 Fiscal strategy adoption	B	The government has adopted and submitted to the Legislature a fiscal strategy document, which includes the goals and objectives of the year to be planned and of the next three following years.	A	The fiscal strategy (BDD) is adopted by the government. The document is published and includes quantitative and qualitative goals and objectives of the year to be planned and of the next three following years.	
15.3. Reporting on fiscal outcomes	D	The government does not prepare an internal report on the progress made against its fiscal strategy. Such a report has not been prepared for at least the last completed fiscal year.	A	The state budget performance report, which is submitted to the Parliament of Georgia, includes information on the implementation of fiscal policy objectives (fiscal rules) and relevant explanations, in case of difference as well as actions to be taken.	A report on fiscal outcomes is submitted to Parliament.
PI-16 Medium term perspective in expenditure budgeting	B+		B+		

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
16.1 Medium-term expenditure estimates	A	The annual budget present's estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.	A	The annual budget presents estimate of expenditure for the budget year and three following fiscal years allocated by economic and program classification.	
16.2 Medium-term expenditure ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.	A	Expenditure ceilings are set for budgetary units for the budget year and three following fiscal years, which are approved by the government before the preparation of budget applications.	
16.3 Alignment of strategic plans and medium-term budgets	A	Medium-term strategic plans are prepared and costed for all ministries. Expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans and assessed in the subsequent execution reports	A	Medium-term action plans are prepared and costed by all ministries and are in line with the annual budget law and the BDD.	
16.4 Consistency of budgets with previous year estimates	D	There is no explanation of the 4.1% absolute deviation or the 10.6% composition deviation.	C	The deviation analysis of medium-term forecasts is prepared at the aggregate level, attached to the draft state budget and submitted to the Parliament of Georgia.	Deviations at the aggregate levels are explained.
PI-17 Budget preparation process	A		A		
17.1 Budget calendar	A	The budget calendar is clear and adhered to. It allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their	A	The budget calendar allows budgetary units to start working on the budget at least 6 weeks before the budget is submitted.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		detailed estimates on time.			
17.2 Guidance on budget preparation	A	The budget circular (BDD) is comprehensive and covers total expenditure for the fiscal year. The ministry ceilings reflected in the circular are approved before the circular distribution to budgetary units.	A	The level of information included in the BDD Document is clear and comprehensive. It covers total expenditure of central government for the fiscal year and contains expenditure ceilings for all the budgetary units. It is approved by Cabinet and reviewed by Parliamentary Committees.	
17.3 Budget submission to the legislature	A	The government submitted the annual budget proposal more than three months before the end of the year in each of the last three fiscal years.	A	The draft annual budget is submitted to the legislature over 3 months before the beginning of the year.	
PI-18 Legislative scrutiny of budgets	A		A		
18.1 Scope of budget scrutiny	A	The Georgian Parliament's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.	A	Parliament reviewed fiscal policies, medium term fiscal forecasts, medium term priorities and details of revenue and expenditure in compliance with the requirements of the Rules of Procedure.	
18.2 Legislative procedures for budget scrutiny	A	The legislature's procedures are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures. They also include	A	The review of the 2022 state budget was carried out within the timeframes and procedures established by law. Individual sector committee review the budget proposals, and these are discussed in plenary sessions of Parliament before the budget is passed. These are open to the public with	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		arrangements for public consultation.		consultation.	
18.3 Timing of budget approval	A	During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.	A	During the last three fiscal years the legislative body approved the annual budget law before the start of the fiscal year.	
18.4 Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendment and are adhered to in all instances.	A	Reallocation of funds between programs and sub-programs of budgetary units may be carried out by the Ministry of Finance without requiring amendments to the law and approval of the Parliament. However, such reallocations shall not exceed 5% of the annual budget allocation of the budgetary unit.	
PI-19 Revenue administration	B+		B+		
19.1 Rights and obligations for revenue measures	A	Entities collecting <i>most</i> revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.	A	GRS collects all revenues. It uses multiple updated channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.	
19.2 Revenue risk management	A	Entities collecting <i>most</i> revenues use a comprehensive, structured, and systematic approach for assessing and prioritizing compliance risks for <i>all</i> categories of revenue and, as a minimum for their	A	The GRS uses a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <i>all</i> categories of revenue and has a focus on large taxpayers and their needs. There is an	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		large and medium revenue payers.		extensive penalty system for non-compliance with the tax laws.	
19.3 Revenue audit and investigation	A	Entities collecting <i>most</i> revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan and completed <i>all</i> planned audits and investigations.	A	GRS has an audit plan for both domestic taxes and import taxes which are determined by a comprehensive audit plan based on risk assessment. The actual audits have been in excess of those planned.	
19.4 Revenue arrears monitoring	D	The stock of revenue arrears at the end of the last completed fiscal year is around 61 percent of the total revenue collection for the year but the revenue arrears older than 12 months is around 90 percent of total revenue arrears.	D	The stock of total arrears at the end of 2021 is 36 per cent of total tax revenue collected in 2021 but the revenue arrears older than 12 months is 89 per cent of total revenue arrears	There has been a reduction in the total stock of revenue relative to the revenue collected in 2021 but the age profile of revenue remains the same.
PI-20 Accounting for revenue	A		A		
20.1 Information on revenue collections	A	A central agency obtains revenue data at least monthly from entities collecting <i>all</i> central government revenue. This information is broken down by revenue type and is consolidated into a report.	A	The GRS produces a report on revenue data on a daily basis and is part of the budget execution report that is consolidated on a monthly basis. This information is broken down by revenue type.	
20.2 Transfer of revenue collections	A	Entities collecting <i>most</i> central government revenue transfer the collections directly into accounts controlled by the Treasury or transfer the collections daily to the Treasury.	A	Payments are made into a treasury account in Commercial banks by the taxpayer. The Bank transfers these payments to the TSA daily.	
20.3 Revenue accounts	A	Entities collecting <i>most</i> central	A	Accounts of taxpayers can be	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
reconciliation		government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury on a bi-monthly basis.		reconciled on a daily basis with respect to assessments and taxes paid and arrears. Reconciliation of transfers to the TSA is made on a daily basis.	
PI-21 Predictability of in-year resource allocation	A		A		
21.1 Consolidation of cash balances	A	The consolidated information about all bank and cash balances is available at the official website of the Treasury Service at the end of each day.	A	The consolidated information about all bank and cash balances is available at the official website of the Treasury Service on a daily basis.	
21.2 Cash forecasting and monitoring	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations and commitment releases.	A	A cash flow forecast is prepared annually, broken-down month by month and is updated at least monthly on the basis of actual inflows and outflows. The Treasury prepares a daily projection of cash flow for the month to come.	
21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations.	A	Budgetary units are able to plan and commit expenditure for twelve months in advance in accordance with the budgeted appropriations.	
21.4 Significance of in-year budget adjustments	A	Insignificant adjustment to budget allocations was made once in 2016 and was done in a transparent and predictable way	A	Adjustments to budget allocations were made twice in 2021 in accordance with the rules established by law. Information is available on the website of the MoF.	
PI-22 Expenditure arrears	C+		A		

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
22.1 Stock of expenditure arrears	A	Amount of expenditure arrears did not exceed 2% during 2014-2016.	A	Amount of expenditure arrears did not exceed 2% during 2019-2021.	
22.2 Expenditure arrears monitoring	C	The financial statements submitted to the Treasury Service by spending institutions provide information on stock and composition of expenditure arrears but not their age profile. No monitoring is done in-year.	A	In the e-Treasury System, it is possible to generate data on overdue debt of any budgetary units in real time. In addition, payments that are not processed before the due date specified in the contract are monitored.	Monitoring is undertaken through e-Treasury
PI-23 Payroll controls	A		A		
23.1 Integration of payroll and personnel records	A	The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury	A	The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury system.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		system.			
23.2 Management of payroll changes	A	Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.	A	Personal records are updated monthly in time for the month's payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.	
23.3 Internal control of payroll	A	Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these have to be approved by the the Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.	A	Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified and then approved by the relevant authorities. In addition, for remuneration changes, these have to be approved by the Treasury. The system allows tracking of changes in payroll records (audit trail). This is possible as long as changes are documented and saved. In addition, access to the e-Treasury system is controlled through using a "DJ-pass" / telephone code and password. Internal and external auditors assess payroll risk as low hence accuracy of payroll data is high.	
23.4 Payroll audit	A	There is a strong system of annual payroll audits conducted by the State Audit Office that exposes any control	A	The State Audit Office conducts payroll audits in all budgetary organizations operating at the central government level. This	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		weaknesses and accountability issues.		is a mandatory audit procedure to be performed during the financial and compliance audit process.	
PI-24 Procurement management	B+		A		
24.1 Procurement monitoring	A	Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through E-Government Procurement System (Ge-GP).	A	Databases or records are maintained for all procurement transactions, for all tenders or contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods as well as for all procured goods, services and construction works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).	
24.2 Procurement methods	A	As per public procurement legislation open competition above 5,000 Georgian Lari (GEL) equivalent USD 2000 is a default method. 91% of contracts by value procured in 2016 were conducted through competitive selection.	B	As per public procurement legislation, for the procurement of homogenous goods / services worth up to 5000 GEL (equivalent to approximately USD 1600) an open competition / tender is conducted, which is a default method of procurement. 82% of contracts (by value) procured in 2019 were conducted through competitive selection, while in 2020, this figure was 79%. In 2021 this fell to 72%.	There are a variety of reasons for this decline. Fifty per cent of non-competitive purchases are National Health Agency purchases which are most likely related to the pandemic. A further and perhaps more in-built reason for the decline is that the threshold has been the same since 2010 which is now much smaller in real terms both in GEL and USD.
24.3 Public access to	A	All the key procurement	A	All the key procurement	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
procurement information		information is made available to the public. These include but are not limited to (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics		information is made available to the public. These include but are not limited to: (1) Legal and regulatory framework for procurement; (2) Annual public procurement plans; (3) Bidding opportunities; (4) Contract awards; (5) data on resolution of procurement complaints; (6) Annual procurement statistics, etc.	
24.4 Procurement complaints management	D	Procurement system meets all criteria except N1. According to Article 3, Subparagraph 1 and 2 of the Rule for Operations of the Procurement Related Dispute Review approved by the Decree №1 of February 27, 2015 of the Chairman of the State Procurement Agency, dispute review board consists of 6 persons on a parity principle. 3 members are from CSOs/NGOs and 3 are from State Procurement Agency. Chairman of State Procurement Agency is at the same time Chairman of the dispute review board, with prevailing vote. State Procurement Agency is also a clearing/reviewing body for Simplified Procurement (aka	A	The Council of Dispute Resolution is an impartial and independent body established under the Public Procurement Law, which aims to resolve disputes in a prompt, efficient and fair manner in accordance with the Law on Public Procurement and relevant by-laws, the Law on „Public and Private Cooperation" and relevant by-laws, and the Rules of Procedure of the Board. The Board consists of 5 members selected by an independent commission on an open competition and appointed for a term of 5 years. One and the same person may be appointed as the Board member only twice. The board member is a public servant. The activities of the Board are carried out on the	A new fully independent complaints review system has been put in place that meets the PEFA criteria.

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		Direct Contracting requests from implementing agencies). The involvement of the state procurement agency in specific procurement procedure for simplified procurement procedures (aka direct contracting) makes it part of the procurement transactions and procurement decision-making process leading to contract award, which creates conflicts with its oversight function and its role in the review of procurement complaints		<p>basis of the equality of all persons involved in the dispute under the law and the Board, as well as in accordance with the principles of publicity and the independence of the members of the Board.</p> <p>The principles of the Board are:</p> <ul style="list-style-type: none"> a) legality; b) objectivity and impartiality; c) professionalism; and d) protection of confidentiality. <p>The Board is separate from all bodies / persons, is independent in its activities and obeys only the law.</p> <p>It is not allowed to influence the board or a member of the board in order to influence the decision-making process. The Board is guided in its activities by the Constitution of Georgia, international treaties and agreements of Georgia, the Law on Public Procurement, the Law on Public-Private Partnership, the Rules of Procedure of the Board and other normative acts.</p>	
PI-25 Internal controls on non-salary expenditure	A		A		
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the	A	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the Public	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		IFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the State Treasury Electronic Service System.		Financial Management Information System (PFMIS), in accordance with Order of the Minister of Finance of July 6, 2012, on the approval of instructions for the State Treasury Electronic Service System.	
25.2 Effectiveness of expenditure commitment controls	A	Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.	A	Commitment control applies to all payments made from the Treasury single account. Actual expenditures incurred are in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.	
25.3 Compliance with payment rules and procedures	A	Compliance with payment rules and procedures is very high.	A	Compliance with payment rules and procedures is very high.	
PI-26 Internal audit	B+		A		
26.1 Coverage of internal audit	A	Internal auditors are in all 16 ministries, all 13 LEPLs required to have internal auditors, 4% of non-commercial entities, and 36% of higher education entities with the rest covered by internal audit unit of the Ministry of Education, and 45% of legal entities under private law. Internal audit coverage of the central government (mainly ministries) budgeted expenditure over fiscal years	A	Internal Audit Unit covers all central ministries (11 ministries) and all LEPLs defined by the decree of the government, where the internal audit was to be established. The coverage of revenue and expenditure is almost 100%.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		2014-2016, was an average of 94%.			
26.2 Nature of audits and standards applied	B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas. Internal audit activities are guided by the Internal Audit Methodology and System Audit Manual/Instruction that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors. A quality assurance process is in the initial stages of being introduced.	A	System and performance audits have been added to the audits of compliance and effectiveness of internal controls. External evaluations of the quality of activities of internal auditors, conducted during the reporting period, revealed that the level of general compliance with the standards is high.	Internal auditors are more focused on conducting system and performance audits, unlike the previous period, when mainly financial and compliance audits were conducted in government institutions.
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist and they are monitored by the Center for Harmonization Unit at the Ministry of Finance. In fiscal year 2016, programmed audits were 126 for central government out of which 115 (91%) were completed and their reports distributed to appropriate parties.	A	All internal audit entities implement strategic and annual planning that is agreed upon by the institution. The subjects also draw up an annual report and submit it to the head of the institution as well as to the Harmonization Center of the MoF. Based on the analysis of the reports, the internal audits follow the annual plan, however, in some cases, unplanned audits are also carried out.	
26.4 Response to internal audits	A	Management implemented 96% of internal audit recommendations made over fiscal years 2014-2016, for an	A	There is a comprehensive follow up on recommendations made in all internal audit reports which are summarized	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		average coverage of 93% of the central government budgeted expenditure.		in an annual internal audit report. All the entities produce an annual report.	
PI-27 Financial data integrity	A		A		
27.1 Bank account reconciliation	A	Treasury Service under Ministry of Finance, reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	A	Treasury Service under Ministry of Finance reconciles on daily basis all its balances with the TSA sub-accounts and other bank accounts in the National Bank of Georgia.	
27.2 Suspense accounts	A	There are no expenditure suspense accounts under the TSA. There have been revenue suspense accounts but they are historical as they arose before fiscal years 2014-2016. During fiscal years 2014-2016, revenue deposits were properly coded and accounted for, with no suspense accounts arising.	NA	There is neither expenditure nor revenue suspense accounts under the Treasury Single Account. During fiscal years 2019-2021, revenue deposits were properly coded and accounted for, with no suspense accounts arising.	Revenue suspense accounts noted in the previous PEFA have been removed
27.3 Advance accounts	A	Reconciliation of advance accounts takes place monthly (within 20 days after the end of each month). All advance accounts are cleared in a timely manner.	A	All advance accounts are cleared in a timely manner. Amounts paid in advance are controlled in real time. The existence of unverified advance accounts limits the organization's subsequent payments. The only exceptions are salaries and related payments (according to Article 9 of the Payment Instruction).	
27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done	A	Access and changes to records is restricted and recorded, and results in an audit trail. Financial data integrity is done	

	2018		2022		
Indicator/Dimension	Score	Description of requirement met	Score	Description of requirement met	Explanation of Change (including comparability issue)
		by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office do also conduct audits to verify financial data integrity.		by Treasury, which reviews financial information from budgetary units and its IT department monitors unauthorized systems access. Internal auditors and the State Audit Office also conduct audits to verify financial data integrity.	
PI-28 In-year budget reports	B+		B+		
28.1 Coverage and comparability of reports	A	Coverage and classification of data in the budget execution reports allows direct comparison to the original budget. Information includes all central government budget estimates for the budgetary units.	A	Coverage and classification of data in the budget performance reports allows direct comparison to the original budget or budgets of previous years. Information includes all central government budget estimates for the budgetary units.	
28.2 Timing of in-year budget reports	B	Consolidated budget execution reports are prepared quarterly and issued to Parliament as well as published within four weeks from the end of the quarter.	B	Budget performance reports are prepared quarterly and submitted to Parliament and published on the website of the Ministry of Finance within four weeks of the end of the quarter, while monthly reports are prepared within 20 days of the end of the month and published on the Treasury website.	
28.3 Accuracy of in-year budget reports	A	There are no material concerns regarding data accuracy following discussions with Parliament's Budget Office and the State Audit Office. An analysis of the budget	A	Integrated electronic systems and unified budget classification ensure data accuracy at both the commitment and payment stages and are contained in in-	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		execution reports is done quarterly by Parliament's Budget Office that issues a report to the Budget and Finance Committee of Parliament. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system.		year reports. There are no substantive comments regarding the accuracy of the data in the reports of the State Audit Office.	
PI-29 Annual financial reports	D+		C+		
29.1 Completeness of annual financial reports	B	The report on state budget execution is prepared annually and is comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities and long term obligations. In addition, the consolidated financial reports for central government budgetary units are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement. The 2014 and 2015 consolidated financial statements did not contain full	A	Consolidated financial statements for state and local budgets mainly include information on revenues, expenditures, nonfinancial assets, financial assets and liabilities (including guarantees and long-term liabilities), equity, as well as reconciled cash flows and balances.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		information on revenue and tangible assets (nonfinancial assets).			
29.2 Submission of reports for external audit	D*	The state's consolidated annual financial statements are not submitted for external audit. Although the financial statements of central government budgetary units are audited by the State Audit Office, there was no record of when they were submitted for external audit. The annual execution report for state budget is submitted for audit within 3 months.	C	The Treasury Service annually prepares consolidated financial statements at the state budget level, which, for accountability purposes, are published on the Treasury's website www.treasury.ge within 6 months of the end of the reporting year. These have been submitted to the State Audit Office within 7 months of the end of the relevant financial year.	The 2018 PEFA was unable to get information to score.
29.3 Accounting standards	C	IPSAS is the accounting standards disclosed in the state's annual consolidated financial statements. These accounting standards were applied by all budgetary units in accordance with instructions on the Accounting and Financial Reporting of Budgetary Organizations approved by the Order №429 of the Minister of Finance on December 31, 2014 in line with Article 14 of the Budget Code. About 23% of the total number of IPSAS standards were applied by fiscal year 2016 where 9 standards out of a total of 40, were implemented. During 2017, the	B	The current Accounting and Financial Reporting Guidelines on the Chart of Accounts and Financial Reporting Forms are in line with both the GFSM 2014 methodology and the Georgian Budget Classification, and include the requirements of the following accrual based standards: IPSAS 1, IPSAS 2, IPSAS 3, IPSAS 4, IPSAS 5, IPSAS 9, IPSAS 12, IPSAS 13, IPSAS 14, IPSAS 16, IPSAS 17, IPSAS 19, IPSAS 20, IPSAS 21, IPSAS 23, IPSAS 24, IPSAS 26, IPSAS 31, IPSAS 32, IPSAS 34, IPSAS 35, IPSAS 36, IPSAS 37 and IPSAS 39.	Additional IPSAS standards have been incorporated since the previous PEFA

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		standards that were implemented were increased to 16			
PI-30 External audit	B+		A		
30.1 Audit coverage and standards	A	The financial statements of all central government budgetary units include revenue, expenditure, assets and liabilities. They are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years in accordance with Article 26 of the Law on State Audit Office. Audit coverage included in the report of the State Audit Office on the annual report on state budget execution, for fiscal years 2014 was 96%, 2015 was 94% and 2016 was 91%. The audits highlighted relevant material issues and systemic and control risks.	A	The financial statements of all central government budgetary units (including revenue, expenditure, assets and liabilities), as well as the annual report on state budget performance are audited using International Standards of Supreme Audit Institutions (ISSAI) for the last three fiscal years. The audits identify / highlight all relevant material issues and systemic or control risks.	
30.2 Submission of audit reports to the legislature	A	During the last three completed fiscal years, the State Audit Office submitted the annual report on the state budget Performance to the legislative body within 3 months after receipt of the report by the Audit Service. No consolidated financial reports for the government was audited as they were not submitted by the Ministry of	A	During the last three completed fiscal years, the State Audit Office submitted the annual report on state budget performance to the legislative body within 3 months after receipt of the report by the State Audit Office.	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		Finance. Audits of financial statements of the budgetary units were conducted but these were not officially submitted to the State Audit Office to measure this dimension, and this issue is separately dealt with under PI-29.2.			
30.3 External audit follow-up	B	In line with the Article 24 of the Law on the State Audit Office, audit recommendations for budgetary units are followed up, monitored once every six months and annually reported on by the State Audit Office in their report to Parliament on the annual execution of the state budget. The average performance of addressing recommendations from financial, compliance and performance audits over fiscal years 2014-2016 was 85%.	A	There is an effective system for monitoring and follow up of recommendations. According to the Organic Law on the State Audit Office, within 30 calendar days after the approval of the audit report, the auditee submits to the State Audit Office an action plan on the measures already taken and / or to be taken for implementation of recommendation (relevant activities, deadlines and responsible persons). Continuous monitoring of the implementation of the recommendations is carried out through the State Audit Office's electronic system. Information on the status of implementation of the recommendations is provided to the Parliament and the public through the annual reports on the activities of the SAO and the implementation of the recommendations.	The SAO has implemented an electronic monitoring system that provides more timely information.
30.4 Supreme Audit Institution (SAI)	A	The State Audit Office is independent from the	A	The State Audit Office is independent from the executive	

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
independence		executive with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The SAO has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the SAO is assured by the Constitution and the Law on State Audit Office.		with respect to procedures for appointment and removal of the Auditor General, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAO's budget. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The independence of the State Audit Office is assured by the Constitution and the Law on State Audit Office. The State Audit Office has unrestricted and timely access to records, documentation and information from auditees (budgetary units). The State Audit Office has the right to appeal directly to the Constitutional Court of Georgia.	
PI-31 Legislative scrutiny of audit reports	C+		A		
31.1 Timing of audit report scrutiny	C	Scrutiny of the fiscal years 2014-2016 Reports of the State Audit Office on the Annual Execution of the state budget was completed by Parliament within two months of receipt of the reports (100% scrutinized on time). An average of 20% of the stand-alone audited financial statements for central government budgetary units,	A	The Audit Group under the Budget and Finance Committee scrutinized the audited budget execution report annually. It reported to a plenary parliamentary session within 3 months of receipt of the reports from the State Audit Office	The scrutiny of the annual budget and reporting to Parliament is done within three months of receipt.

Indicator/Dimension	2018		2022		Explanation of Change (including comparability issue)
	Score	Description of requirement met	Score	Description of requirement met	
		compliance and performance audits, were scrutinized over fiscal year 2014-2016. Reports scrutinized for FY2014-2015 were done within 3 months while those of FY2016 were scrutinized within 6 months of receipt of the reports. The average of Parliament's scrutiny of the above two categories of audit reports is 60%.			
31.2 Hearings on audit findings	C	In-depth hearings on key findings of audit reports take place with responsible officers from audited entities in attendance. There were hearings for the Report of the State Audit Office on the Annual Execution of the state budget for fiscal years 2014-2016 (100% heard) while for the audited financial statements for central government units, over fiscal years 2014-2016, there were only two hearings out of 32 audit reports with qualified or adverse or disclaimer opinions, representing 6%. Average performance was 53%.	A	All audit reports that have a qualified or adverse or disclaimer audit opinion are subject to in-depth hearings and are attended by responsible officers as appropriate.	The number of hearings has increased and is focused on reports that have a qualified opinion
31.3 Recommendations on audit by the legislature	C	During fiscal years 2014-2015, Parliament was not monitoring audit recommendations to ensure they were implemented, as they started doing this in April 2016. During FY2016,	A	There is systematic follow up of recommendation issued on actions which endorses the position of the SAO.	The follow up system has been improved since the previous PEFA.

	2018		2022		
Indicator/Dimension	Score	Description of requirement met	Score	Description of requirement met	Explanation of Change (including comparability issue)
		out of 30 recommendations that were issued, 15 (50%) were implemented related to the eight scrutinized audit reports.			
31.4 Transparency of legislative scrutiny of audit reports	A	Hearings are conducted in public except for national security or similar sensitive discussions. Committee reports are provided to the full chamber of Parliament and published on Parliament's official website.	A	All hearings are conducted in public. The budget execution reports, and qualified reports are debated in full chamber. All reports are published.	

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	Legal basis for internal control is established and is implemented through the Central Harmonization Unit which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. This includes developing and promoting the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization
1.2 Commitment to competence	The existence of the Central Harmonization Unit indicates a commitment to competence in implementing internal controls and is evidenced by the A scores in PIs 23, 25, and 26.
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	There is a positive approach to implementing internal controls as evidenced by the organisational structure. This is continuously strengthened by ensuring that there is greater response to recommendations. The oversight and scrutiny of Parliament with respect to Audit Reports also provides a strong leadership tone
1.4 Organizational structure	<p>The roles of the various parties involved in the financial management control system are established in the Law on Public Internal Financial Control. The MoF is an authorized body which, through the Central Harmonization Unit promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures.</p> <p>The government is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the Law. Full implementation of the requirements of this legislation and alignment with international good practices continues to be rolled out. Public sector units are establishing an organizational structure that enables the achievement of the objectives and compliance with the functions assigned by legislation. These are being presented in documentary form, stating clearly the rules for determining and segregating tasks, duties, and responsibilities, as well as hierarchy and appropriate reporting lines.</p>
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices
2. Risk assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated A in 11.1 –</p>

Internal control components and elements	Summary of observations
	<p>Economic analyses are conducted to assess investment projects. They are independently reviewed by the Ministry of Finance and are published.</p> <p>Debt Management Strategy is rated A in 13.3 – The Debt Management Strategy 2022-2025 includes the measures and actions to be taken to ensure the implementation of effective debt management policy.</p> <p>Macrofiscal sensitivity analysis is rated A in 14.3 – The government prepares the scenarios of fiscal forecasts on the basis of alternative macroeconomic assumptions, and these scenarios are reflected in the published budget documentation together with forecasts.</p> <p>Revenue Risk Management is rated A in 19.2 – The GRS uses a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for taxpayers.</p> <p>Cash Flow Forecasting and Monitoring is rated A in 21.2 - A cash flow forecast is prepared annually for the fiscal year, broken down by months and updated monthly on the basis of actual cash inflows and outflows.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	<p>Based on the CHU information during audit plans have been mostly implemented and ad hoc audits also carried out. All changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited (Implementation of internal audits and reporting – 26.3 rated A). Quality Assessment System for Internal Audit Activities is carried out by all subjects of the internal audit (Nature of internal audits and standards applied – 26.2 rated A).</p>
2.4 Risk appetite assessment	<p>The development and implementation of identification and assessment of risk indicates a positive risk appetite across expenditure and revenue aspects of public financial management. This is evidenced by the selection process for Internal Audit and External Audit covering both revenue and expenditure.</p>
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	<p>Standard public sector HR policies are in place throughout the areas of control.</p>
3 Control activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.</p> <p>Recording and reporting of debt and guarantees are rated A in</p>

Internal control components and elements	Summary of observations
	<p>13.1. Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly.</p> <p>Approval of debt and guarantees are rated A in 13.2. Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.</p> <p>Effectiveness of expenditure commitment controls is rated A in 25.2. Commitment control applies to all payments made from the Treasury Single Account. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources.</p> <p>Integration of payroll and personal records is rated A in 23.1. The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system that is managed by the Treasury. Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts. Reconciliation between payroll records in E-Treasury (Payroll module) and Civil Registry database records (managed by the Ministry of Justice), takes place once an employee is appointed and registered in the system. There is a validation mechanism built into the payroll module that automatically blocks salary payments of any person that is not reflected in the personnel database of the E-Treasury System.</p> <p>Management of payroll changes is rated A in 23.2. Personal records are updated monthly in time for the month’s payments. Updates are real-time and reflected in the payroll module of the E-Treasury system. In addition, retroactive changes to the existing data in the system are not allowed.</p> <p>Compliance with payroll payment rules and procedures is rated A in 23.3. Changes to the payroll records, are restricted to only authorized persons in the budgetary units in accordance with the Labor legislation. The changes are certified by an authorized person and approved by the head of the unit. In addition, for remuneration changes, these must be approved by the Treasury. There is an audit trail of payroll changes as supporting documentation are kept, and there are access controls for authorized persons to get into the E-Treasury system that require password and token numbers to be used. Internal and external auditors assess payroll risk as low hence integrity of payroll data is high.</p>

Internal control components and elements	Summary of observations
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated A in 25.1. Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid out at different levels in the IFMIS, in accordance with Order of the Minister of Finance of July 6, 2012 on the approval instructions for the Treasury Electronic Service System.
3.3 Controls over the access to resources and records	Compliance with payment rules and procedures is rated A in 25.3. Compliance with payment rules and procedures is very high. Financial data integrity processes are rated A in 27.4. Access and changes to records is restricted and recorded, and results in audit trail.
3.4 Verifications	Accuracy of in-year budget reports which is rated A in 28.3. There are no material concerns regarding data accuracy following discussions with Parliament's Budget Office and the State Audit Office. An analysis of the budget execution reports is done quarterly by Parliament's Budget Office that issues a report to the Budget and Finance Committee of Parliament. Information on expenditure is covered at both commitment and payment stages in the e-Treasury system.
3.5 Reconciliations	Banks account reconciliations are rated A in 27.1. Bank reconciliations for all active central government bank accounts takes place daily. There are no longer any suspense accounts that need to be reconciled.
3.6 Reviews of operating performance	Revenue audit and investigations are rated A in 19.3. The GRS undertakes audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete all planned audits and investigations.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated A in 24.1. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates a supervisory focus. Personnel development through mentoring and training is in place.
4. Information and communication	The management information systems for financial and nonfinancial information are across central government organizations and are fully functioning and comprehensive. All organisations are included in the Single Treasury Account. There is a monthly budget execution report that is published. The procurement information system is centralised and covers all government entities.

Internal control components and elements	Summary of observations
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated A in 8.3. The information on the resources received by the service providers is collected and recorded in case of all programs. This is conducted through the TSA and accounting system.</p> <p>Monitoring of public corporations is rated C in 10.1. Audited annual financial statements for all the largest public corporations (90% of total SOE turnover) are published within ten months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector and on major SOEs is included in the annual Fiscal Risk Report.</p> <p>Monitoring of subnational governments is rated C in 10.2. Financial reports of subnational government are published within 4 months of the end of the year but these are not audited routinely</p> <p>Contingent liabilities and other fiscal risks is rated A in 10.3. The annual Fiscal Risk report quantifies contingent liabilities covering macroeconomic risks, risk from PPP, climate changes, pandemics and natural disasters.</p> <p>Investment project monitoring is rated A in 11.4. The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.</p> <p>Quality of central government financial asset monitoring is rated B in 12.1. The government maintains a record of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at fair (market) value. Information on the performance of the major categories of financial assets is published annually.</p> <p>Quality of central government nonfinancial asset monitoring is rated C in 12.2. The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.</p> <p>Revenue arrears monitoring is rated D in 19.4. The stock of revenue arrears at the end of the last completed fiscal year is around 36 percent of the total revenue collection for the year but the revenue arrears older than 12 months is around 90 percent of total revenue arrears.</p> <p>Expenditure arrears monitoring is rated A in 22.2. The financial statements submitted to the Treasury Service by spending institutions</p>

Internal control components and elements	Summary of observations
	<p>provide information on stock and composition of expenditure arrears but not their age profile. These are monitoring in real time.</p> <p>Procurement monitoring is rated A in 24.1. Databases or records are maintained for all contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. All government contracts are procured through Georgian E-Government Procurement System (Ge-GP).</p> <p>Implementation of internal audits and reporting is rated A in 26.3. Over 90 percent of the audit plan has been implemented. In additional ad hoc audits are carried out. All changes to the original audit plan have been approved by the head of the organization based on justification. Internal auditor submits their reports to the Minister and the head of the public entity audited.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated A in 8.4. Investment project selection is rated A in 11.2.</p>
5.3 Management responses	<p>Response to internal audits is rated A in 26.4. Management responds to audit recommendations for all entities audited within twelve months of the report being produced.</p> <p>External audit follow-up is rated A in 30.3. Formal responses are made by the audited entities on audits for which follow up was expected during the last 3 completed years.</p>

Annex 3A: Related Surveys and Analytical work

Basic Data and Directions Document

Budget Code

Fiscal Risks Statement State-Owned Enterprises, PPP Projects, Pandemic, Climate Change/Natural Disasters

Constitution of Georgia

Auditor General Annual Reports

Georgia Central Government PEFA 2018

Public Sector Financial Management Reform Action Plan 2018 to 2021

Annex 3B: Persons Consulted

July 2022

Name	Position	Institution
Government Officials		
Giorgi Kakauridze	First Deputy Minister of Finance	MoF
Tsotne Kavlashvili	Deputy Minister of Finance/Head of Treasury Service	MoF
Ekaterine Guntsadze	Deputy Minister of Finance	MoF
Mirza Gelashvili	Deputy Minister of Finance	MoF
Mzia Giorgobiani	Deputy Minister	MRDI
Eka Ghazadze	Deputy Auditor General	SAO
Prof. Dr. Kakha Demetrashvili	Deputy Chairman State Procurement Agency	SPA
Prof. Dr. Irakli Kovzanadze	Chairman of Budget and Finance Committee	Parliament
Paata Kvizhinadze	Deputy Chairman of Budget and Finance Committee /Head of Audit Department	Parliament
Akaki Saghirashvili	Chairman	BAG
Levan Vepkhvadze	CEO	BAG
Tsotne Karkashadze	Head of State Budget and Strategic Analysis Department	SAO
Giorgi Kapanadze	Head of Performance Audit Department	SAO
Giorgi Mimikishvili	Head of Self-Government Entities Audit Department	SAO
Giorgi Kekelishvili	Head of General State Services Audit Department	SAO
Aleksandre Gogolashvili	Head of Audit Quality Assurance Department	SAO
Mariam Maghradze	Head of IT Audit Unit	SAO
Levan Kakava	Director General (Tax and Customs Administration, SPS Border Control Agency)	GRS
Natia Gulua	Director of Budget Department	MoF
Nata Mokverashvili	Head of Division, Budget Department	MoF
Giuli Chkuaseli	Head of Public Internal Control Department	MoF
Shota Gunia	Head of Fiscal Risks Management Department	MoF
Davit Gamkrelidze	Head of Cash Forecasting and Management Department of the Treasury Service	MoF
Vakhtang Chalapeikrishvili	Head of Macroeconomic Analysis and Fiscal Policy Planning Department	MoF
Irakli Kacharava	Head of Public Debt and External Financing Department	MoF
Natia Mshvidobodze	Deputy Head Debt and External Financing Department	MoF
Samson Uridia	Head of Department for International Relations (Tax and Customs Administration, SPS Border Control Agency)	GRS
Tamar Gabruashvili	Advisor to the Director General	GRS
Ia Mikhelidze	Advisor, Department for International Relations	GRS
Giorgi Bubuteishvili	Head of Internal Audit Department	GRS
Giorgi Pataridze	Deputy Head of Internal Audit Department	GRS
Zviad Khasaia	Chief Auditor, Internal Audit Department	GRS
Anton Dzamashvili	Deputy Head of Tax Audit Department	GRS
Irakli Bolkvadze	Deputy Head of Tax Audit Department	GRS
Beka Kavelashvili	Deputy Head of Tax Audit Department	GRS
Nana Tsulaia	Deputy Head of Large Taxpayers Office	GRS
Maia Luarsabishvili	Head of Division, Tax Audit Department	GRS
Levan Dgebuadze	Head of Service Department	GRS
Zaza Tabagari	Head of Analytical Department	GRS
Mikheil Chikviladze	Deputy Head of Analytical Department	GRS
Elguja Loliashvili	Head of Division, Analytical Department	GRS

Name	Position	Institution
Kakhi Navadze	Head of Division, Analytical Department	GRS
Nodar Kakriashvili	Head of IT Center	GRS
Givi Murvanidze	Deputy Head of IT Center	GRS
Giorgi Okroshidze	Deputy Head of Tax Debt Department	GRS
Levan Baindurashvili	Deputy Head of Tax and Customs Methodology Department	GRS
Iona Kiziria	Head of Division, Tax and Customs Methodology Department	GRS
Mikheil Aslaniani	Head of Division, Legal Department	GRS
Dimitri Gulisashvili	Head of Foreign Relations Department	SPA
Ana Chania	Head of Analytical Department	SPA
Shorena Kakhidze	Acting Head of Parliamentary Budget Office	PBO
Giorgi Meskhoradze	Budget Analysis Department	PBO
Natia Suarashvili	Tax Policy Department	PBO
Beka Jakeli	Head of Budget Department	Ministry of Health
Mariam Tabatadze	Head of Budget Department	Ministry of Education
Batu Gurjidze	Head of Budget Department	MRDI
Koba Darjania	Internal Audit Department	MRDI
Ioseb Okromelidze	First Deputy Chairman	NASP
Genadi Lebanidze	Deputy Chairman	NASP
Irakli Shengelia	Deputy Chairman	NASP
Sophio Chelidze	Head of Sales at State Property Privatization Department	NASP
Development Partners		
Sigrid Brettel	Head of Cooperation	EU Delegation to Georgia
Irakli Khmaladze	Programme Manager, Economics, Regional Development and Public Finance	EU Delegation to Georgia
Tamar Vashakidze	Good Governance Programme Analyst	UN Women Georgia

September 2022

Name	Position	Institution
Government Officials		
Giorgi Kakauridze	First Deputy Minister of Finance	MoF
Tsotne Kavlashvili	Deputy Minister of Finance/Head of Treasury Service	MoF
Ekaterine Guntsadze	Deputy Minister of Finance	MoF
Eka Ghazadze	Deputy Auditor General	SAO
Prof. Dr. Kakha Demetrashvili	Deputy Chairman	SPA
Tsotne Karkashadze	Head of State Budget and Strategic Analysis Department	SAO
Giorgi Kapanadze	Head of Performance Audit Department	SAO
Natia Gulua	Director Budget Office	MoF
Shota Gunia	Head of Fiscal Risks Management Department	MoF
Davit Gamkrelidze	Head of Cash Forecasting and Management Department of the Treasury Service	MoF
Irakli Kacharava	Head of Public Debt and External Financing Department	MoF
Sophio Chelidze	Deputy Head of Sales at State Property Privatization Department	NASP

Name	Position	Institution
Genadi Lebanidze	Head of Sales at State Property Privatization Department	NASP
Levan Batiashvili	Lead Advisor to the Chairman	PPP Unit
Development Partners		
Sigrid Brettel	Head of Cooperation	EU Delegation to Georgia
Irakli Khmaladze	Programme Manager, Economics, Regional Development and Public Finance	EU Delegation to Georgia
Selim Cakir	Resident Representative	IMF

Annex 3C: Sources of Information

Indicator	Evidence
1. Aggregate expenditure outturn	<ul style="list-style-type: none"> Data from Ministry of Finance
2. Expenditure composition outturn	<ul style="list-style-type: none"> Data from Ministry of Finance
3. Revenue outturn	<ul style="list-style-type: none"> Data from Ministry of Finance
4. Budget classification	<ul style="list-style-type: none"> Data from Ministry of Finance https://www.matsne.gov.ge/ka/document/view/91006?publication=51 Budget Code, Article 8. https://www.matsne.gov.ge/ka/document/view/4530811?publication=0#DOCUMENT:1; Order N99 of the Minister of Finance of Georgia, April 5, 2019
5. Budget documentation	<ul style="list-style-type: none"> https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%206.docx https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%201.doc https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%204.doc; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/20.DSA%20-%2028%2011%202021.pdf; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/22.%20Valis%20Danarti%202022%20-%2028%2011%202021.docx https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/16.scenarebis%20analizi_2021.docx; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/17.2022%20BD%20Tables%20sen%2011_2_BDD_LEPL.pdf; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/18.2022%20BD%20Tables%20sen%2011_3_BDD_LEPL.pdf; https://mof.ge/images/File/2022-biujeti/21-12-2021/TAVI%204.doc; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/20.DSA%20-%2028%2011%202021.pdf; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/22.%20Valis%20Danarti%202022%20-%2028%2011%202021.docx; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/19.FRS_III_2021.pdf https://mof.ge/images/File/2021-biujeti/12-01-2021/2.%202021-2024%20BDD.docx 2022-2024 BDD https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx;

Indicator	Evidence
	<p>2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx;</p> <ul style="list-style-type: none"> • https://mof.ge/images/File/2021-biujeti/12-01-2021/13.%20tax.docx
6. Central government operations outside financial reports	<ul style="list-style-type: none"> • Explanation of coverage of budget which includes all autonomous entities
7. Transfers to sub-national governments	<ul style="list-style-type: none"> • Data on transfers from Ministry of Finance • Evidence of timing of releases from Ministry of Finance • Government Decree #23 On approval of the Selection procedures and criteria of Local Self-government and Regional projects' to be financed from the Fund of Projects to be implemented in the Regions of Georgia, prescribed by the state budget of Georgia
8. Performance information for service delivery	<ul style="list-style-type: none"> • Data from Ministry of Finance • https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/14.Programuli%2027.11.2021%20me3%20wardgena.doc • https://mof.ge/5429 • https://mof.ge/5307 • http://ssa.gov.ge/index.php?lang_id=GEO&sec_id=610
9. Public access to fiscal information	<ul style="list-style-type: none"> • Website of the MoF: http://mof.ge/ • Treasury website: http://treasury.ge/ • Website of the State Audit Office of Georgia: http://sao.ge/ • Website of the State Procurement Agency: http://procurement.gov.ge/ • Website of the Legislative Body (Parliament) of Georgia: https://parliament.ge/ • National Bank of Georgia: https://nbg.gov.ge/ • https://mof.ge/5477 • https://mof.ge/5477 • https://mof.ge/5429 • https://mof.ge/5411 • https://sao.ge/ka/%E1%83%9B%E1%83%9D%E1%83%AE%E1%83%A1%E1%83%94%E1%83%9C%E1%83%94%E1%83%91%E1%83%90-%E1%83%A1%E1%83%90%E1%83%A5%E1%83%90%E1%83%A0%E1%83%97%E1%83%95%E1%83%94%E1%83%9A%E1%83%9D%E1%83%A12020-%E1%83%AC%E1%83%9A%E1%83%98%E1%83%A12021052510374086ka.html • https://mof.ge/5439 • https://sao.ge/ka/%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%94%E1%83%91%E1%83%98?IsAudit=True&page=1 • https://sao.ge/ka/%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%94%E1%83%91%E1%83%98?IsAudit=false • https://mof.ge/mokalakis_gzamklevi ; https://mof.ge/en/4787 • https://mof.ge/BDD
10. Fiscal risk reporting	<ul style="list-style-type: none"> • Fiscal Risk Report • https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/19.FRS_III_2021.pdf • Data from Audit reports of individual Public Corporations

Indicator	Evidence
	<ul style="list-style-type: none"> • Discussion with Ministry of Finance Fiscal Risk Department
11. Public investment management	<ul style="list-style-type: none"> • Discussion with Ministry of Finance • Discussion with MRDI, MoF and MoE • Annex of the Program Budget of the 2020 Budget Performance Report - https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/24-05-2021/Programuli%20biujeti%202020%20weli.docx • Annex of the Capital Budget of the 2020 Budget Performanc Report - https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/11.%20Kapitaluri%20wliuri%202020.docxhttps://matsne.gov.ge/ka/document/view/1400751?publication=4 • https://matsne.gov.ge/ka/document/view/3265745?publication=1 • https://mof.ge/images/File/kanonebi-brdzanebebi/411%20PIM%20samushao%20jgupi.pdf • https://mof.ge/images/File/2021-biujeti/30-11-2020/danartebi/15.%20kapitaluri%2029.11.2020.doc
12. Public asset management	<ul style="list-style-type: none"> • Discussion with Ministry of Finance • Discussion with Treasury Service, MoF and Financial Statement • Discussion with LEPL-National Agency of State Property and Budget Execution Report
13. Debt management	<ul style="list-style-type: none"> • Discussion with State Debt and Foreign Financing Department, MoF • Data on Debt https://mof.ge/saxelmwifo_valis_statistika • Debt Management Strategy https://mof.ge/en/5232 • Performance Audit of Public Debt Management • Budget Code
14. Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> • Data from Ministry of Finance • http://pbo.parliament.ge ; charter: • http://pbo.parliament.ge/images/debuleba%20ofisis%202020.pdf • http://pbo.parliament.ge/ge/component/k2/itemlist/category/177.html • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/10.ganmartebiti%20barati%202022%20-%20III%2030.11.2021.docx; • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/12.%202022%20BD%20Tables%20sen%2011_1_BDD_LEPL.pdf; • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/18.2022%20BD%20Tables%20sen%2011_3_BDD_LEPL.pdf; • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/17.2022%20BD%20Tables%20sen%2011_2_BDD_LEPL.pdf • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/16.scenarebis%20analizi_2021.docx
15. Fiscal strategy	<ul style="list-style-type: none"> • Data from Ministry of Finance • https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/13.BDD%202022-2025%2026.11.2021.docx • https://matsne.gov.ge/document/view/1405264?publication=3 • "Comparison of Medium-Term Forecasts and Projection of Reverting to the Ceilings set by the Fiscal Rules Defined under the Organic Law on Economic Freedom" (December 2021) https://www.mof.ge/images/File/2021-biujeti/10-

Indicator	Evidence
	<p>12-2021/danartebi/11.prognozebis%20shedareba%202021.docx</p> <ul style="list-style-type: none"> • https://www.mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/21.prognozebis%20shedareba%202022%20-3.docx • https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/8.2020%20mokle%20informacia%20angarishi.docx • https://mof.ge/5411 • https://mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/9.COVID-is%20danarti.docx • https://mof.ge/5307; https://mof.ge/5429 • https://mof.ge/4564
16. Medium term perspective in expenditure budgeting	<ul style="list-style-type: none"> • Basic Data and Directions (BDD) document • https://matsne.gov.ge/ka/document/view/5111933?publication=0 • https://matsne.gov.ge/ka/document/view/4747283?publication=0 • https://mof.ge/5477; https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/21.prognozebis%20shedareba%202022%20-3.docx
17. Budget preparation process	<ul style="list-style-type: none"> • Data and Discussions with MoF Budget Department • Budget Code • Basic Data and Directions (BDD) document • Explanatory Note of the Law on the 2022 state budget of Georgia - https://mof.ge/images/File/2022-biujeti/21-12-2021/DanarTebi/10.ganmartebiti%20barati%202022%20-%20III%2030.11.2021.docx; state budget by years - https://mof.ge/saxelmwifo_biujeti_wlebis_mixedvit • https://mof.ge/sabiujeto_kalendari
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> • Budget Code • https://parliament.ge/legislation/reglament/35 • www.pbo.parliament.ge • Rules of Procedure of the Parliament - https://matsne.gov.ge/document/view/4401423?publication=27 • https://www.matsne.gov.ge/document/view/4734727?publication=2 • https://www.matsne.gov.ge/document/view/5071216?publication=3 • https://www.matsne.gov.ge/document/view/5309246?publication=0
19. Revenue administration	<ul style="list-style-type: none"> • Discussion with GRS <ul style="list-style-type: none"> ○ Laws, taxpayer education, risk assessment, audit, arrears • Data from GRS <ul style="list-style-type: none"> ○ Appeals ○ Penalties ○ Audit ○ Asycuda ○ Arrears • Discussion with Business Association
20. Accounting for revenue	<ul style="list-style-type: none"> • Discussion with GRS <ul style="list-style-type: none"> ○ Transfers, reconciliation and reports • Data from Revenue Service <ul style="list-style-type: none"> ○ Monthly revenue reports
21. Predictability of in-year	<ul style="list-style-type: none"> • Discussion and data from Ministry of Finance • https://mof.ge/5355

Indicator	Evidence
resource allocation	<ul style="list-style-type: none"> www.treasury.gov.ge https://matsne.gov.ge/ka/document/view/5220468?publication=0 https://matsne.gov.ge/ka/document/view/5296300?publication=0
22. Expenditure arrears	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance
23. Payroll controls	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance Discussion with State Audit Office of Georgia
24. Procurement management	<ul style="list-style-type: none"> Discussion and data from the State Procurement Agency
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance Discussion with State Audit Office of Georgia https://matsne.gov.ge/ka/document/view/2665096
26. Internal audit	<ul style="list-style-type: none"> Discussion and data from Internal Audit Center for Harmonization Unit, Ministry of Finance Discussion with internal auditors in MRDI
27. Financial data integrity	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance Discussion with State Audit Office of Georgia
28. In-year budget reports	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance http://mof.ge/4951 https://mof.ge/4564 http://treasury.ge/5535; http://treasury.ge/5274
29. Annual financial reports	<ul style="list-style-type: none"> Discussion and data from Ministry of Finance www.treasury.ge Discussion with State Audit Office of Georgia
30. External audit	<ul style="list-style-type: none"> Discussion and data from State Audit Office of Georgia https://aris.sao.ge/ Organic Law on the State Audit Office, Article 9 and Article 11. Constitution of Georgia, Article 60 (4).
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> Discussion and data from Parliament (Budget and Finance Committee) Discussion and data from State Audit Office of Georgia FY 2019 Budget Performance Report: https://info.parliament.ge/#law-drafting/20394 FY 2020 Budget Performance Report: https://info.parliament.ge/#law-drafting/22075 FY 2021 Budget Performance Report: https://info.parliament.ge/#law-drafting/20989

Annex 4: Data relating to Indicators

Annex 4.1 Expenditure by Functional classification codes

2019 GEL, thousand						
Functional classification codes	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	830,882.9	1,041,858.2	864,744.1	177,114.1	177,114.1	20.5%
702 Defense	903,090.0	800,101.6	939,893.9	-139,792.2	139,792.2	14.9%
703 Public order and	1,136,730.0	1,217,475.7	1,183,055.4	34,420.3	34,420.3	2.9%

safety						
704 Economic activity	2,166,424.0	2,175,775.1	2,254,712.8	-78,937.7	78,937.7	3.5%
705 Environmental protection	102,396.0	91,999.9	106,569.0	-14,569.0	14,569.0	13.7%
706 Housing and utility services	105,916.1	97,205.5	110,232.5	-13,027.1	13,027.1	11.8%
707 Healthcare	1,146,693.0	1,233,922.3	1,193,424.5	40,497.8	40,497.8	3.4%
708 Recreation, culture, and religion	311,707.0	320,608.3	324,410.1	-3,801.8	3,801.8	1.2%
709 Education	1,372,978.0	1,499,554.4	1,428,931.3	70,623.1	70,623.1	4.9%
710 Social protection	3,042,614.0	3,094,083.0	3,166,610.4	-72,527.4	72,527.4	2.3%
Total	11,119,431.0	11,572,584.0	11,572,584.0	-	645,310.6	

Interest 624,000.0 604,469.5

Reserve funds 50,000.0 54,596.5

Total expenditures 11,793,431.0 12,231,649.9

total expenditures deviation for indicator PI-1 103.7%

composition variance for indicator PI-2.1 5.6%

contingency share for indicator PI-2.3 0.5%

2020						
Functional classification codes	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	1,044,960.7	1,116,140.6	1,195,539.0	-79,398.5	79,398.5	6.6%
702 Defense	978,700.0	876,465.0	1,119,730.2	-243,265.2	243,265.2	21.7%
703 Public order and safety	1,215,599.0	1,214,037.0	1,390,766.2	-176,729.3	176,729.3	12.7%
704 Economic activity	2,222,172.0	2,564,264.5	2,542,385.9	21,878.6	21,878.6	0.9%
705 Environmental protection	103,190.0	100,000.8	118,059.6	-18,058.8	18,058.8	15.3%
706 Housing and utility services	143,250.0	114,833.7	163,892.3	-49,058.5	49,058.5	29.9%
707 Healthcare	1,134,478.0	1,801,870.5	1,297,955.7	503,914.8	503,914.8	38.8%
708 Recreation, culture, and religion	352,182.0	299,862.4	402,931.3	-103,068.8	103,068.8	25.6%
709 Education	1,560,130.0	1,491,663.9	1,784,944.0	-293,280.1	293,280.1	16.4%
710 Social protection	3,512,233.0	4,455,410.0	4,018,344.1	437,065.8	437,065.8	10.9%
Total	12,266,894.7	14,034,548.4	14,034,548.4	0.0	1,925,718.4	
Interest	751,000.0	763,663.7				
Reserve funds	50,000.0	54,689.2				
Total expenditures	13,067,894.7	14,852,901.4				

<i>total expenditures deviation for indicator PI-1</i>	113.7%
<i>composition variance for indicator PI-2.1</i>	13.7%
<i>contingency share for indicator PI-2.3</i>	0.4%

2021						
Functional classification codes	budget	actual	adjusted budget	deviation	absolute deviation	percent
701 General public service	1,092,757.8	1,172,943.3	1,222,741.6	-49,798.3	49,798.3	4.1%
702 Defense	942,292.7	1,023,868.2	1,054,378.6	-30,510.4	30,510.4	2.9%
703 Public order and safety	1,285,694.3	1,360,476.1	1,438,627.9	-78,151.9	78,151.9	5.4%
704 Economic activity	2,519,871.0	2,866,974.0	2,819,610.2	47,363.8	47,363.8	1.7%
705 Environmental protection	123,710.0	116,049.2	138,425.3	-22,376.2	22,376.2	16.2%
706 Housing and utility services	200,700.0	266,468.2	224,573.3	41,894.9	41,894.9	18.7%
707 Healthcare	1,664,969.0	2,526,194.0	1,863,017.4	663,176.5	663,176.5	35.6%
708 Recreation, culture, and religion	360,599.0	396,275.7	403,492.3	-7,216.6	7,216.6	1.8%
709 Education	1,699,108.0	1,740,682.5	1,901,217.3	-160,534.8	160,534.8	8.4%
710 Social protection	4,327,561.0	4,438,478.4	4,842,325.3	-403,847.0	403,847.0	8.3%
Total	14,217,262.8	15,908,409.3	15,908,409.3	0.0	1,504,870.4	

Interest	918,000.0	790,511.7
Reserve funds	40,000.0	43,143.9
Total expenditures	15,175,262.8	16,742,064.9

<i>total expenditures deviation for indicator PI-1</i>	110.3%
<i>composition variance for indicator PI-2.1</i>	9.5%
<i>contingency share for indicator PI-2.3</i>	0.3%

Annex 4.2 Expenditure by Economic classification codes

2019 GEL, thousand						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	1,470,663.7	1,454,734.0	1,525,310.4	-70,576.5	70,576.5	4.6%
Goods and services	1,218,152.1	1,301,914.5	1,263,416.0	38,498.5	38,498.5	3.0%
Interest	624,041.0	604,496.0	647,229.0	-42,733.1	42,733.1	6.6%
Subsidies	443,787.0	489,689.6	460,277.2	29,412.5	29,412.5	6.4%
Grants	544,317.1	798,308.9	564,542.8	233,766.1	233,766.1	41.4%
Social security	3,866,912.0	3,946,606.1	4,010,598.3	-63,992.1	63,992.1	1.6%
Other expenses	1,473,245.0	1,379,772.7	1,527,987.7	-148,215.0	148,215.0	9.7%
Increase in nonfinancial assets	2,152,313.1	2,256,128.1	2,232,288.5	23,839.6	23,839.6	1.1%
Total expenditures	11,793,431.0	12,231,649.9	12,231,649.9	0.0	651,033.4	

composition variance for indicator PI-2.2

5.3%

2020						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	1,575,965.0	1,543,096.8	1,791,233.7	-248,136.8	248,136.8	13.9%
Goods and services	1,373,690.5	1,529,153.1	1,561,329.5	-32,176.4	32,176.4	2.1%
Interest	751,031.0	763,694.7	853,617.9	-89,923.2	89,923.2	10.5%
Subsidies	516,463.0	837,076.5	587,009.2	250,067.3	250,067.3	42.6%
Grants	726,074.5	1,010,668.9	825,252.5	185,416.4	185,416.4	22.5%
Social security	4,294,821.3	5,343,171.8	4,881,471.6	461,700.2	461,700.2	9.5%
Other expenses	1,608,483.9	1,507,026.0	1,828,194.4	-321,168.4	321,168.4	17.6%
Increase in nonfinancial assets	2,221,365.5	2,319,013.5	2,450,715.1	-131,701.6	131,701.6	5.4%
Total expenditures	13,067,894.7	14,852,901.4	14,778,823.9	74,077.5	1,720,290.4	

composition variance for indicator PI-2.2

11.6%

2021						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Labor remuneration	1,614,671.1	1,654,757.8	1,781,381.2	-126,623.4	126,623.4	7.1%
Goods and services	1,606,703.3	1,800,113.5	1,772,590.8	27,522.7	27,522.7	1.6%
Interest	918,045.0	790,511.7	1,012,830.5	-222,318.8	222,318.8	22.0%
Subsidies	649,688.0	859,829.0	716,766.4	143,062.6	143,062.6	20.0%
Grants	790,578.5	950,221.4	872,203.4	78,017.9	78,017.9	8.9%
Social security	5,361,938.3	6,082,587.1	5,915,542.9	167,044.1	167,044.1	2.8%
Other expenses	1,816,712.2	2,059,849.0	2,004,282.5	55,566.6	55,566.6	2.8%
Increase in nonfinancial assets	2,416,926.4	2,544,195.3	2,666,467.1	-122,271.8	122,271.8	4.6%
Total expenditures	15,175,262.8	16,742,064.8	16,742,064.8	0.0	942,427.8	

composition variance for indicator PI-2.2

5.6%

Results Matrix

year	for PI-1	for PI-2.1	for PI-2.2	for PI-2.3
	total exp. deviation	composition variance by FC	Composition variance by EC	contingency share
2019	103.7%	5.6%	5.3%	0.4%
2020	113.7%	13.7%	11.6%	
2021	110.3%	9.5%	5.6%	

Annex 4.3 Revenue by classification codes

2019 GEL, thousand						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit, and capital gains	3,947,000.0	4,066,543.6	4,016,048.6	50,495.0	50,495.0	1.3%
Taxes on goods and services	5,498,000.0	5,750,282.5	5,594,181.7	156,100.8	156,100.8	2.8%
Other taxes	200,000.0	(151,258.4)	203,498.8	-354,757.2	354,757.2	174.3%
Grants						
Grants from foreign governments	386,500.0	489,635.3	393,261.4	96,373.9	96,373.9	24.5%
Other revenue						
Property income	171,000.0	211,739.0	173,991.5	37,747.6	37,747.6	21.7%
Sales of goods and services	94,500.0	95,437.6	96,153.2	-715.6	715.6	0.7%
Fines, penalties, and forfeits	85,000.0	98,139.2	86,487.0	11,652.2	11,652.2	13.5%
Sum of rest	109,500.0	114,519.0	111,415.6	3,103.4	3,103.4	2.8%
Total revenue	10,491,500.0	10,675,037.7	10,675,037.7	(0.0)	710,945.6	

overall variance for indicator PI-3.1 101.7%

composition variance for indicator PI-3.2 6.7%

2020						
classification head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit, and capital gains	4,385,000.0	3,999,280.7	4,097,326.3	-98,045.6	98,045.6	2.4%
Taxes on goods and services	5,798,300.0	5,537,551.4	5,417,908.1	119,643.3	119,643.3	2.2%
Other taxes	281,700.0	(172,052.7)	263,219.3	-435,272.0	435,272.0	165.4%
Grants						
Grants from foreign governments	241,900.0	459,551.2	226,030.4	233,520.8	233,520.8	103.3%
Other revenue						
Property income	191,000.0	291,897.7	178,469.6	113,428.0	113,428.0	63.6%
Sales of goods and services	101,000.0	38,246.2	94,374.0	-56,127.7	56,127.7	59.5%
Fines, penalties, and forfeits	105,000.0	71,928.2	98,111.6	-26,183.4	26,183.4	26.7%
Sum of rest	123,000.0	263,967.3	114,930.7	149,036.6	149,036.6	129.7%
Total revenue	11,226,900.0	10,490,370.0	10,490,370.0	0.0	1,231,257.4	

overall variance for indicator PI-3.1 93.4%

composition variance for indicator PI-3.2 11.7%

2021						
classification head	budget	Actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	4,266,000.0	4,506,816.2	4,865,525.9	-358,709.8	358,709.8	7.4%
Taxes on goods and services	5,929,270.0	6,752,716.8	6,762,545.0	-9,828.2	9,828.2	0.1%
Other taxes	147,000.0	179,955.7	167,658.8	12,296.9	12,296.9	7.3%
Grants						
Grants from foreign governments	286,925.0	487,106.9	327,248.2	159,858.7	159,858.7	48.8%
Other revenue						
Property income	276,000.0	483,964.4	314,787.9	169,176.5	169,176.5	53.7%
Sales of goods and services	59,400.0	69,691.5	67,747.8	1,943.7	1,943.7	2.9%
Fines, penalties and forfeits	90,000.0	92,144.7	102,648.2	-10,503.5	10,503.5	10.2%
Sum of rest	124,600.0	177,876.5	142,110.8	35,765.8	35,765.8	25.2%
Total revenue	11,179,195.0	12,750,272.7	12,750,272.7	(0.0)	758,083.1	

overall variance for indicator PI-3.1 114.1%

composition variance for indicator PI-3.2 5.9%

Results Matrix

Year	for PI-3.1	for PI-3.2
	total revenue deviation	composition variance
2019	101.7%	6.7%
2020	93.4%	11.7%
2021	114.1%	5.9%

Annex 4.4 Coverage of Internal Audit

Code	Institution	internal audit	Budget 2019	Budget 2020	Budget 2021
01 00	Parliament and its organizations	No	63,804.80	53,983.00	64,736.00
02 00	Administration of the President of Georgia	No	8,532.20	4,717.70	6,250.00
03 00	Office of the Business Ombudsman of Georgia	No	730.9	577.9	700
04 00	Administration of the government of Georgia	Yes	20,282.30	18,432.10	16,000.00
05 00	State Audit Office	Yes	15,925.40	13,547.20	16,811.00
06 00	Central Election Commission of Georgia	Yes	31,762.50	77,511.40	74,455.80
07 00	Constitutional Court of Georgia	No	3,866.30	3,469.40	4,250.00
08 00	Supreme Court of Georgia	No	9,428.80	9,716.50	12,500.00
09 00	Common courts	No	72,617.60	65,015.60	74,000.00
10 00	Supreme Council of Justice of Georgia	No	4,277.80	4,531.60	6,500.00
11 00	Administration of the State Trustee in the municipalities of Abashi, Zugdidi, Martvili, Mestia, Senaki, Chkhorotsku, Tsalenjikha, Khobi and the municipality of Poti	No	867.4	806.00	890
12 00	Administration of the State Trustee in Lanchkhuti, Ozurgeti and Chokhatauri municipalities	No	636.7	608.5	680
13 00	Administration of the State Trustee in the municipalities of Baghdati, Vani, Zestafon, Terjoli, Samtredi, Sachkheri, Tkibuli, Tskaltubo, Chiaturi, Kharagauli, Khoni and the municipality of Kutaisi city	No	778.30	743.9	790
14 00	Administration of the State Trustee in Akhmet, Gurjaani, Dedoplistskaro, Telavi, Lagodekhi, Sagarejo, Sighnaghi and Kvareli municipalities	No	705.7	642.8	760
15 00	Administration of the State Trustee in Dusheti, Tianeti, Mtskheta and Kazbegi municipalities	No	624.6	575.8	650
16 00	Administration of the State Trustee in the municipalities of Ambrolauri, Lentekhi, Oni and Tsageri	No	610.5	536.8	640
17 00	Administration of the State Trustee in the municipalities of Adigeni, Aspindze, Akhaltsikhe, Akhalkalaki, Borjomi and Ninotsminda	No	609	615.1	650
18 00	Administration of the State Trustee in the municipalities of Bolnisi, Gardabani, Dmanisi, Tetri Zorka, Marneuli, Tsalki and the municipality of the city of Rustavi	No	845.9	803.7	880
19 00	Administration of the State Trustee in the municipalities of Gori, Kaspi, Kareli and Khashuri	No	629.4	610.1	660
20 00	State Security Service of Georgia	No	135,919.90	136,343.50	137,500.00
21 00	SSI - pension agency	Yes	3,792.90	4,191.00	3,400.00
22 00	Office of the Georgian State Minister for Reconciliation and Civil Equality	No	2,744.60	2,189.10	2,550.00
23 00	Ministry of finance of Georgia	Yes	86,059.00	77,228.50	88,900.00
24 00	Ministry of Economy and Sustainable Development of Georgia	Yes	260,409.40	759,363.90	585,215.00
25 00	Ministry of Regional Development and Infrastructure of Georgia	Yes	2,121,193.20	2,202,373.30	2,456,630.00
26 00	Ministry of Justice of Georgia	Yes	216,832.90	238,813.30	296,500.00
27 00	IDPs from the occupied territories of Georgia, Ministry of Labor, Health, and Social Protection	Yes	4,055,432.20	5,631,137.30	6,468,945.60
28 00	Ministry of Foreign Affairs of Georgia	Yes	148,256.70	156,573.30	170,700.00
29 00	Ministry of Defence of Georgia	Yes	822,882.70	842,378.80	990,000.00
30 00	Ministry of Internal Affairs of Georgia	Yes	774,400.30	765,835.60	780,000.00

Code	Institution	internal audit	Budget 2019	Budget 2020	Budget 2021
31 00	Ministry of Environment Protection and Agriculture of Georgia	Yes	358,044.80	496,804.30	628,575.00
32 00	Ministry of Education, Science, Culture and Sports of Georgia	Yes	1,644,676.60	1,551,185.70	1,872,210.00
33 00	Prosecutor's Office of Georgia	No	37,385.90	37,962.20	41,400.00
34 00	Intelligence Service of Georgia	No	13,499.90	13,500.00	13,800.00
35 00	Public Service Bureau - Public Service Bureau	No	1,760.30	1,613.10	1,400.00
36 00	SSI - Legal Aid Service	No	6,388.00	6,326.20	7,300.00
37 00	State Service of Veterans Affairs	No	7,948.30	7,224.90	7,900.00
38 00	LSI - Financial Monitoring Service of Georgia	No	2,082.50	1,987.20	2,150.00
39 00	A(a)ip - Georgian Solidarity Fund	No	254.1	244.6	260
40 00	Special Service of State Protection of Georgia	No	63,887.40	56,685.20	60,400.00
41 00	Office of the Public Defender of Georgia	No	7,555.90	6,373.30	8,500.00
42 00	Public Broadcaster - Public Broadcaster	Yes	58,744.30	68,913.20	69,200.00
43 00	National Competition Agency of Georgia	No	2,010.10	1,877.60	2,400.00
44 00	Administration of the temporary administrative-territorial unit on the territory of the former South Ossetia Autonomous District - Administration of South Ossetia	No	2,437.80	2,394.20	2,460.00
45 00	Patriarchate of Georgia	No	25,115.90	24,997.70	25,000.00
46 00	National Bureau of Forensic Expertise named after Levan Samkharauli	Yes	8,695.00	6,967.10	7,000.00
47 00	LSI - National Statistical Service - Saxstat	Yes	10,213.70	9,867.60	10,120.00
48 00	National Academy of Sciences of Georgia	No	3,886.90	4,082.10	4,250.00
49 00	Chamber of Commerce and Industry of Georgia	No	1,159.10	1,474.20	1,430.00
50 00	State Agency for Religious Affairs	No	5,246.00	5,255.70	5,330.00
51 00	State Inspector Service	No	4,667.00	6,100.10	9,000.00
52 00	State Language Department - State Language Department	No	481.3	434.5	450
53 00	Public and private cooperation agency	No	264.9	233.9	250
54 00	SSI - Youth Agency	No	5,427.50	3,559.60	4,200.00
55 00	Office of the National Security Council	No	464.4	2,351.20	2,700.00
56 00	Payments of common-state significance	Yes	2,331,413.70	2,780,099.40	4,745,300.00
57 00	State University of Kutaisi - Kutaisi International University	No	517.7	2,120.90	0
59 00	A(a)ip - Millennium Fund	No	0	113.4	0
60 00	National Intellectual Property Center - "Sakpatent"	Yes	0	14.6	0

Annex 4.5 Central level audit reports presented by the State Audit Service to Parliament

January 1 to December 31, 2019					
No	Audit type	Date of presentation in Parliament	Name of the audit report	Discussion at the audit group meeting*	Discussion at the committee meeting
1	Compliance	15.02.2019	AAP - Compliance audit of operations with expenditure and nonfinancial assets carried out by Shota Rustaveli Theater and Cinema State University in 2015-2017	22.11.2019	6.12.2019
2	Compliance	15.02.2019	2017 compliance audit report Post Ltd	22.11.2019	6.12.2019
3	Effectiveness	02.02.2019	Audit report on the effectiveness of uniform provision of law enforcement agencies	22.10.2019	23.10.2019
4	Effectiveness	15.02.2019	Audit report on the effectiveness of higher education programs and the compatibility of the labor market	25.09.2019	9.10.2019
5	Effectiveness	15.02.2019	Protection and prevention mechanisms against domestic violence - effectiveness audit report	24.05.2019	12.09.2019
6	Effectiveness	21.03.2019	Ensuring fire safety in public facilities - performance audit report	24.04.2019	8.05.2019
7	Effectiveness	8.05.2019	Infection prevention and control	18.06.2019	12.09.2019
8	Financial	16.08.2019	Audit report of the consolidated financial statements of the Ministry of Foreign Affairs for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
9	Financial	20.09.2019	Consolidated financial audit report of the Ministry of Economy and Sustainable Development for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
10	Financial	18.10.2019	2018 consolidated financial statement audit report of the Ministry of Justice of Georgia	10.03.2020	11.03.2020
11	Financial	25.10.2019	Audit report of the consolidated financial statements of the Ministry of Regional Development and Infrastructure for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
12	Financial	8.11.2019	Audit report of the financial statements of the office of the Ministry of Internal Affairs for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
13	Financial	8.11.2019	Audit report of the financial statements of the Ministry of Defense for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
14	Financial	25.11.2019	Audit report of the consolidated financial statements of the Ministry of Environment Protection and Agriculture for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
15	Financial	20.12.2019	Audit report of the consolidated financial statements of the MoF for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
16	Compliance	25.11.2019	Compliance audit report of the 2015-2018 activities of the "O. Chchobadze Clinical Center for the Treatment and Rehabilitation of the Disabled and the Elderly" LLC	11.02.2020	27.02.2020

17	effectiveness	12.07.2019	Audit report on the effectiveness of education management information systems	25.09.2019	9.10.2019
18	effectiveness	16.08.2019	Real estate management effectiveness audit report of the Ministry of Defense of Georgia	22.10.2019	23.10.2019
19	effectiveness	16.08.2019	Audit report on the effectiveness of activities carried out by the Georgian Justice Training Center and the Penitentiary and Probation System Training Center	19.12.2019	3.02.2020

in the period from from January 1 to December 31, 2020

No	Audit type	Date of presentation in Parliament	Name of the audit report	Discussion at the meeting of the audit group	Discussion at the committee meeting
1	Financial	10.01.2020	Financial audit report of the consolidated statement of the Ministry of Education, Science, Culture and Sports for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
2	Financial	10.01.2020	Financial audit report of the consolidated statement of the Ministry of IDPs, Labor, Health and Social Protection from the occupied territories for the reporting period ended on December 31, 2018	10.03.2020	11.03.2020
3	Financial	29.05.2020	Independent financial audit report for the period from January 1, 2018 to July 31, 2019 of the "Family Violence Reduction Project" implemented by the State Fund for the Protection and Assistance of Victims of Human Trafficking (Trafficking)	28.12.2020	30.12.2020
4	Compliance	17.01.2020	2017-2018 compliance audit report of the National Intellectual Property Center - Sakpatent	28.12.2020	30.12.2020
5	Compliance	29.06.2020	Contract management compliance system audit report	28.12.2020	30.12.2020
6	Effectiveness	7.02.2020	Effectiveness audit report on the progress achieved in the reform of the implementation of international accounting standards of public sector financial reporting by 2020	28.12.2020	30.12.2020
7	Effectiveness	13.03.2020	Audit report on the effectiveness of promotion of competition development	28.12.2020	30.12.2020
8	Effectiveness	13.03.2020	215-2018 Performance Audit Report of Sports Infrastructure Management	28.12.2020	30.12.2020
9	Effectiveness	13.03.2020	Audit report on effectiveness of personal data protection	28.12.2020	30.12.2020
10	Effectiveness	29.05.2020	Public Debt Management Post-Response Effectiveness Audit Report	28.12.2020	30.12.2020
11	Effectiveness	5.06.2020	"State pension administration information system" - efficiency audit report	28.12.2020	30.12.2020
12	Effectiveness	29.06.2020	Audit Report on the Effectiveness of Post-Response Management of Public Debt Management Information Systems	28.12.2020	30.12.2020
13	Financial	4.12.2020	Audit report of the consolidated financial statements of the Ministry of Regional Development and Infrastructure for the reporting period ended on December 31, 2019	20.04.2021	22.05.2021
14	Financial	18.12.2020	2019 consolidated financial statement audit report of the State Security Service of Georgia	20.04.2021	22.05.2021

15	Financial	25.12.2020	Audit report of the consolidated financial statements of the Ministry of Environment Protection and Agriculture for the reporting period ended on December 31, 2019	20.04.2021	22.05.2021
16	Financial	25.12.2020	2019 consolidated financial statement audit report of the Ministry of Justice of Georgia	20.04.2021	22.05.2021
17	Compliance	4.12.2020	2018-2019 Compliance Audit Report of the National Bureau of Forensic Expertise named after Levan Samkharauli	23.02.2021	24.02.2021
18	Compliance	18.12.2020	A(a)ip - 2017-2019 compliance audit report of the activities of the Georgian Chess Federation	23.02.2021	24.02.2021

in the period from from January 1 to December 31, 2021

No	Audit type	Date of presentation in Parliament	Name of the audit report	Discussion at the meeting of the audit group	Discussion at the committee meeting
1	Financial	29.01.2021	Audit report of the consolidated financial statements of the Ministry of Education, Science, Culture and Sports for the reporting period ended on December 31, 2019	20.04.2021	22.05.2021
2	Financial	5.02.2021	2019 consolidated financial statement audit report of the Ministry of Internal Affairs of Georgia	20.04.2021	22.05.2021
3	Financial	26.02.2021	Financial audit report of the consolidated statement of the Ministry of IDPs, Labor, Health and Social Protection from the occupied territories for the reporting period ended on December 31, 2019	20.04.2021	22.05.2021
4	Financial	16.04.2021	2019 consolidated financial statement audit report of the Ministry of Defense of Georgia	20.04.2021	22.05.2021
5	Compliance	22.01.2021	System Compliance Audit Report of the Inventory Process in the Public Sector	18.05.2021	22.05.2021
6	Compliance	22.01.2021	2017-2018 Compliance Audit Report of the State Program for the Provision of Drugs for the Treatment of Chronic Diseases	23.03.2021	6.04.2021
7	Compliance	22.01.2021	Compliance audit report of Academician Nikoloz Kipshidze Central University Clinic 2015/2017	23.03.2021	6.04.2021
8	Compliance	19.02.2021	2017-2019 compliance audit report of grant awarding and fulfillment of contractual conditions by Shota Rustaveli National Science Foundation of Georgia	15.06.2021	16.06.2021
9	Compliance	29.04.2021	2018-2019 Compliance Audit Report of "Mountain Resorts Development Company" LLC	7.12.021	8.12.2021
10	effectiveness	12.02.2021	Tuberculosis prevention and treatment - effectiveness audit report	23.03.2021	6.04.2021
11	effectiveness	5.03.2021	Audit report on the effectiveness of emergency management (prevention, preparedness) caused by forest fires	9.11.2021	12.11.2021
12	effectiveness	19.03.2021	2016-2019 effectiveness audit of promotion of education abroad	15.06.2021	16.06.2021
13	effectiveness	16.04.2021	2017-2019 effectiveness audit report of teachers' professional development	12.10.2021	12.11.2021
14	effectiveness	29.04.2021	Audit report on the effectiveness of the vocational education system	12.10.2021	12.11.2021
15	effectiveness	4.06.2021	Commercial and Social Timber Management Effectiveness Audit Report	9.11.2021	12.11.2021

16	effectiveness	4.06.2021	Internal State Road Asset Management Project (SRAMP) 2018-2019 Performance Audit Report	7.12.021	8.12.2021
17	Financial	3.12.2021	Audit report of the consolidated financial statements of the Ministry of Environment Protection and Agriculture for the reporting period ended on December 31, 2020	17.05.2022	1.06.2022
18	Financial	3.12.2021	2020 consolidated financial statement audit report of the Ministry of Justice of Georgia	17.05.2022	1.06.2022
19	Financial	17.12.2021	Audit report of the consolidated financial statements of the Ministry of Economy and Sustainable Development for the reporting period ended on December 31, 2020	17.05.2022	1.06.2022
20	Financial	17.12.2021	Audit report of the consolidated financial statements of the Ministry of Regional Development and Infrastructure Development for the reporting period ended on December 31, 2020	17.05.2022	1.06.2022
21	Compliance	13.08.2021	A(a)ip - audit report of compliance of activities of the National Wrestling Federation for 2017-2019	20.06.2022	21.06.2022
22	Compliance	26.11.2021	LSI - 2017-2018 compliance audit report of the transfer of state property in exchange for investment obligations by the National Agency of State Property	19.04.2022	4.05.2022
23	effectiveness	13.08.2021	Audit report on the effectiveness of human resources management in the public sector	22.03.2022	6.04.2022
24	effectiveness	13.08.2021	Audit report on the effectiveness of grants issued by the state in 2017-2019	22.03.2022	6.04.2022
25	effectiveness	19.11.2021	Audit report on the effectiveness of IT project management in the public sector	22.02.2022	9.03.2022
26	effectiveness	19.11.2021	Internal State Road Asset Management Project (SRAMP) 2020 Performance Audit Report	7.12.2021	8.12.2021
27	effectiveness	26.11.2021	Audit report on the effectiveness of provision of legal assistance to citizens	22.02.2022	9.03.2022
28	effectiveness	31.12.2021	Audit report on the effectiveness of access to services provided by the state health care programs	19.04.2022	4.05.2022

Annex 4.6 PFM Reforms Action Plan 2018-2021 Components

I - Budgeting

1. Improvement of budget management

1.1 Preparation of draft annual Budget Law

Responsible entity: Budget Department, Macroeconomic Analysis and Fiscal Policy Planning Department, Public Debt and External Financing Department (Involved entities: Spending Institutions, State Audit Office, Government of Georgia, Parliament of Georgia)

1.2 Medium-term planning (MTEF)

Responsible entity: Budget Department, Macroeconomic Analysis and Fiscal Policy Planning Department, (Involved entities: Spending Institutions, Government of Georgia, and Parliament of Georgia)

1.3 Improvement of program budgeting in the municipalities

Responsible entity: Budget Department (Involved entities: municipalities, Donors)

1.4 Ensuring transparency of the budget process

Responsible entity: Budget Department (Involved entities: Spending Institutions, Government of Georgia, and Parliament of Georgia)

1.5 To further improve the principles of fiscal governance based on the international standards

Responsible entity Budget Department (Involved entities: Spending Institutions, Government of Georgia, and Parliament of Georgia)

1.6 Annual and Quarter Budget Execution Reports, Strengthen accountability toward regulatory agency

Responsible entity: Budget Department, (Involved entities: state budget spending institutions, State Audit Office, and Parliament of Georgia)

1.7 Developing a unified cycle of capital / investment projects management and analyzing international experience of assessing program efficiency

Responsible entity: Budget Department, Macroeconomic Analysis and Fiscal Policy Planning Department, spending institutions, State Audit Office, The Government of Georgia, The parliament of Georgia)

1.8 Budget Process is supported with the Relevant Legislation

Responsible entity: Budget Department, Legal Department (Involved entity: State budget spending institutions, The Government of Georgia, The Parliament of Georgia)

II - Tax Policy and Customs Issues

1. Improvement of tax base

1.1 Harmonization of Georgian tax legislation with European directives in accordance with Association agreement

1.2 Further Improvement of tax legislation

1.3 Planned tax law amendments – formation of growth oriented tax system

1.4 Publishing of new version of tax legislation guide for investors “pocket tax book“

1.5. Enhancement of International Tax Policy

1.6 Implementation of the new legislative act regulating customs sphere

The responsible entity for all of the components: Tax and Customs Policy department

2. Enhancement of compliance in terms of fulfillment of tax and state border crossing obligations through risk based approaches.

2.1 Conduct survey on the assessment of GRS’ performance and taxpayers' satisfaction

2.2 Development and implementation of VAT automatic refund program

The responsible entity for all of the components: GRS

3. Institutional Development and Sustainability of GRS

3.1 Taxpayers segmentation in database by different criteria and development of the system providing continuous control over data accuracy

3.2 Introduction of electronic case management system for Audit Department

3.3 Introduction and development of individual staff evaluation system

The responsible entity for all of the components: GRS

4. Support EU integration process

4.1 EU Twinning project on ``Supporting the Accession to the Conventions on Transit Area and Launching of the New Computerised Transit System (NCTS)``

4.2 Participation in peer review work within the framework of Global forum, including participation in assessments as an assessor

The responsible entity for all of the components: GRS

III – Macroeconomic Forecasting and Analysis

1. Improvement of Macroeconomic Forecasting and Analysis

1.1 Improvement of macroeconomic forecasting and analysis and increase in analytical information

1.2 Study of new analytical indicators of economic activity based on information received from administrative sources

1.3 Periodic analysis and dissemination of economic conditions

Responsible entity: Macroeconomic Analysis and Fiscal Policy Planning Department

1.4 Periodic analysis of fiscal policy

1.5 Macroeconomic modeling

1.6 Vulnerability Analysis

1.7 Macroeconomic Risk Assessment

The Responsible entity of all the components: Macroeconomic Analysis and Fiscal Policy Planning Department

2. Improvement of revenue forecasting and analysis

2.1 Improvement of budget revenue forecasts

2.2 Acceptance, processing and analysis of the information on accrued taxes

The Responsible entity of all the components: Macroeconomic Analysis and Fiscal Policy Planning Department

3. Detection and evaluation of fiscal risks

3.1 Identification and evaluation of conditional liabilities of state-owned enterprises

3.2 Identification, evaluation and analyze of quasi-fiscal activities

3.3 Collection, regulation and evaluation of information on ongoing projects of public and private partnership

3.4 Sensitivity analysis of state-owned enterprises and stress tests to assess possible fiscal risks

The Responsible entity of all the components: Fiscal Risk Management Division

IV – Accounting and Reporting

1. Implementation of Accrual-based IPSASs

1.1 Implementation of IPSAS standards for 2018 year, specified in IPSASs detailed action plan (IPSAS 18, IPSAS 20, IPSAS 25, IPSAS 26, IPSAS 32) in accounting and financial reporting Instruction of state budgetary organizations

Responsible entity: Treasury Service

1.2 Informing accountants of state budgetary organizations in amendments of accounting and reporting instruction during the 2017-2018 years, preparing and conducting training programs for them

Responsible entity: Treasury Service, LEPL – Academy of the Ministry of Finance

1.3 Analytics of the IPSASs for 2019 year, specified in IPSASs detailed action plan and prepare draft instruction on accounting and financial reporting for state budgetary organizations

Responsible entity: Treasury Service

1.4 Raise awareness in IPSASs for representatives of local self-government units

Responsible entity: Treasury Service

1.5 Develop IPSAS practical manual in order to support IPSASs implementation process in local self-government units

Responsible entity: Treasury Service

1.6 Select pilot local self-government units and prepare methodologies based on IPSASs for them

Responsible entity: Treasury Service

2. Development Public Financial Management information System (PFMS)

2.1 Evaluation/Analytics of module of management of actual receipts on Treasury Single Account of budgetary organizations

2.2 Analytics of integration of accounting entries of receipts into the Treasury General Ledger

The responsible entity for all of the components: Treasury Service; Financial-Analytical Service

3. Cash Management Reform

3.1 Projecting cash flow on Treasury Accounts and Developing instruments for more effective cash management

3.2 Training of Cash Flow Forecasting and Management Department staff on financial markets issues

The responsible entity for all of the components: Treasury Service

V. Reform of public internal financial control

1. Public internal financial control

1.1 Planning, assessment and improvement of awareness of public internal control system's development

1.2 Implementation and facilitate of effective functioning in public sector of financial management and control system

1.3 development and facilitate of effective functioning in public sector of financial management and control system

The responsible entity for all of the components: Central Harmonization Unit

VI - Information Technology

1. System Upgrade

1.1. eBudget - Upgrading the system and developing new features

1.2 eTreasury - Upgrading the system and developing new features

1.3 eDMS – Upgrading the system and developing new features

1.4 eHRMS - Upgrading the system and developing new features

1.5. Providing stability of ICT infrastructure of the Ministry of Finance

The responsible entity for all the components: LEPL Financial-Analytical Service

VII - Supervision of Accounting, Reporting and Auditing

1. Supervision

1.1 Effective functioning of the Reporting Portal

Responsible entity: The Service for Accounting, Reporting and Auditing Supervision.

1.2 Optimization of tax risk management process

Responsible entity: The Service for Accounting, Reporting and Auditing Supervision and LEPL Risk Management Division of GRS

1.3 Facilitating the authorization process of economic operator

Responsible entity: The Service for Accounting, Reporting and Auditing Supervision and LEPL Customs Department of GRS

VIII – Resource Management

1. Modernization of the website of electronic auction eAuction.ge and the electronic system ERP

1.1 Service quality improvement

1.2 Refine/modernization of the system of eAuction

1.3 Development of the electronic system ERP

The responsible entity for all the components: LEPL “Service Agency of the MoF”

Annex 5: Gender Responsive Public Financial Management Assessment Report



GEORGIA

Gender Responsive Public Financial Management (GRPFM) Assessment Report 2022

October 2022



ევროკავშირი
საქართველოსთვის
The European Union for Georgia





**PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY
(PEFA)**

GENDER RESPONSIVE PFM ASSESSMENT

GOVERNMENT OF GEORGIA

NOVEMBER 2022

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat

November 10, 2022

Abbreviations and Acronyms

BCG	Budgetary Central Government
CO	Country Office
CSOs	Civil Society Organizations
GRPFM	Gender Responsive Public Finance Management
GE	Gender Equality
GG4GEG	Good Governance for Gender Equality in Georgia
GRB	Gender Responsive Budgeting
GEC	The Permanent Parliamentary Gender Equality Council
GIA	Gender Impact Assessment
VAW/DV	Violence Against Women/Domestic Violence
GFS	Government Finance Statistics
GOG	Government of Georgia
IDI	In-Depth Interview
IDP	Internally Displaced Person
ILO	International Labor Organization
IMF	International Monetary Fund
KI	Key Informant
MoF	Ministry of Finance
NAP	National Action Plan
PDO	Public Defender's Office
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
SDGs	UN Sustainable Development Goals
UNCT	UN Country Team
UN Women	United Nations Entity for Gender Equality and Empowerment of Women

Exchange rate

Exchange rate effective as of December 2021

Currency unit = Georgian Lari (GEL)

USD1.00 = 3.05 GEL

Fiscal Year

January 1 to December 31

1. INTRODUCTION

1.1 Purpose

1. **This Government of Georgia public financial management assessment addresses the topic of gender.** It focuses on gender responsive public financial management¹⁵⁸ (GRPFM) and has been developed in line with the Public Expenditure and Financial Accountability¹⁵⁹ (PEFA) supplementary framework for assessing gender responsive public financial management.¹⁶⁰ The purpose of this assessment is to collect information on the degree to which Georgia’s public financial management (PFM) system is gender responsive. The assessment results are expected to facilitate the measurement of progress in this area and to inform a broader strategy of the Government of Georgia on improving the PFM system and institutionalizing gender responsive budgeting (GRB) in Georgia. The development of the new PFM strategy will be launched by the Government of Georgia in 2022 and will provide an excellent opportunity for the findings of the PEFA and GRPFM PEFA assessments to be integrated into the broader public finance management reform agenda.

2. **The GRPFM assessment was conducted by the Ministry of Finance (MoF) with technical and financial support from UN Women and the Ministry of Foreign Affairs of Norway.** It was conducted within the framework of the “Good Governance for Gender Equality in Georgia” (GG4GEG) project. The assessment was carried out from December 2021 to May 2022 and covers the period 2019-2021.

3. The assessment was carried out by Johann Seiwald and Zurab Chinchaladze. The team was supported by Tamar Vashakidze (Governance & Participation in Public Life Program Analyst, UN Women Georgia) and Ekaterine Vachnadze (Project Analyst, UN Women Georgia) who provided substantial inputs to the development of the report. Ermira Lubani (GRB Program Specialist, Europe and Central Asia Regional Office, UN Women) provided overall guidance

¹⁵⁸ The term ‘gender responsive public financial management’ is more appropriate to gender responsive budgeting (GRB) following the PEFA Guidelines. This is not to differentiate it from GRB but instead to further highlight the importance of integrating gender considerations throughout the budget cycle and in all the relevant PFM systems, processes, and institutions that underpin budget decisions. Nevertheless, the two terms are used interchangeably in this document.

¹⁵⁹ PEFA (Public Expenditure and Financial Accountability) is a partnership program of the European Commission, the International Monetary Fund, the World Bank, and the governments of France, Luxembourg, Norway, Slovak Republic, Switzerland, and United Kingdom. The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. The PEFA framework provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable PFM outcomes. It provides a foundation for planning reform, discussing strategy and priorities, and monitoring progress. More information is available at: <https://www.pefa.org>

¹⁶⁰ The Public Expenditure and Financial Accountability (PEFA) supplementary framework for assessing gender responsive public financial management (GRPFM)—the PEFA GRPFM framework—is a set of supplementary indicators that builds on the PEFA framework to collect information on the degree to which a country’s public financial management (PFM) system addresses the government’s goals with regard to acknowledging different needs of men and women and promoting gender equality. The supplementary GRPFM indicators are aligned with the existing PEFA framework for assessing PFM performance and are intended to mirror the mapping of PFM practices and assessment of PFM institutions, processes, and systems typically carried out during a standard PEFA assessment process. More information is available at: <https://www.pefa.org/resources/supplementary-framework-assessing-gender-responsive-public-financial-management-0>

throughout the process. Quality assurance of the process and outputs was implemented in accordance with the PEFA Secretariat guidelines. The assessment started in December 2021. An induction workshop about the GRPFM PEFA methodology was organized by the Ministry of Finance for the assessment team and UN Women in which representatives of the Gender Equality Council of the Parliament, the Inter-Agency Commission on Gender Equality, and World Bank participated. Data collection, including the interviews with stakeholders was carried out between January and March 2022 followed by the analysis and assessment (scoring) process (time of fieldwork). The initial draft was reviewed by the Ministry of Finance and EC representative and afterwards submitted to the World Bank for peer review by the team preparing the National PEFA assessment. The validation team for both the central government and Gender PEFA's visited Tbilisi from July 15 to August 3, 2022 (and subsequently from September 3 to 12, 2022). On July 22, the meeting was held between the World Bank Mission and UN Women representatives to review the GRPFM report and agree on the next steps of cooperation. As a result of the meeting discussion, the GRPFM was revised and re-submitted to the WB and subsequently to the PEFA Secretariat.

1.2 Background

4. **Gender equality and the empowerment of women are acknowledged as critical components of democratic and stable societies.** Over the past decades, Georgia has prioritized gender equality and women's empowerment goals and has demonstrated this commitment through the implementation of relevant key actions. In 1994, Georgia ratified the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and thus became accountable to the CEDAW Committee. In 1995, Georgia participated in the UN Fourth World Conference in Beijing, where the Beijing Declaration and Platform of Action (BPfA) were adopted. Within the framework of the BPfA, Georgia took on the obligation of ensuring progress in all 12 areas of concern. In 2015, Georgia, along with all other UN member states, committed to implement all 17 sustainable development goals (SDGs) and targets, including SDG 5 (Gender Equality and Women's Empowerment). Georgia has taken active measures to adjust the SDG targets and indicators according to local conditions, challenges and opportunities in the country. In 2017, Georgia declared all 17 SDGs as national priorities. In late 2019, the process of implementing SDGs in Georgia was finalized.

5. **Georgia has ratified many international conventions with respect to citizen's rights.** The International Labor Organization (ILO) Equal Remuneration Convention, 1951 (No. 100), and the ILO Discrimination (Employment and Occupation) Convention, 1958 (No. 111) were ratified in 1993. Furthermore, under the Association Agreement between the European Union and Georgia, signed on June 27, 2014, Georgia is required to harmonize the country's labor regulations with the relevant EC directives. These directives include the regulation of labor standards in accordance with the ILO conventions, the protection of employees' rights through labor laws, the prohibition of discrimination, gender equality, and labor safety.¹⁶¹ In 2021

¹⁶¹ UN Women - Country Gender Equality Profile of Georgia 2020. Accessed 10 July 2021. <https://georgia.unwomen.org/en/digital-library/publications/2020/05/the-country-gender-equality-profile>.

Georgia became a member of the Equal Pay International Coalition (EPIC). During the same year Georgia undertook commitments, under the Generation Equality Forum,¹⁶² in two thematic areas: combating gender-based violence and supporting the increased participation of women in technology and innovation.

Key gender indicators

6. **Georgia has made significant progress throughout the past three decades towards gender equality and women’s empowerment.** Nevertheless, available data and multiple assessments show that much work still needs to be done. Some of the selected indicators, which are mainly based on the indicators of SDGs related to gender equality and women’s empowerment, are presented in this section.

7. **Georgia ranks 49th out of 156 countries with a score of 0.732 on the Global Gender Gap Index (GGGI).** This is a 0.024 improvement in the ranking compared to 2020 when Georgia was 74th with a score of 0.708.¹⁶³ The main reason behind this improved ranking was the electoral reform in 2020 that introduced mandatory quotas. The changes oblige the political parties to have at least one in every four candidates in the proportional party lists be a different gender.

8. **The overall economic activity rate in Georgia was 50.5 per cent in 2020.** However, this was 40.4 per cent for women and 62 per cent for men with inactivity rates the reverse. While the overall trend was similar during the past three years, a slight decrease in the economic activity rate of women can be observed, with the economic inactivity rate increasing.¹⁶⁴ For rural women and men, the economic inactivity rate was 66.5 percent and 40.9 per cent respectively (a difference of 25.5 points). In most areas of employment, women’s participation tends to be lower than that of men. Women work fewer hours in almost every sector compared to men. For example, in 2020, women worked an average of 37.7 hours weekly, compared to 42.6 hours worked by men, a difference of 13.1 percent.¹⁶⁵ In 2020 the total unemployment rate was 18.5 percent. The rate for women was 16.2 percent compared to 20.2 percent for men.

9. **The gender gap in labor-force participation varies according to age.** The economic inactivity rate is higher among women at all ages, but women are less likely to be economically active during their reproductive age and this is reflected in the gender gap. This indicates that women’s economic participation is strongly linked with family and care responsibilities.¹⁶⁶ Age

¹⁶² Access Georgia’s commitments under Generation Equality Forum on-line at: <https://georgia.unwomen.org/en/digital-library/publications/2021/06/georgia-for-gender-equality>

¹⁶³ World Economic Forum’s Global Gender Gap Report (2021).

¹⁶⁴ Ibid. p. 76

¹⁶⁵ UN Women, Country Gender Equality Profile of Georgia, 2021. Available at: <https://georgia.unwomen.org/sites/default/files/Fieldper cent20Officeper cent20Georgia/Attachments/Publications/2021/Countryper cent20Genderper cent20Equalityper cent20ENGper cent20final.pdf>, p. 80

¹⁶⁶ UN Women, Country Gender Equality Profile of Georgia, 2021. Available at: <https://georgia.unwomen.org/sites/default/files/Fieldper cent20Officeper cent20Georgia/Attachments/Publications/2021/Countryper cent20Genderper cent20Equalityper cent20ENGper cent20final.pdf>, p. 76-77

is a factor that affects levels of unemployment for both women and men. The highest unemployment rate was for women and men aged 15–24 (38.2 percent and 40.1 percent respectively). The unemployment rate is higher among the single/ unmarried and divorced population, with the latter seeing the biggest gender gap. The unemployment rate is slightly higher for the urban population.

10. In 2020, the average monthly earnings in all economic activities were as 952.2 GEL for women and 1407.7 GEL for men. Overall, women’s average monthly earnings with respect to men’s were 67.6 percent (2020).¹⁶⁷ According to the 2020 data of the National Statistics Office 292,000 women were employed in the business sector compared to 412,000 men and on average women earned only 67 per cent of men’s salaries in this sector.¹⁶⁸ Furthermore, the adjusted gender pay gap, which includes educational attainments, professional experiences and other personal characteristics, as well as the sectoral and occupational factors between men and women, increased the hourly pay gap to 24.8 per cent in 2017, 14.4 per cent in 2018, 15.9 per cent in 2019, and 14.4 per cent in 2020.⁵⁰ This indicates that even though women might have better labor-market characteristics, they still earn less per hour than men. The analysis also suggests that the sectoral segregation of women in lower-paid sectors explains about a quarter of the gap. Notably, most of the gap cannot be explained by observable factors and therefore may be attributed to discriminatory practices in the labor market.

11. The under-representation of women in decision-making positions is striking across all spheres in Georgia. According to the Public Defender’s Office, the existing political context does not ensure women’s equal participation. Women are under-represented in the legislative and executive branches of both central and local levels, in the judiciary system and in managerial positions in general. However due to the electoral reform in 2020 that introduced mandatory quotas for female candidates, women occupied the highest share of seats in the Parliament of Georgia historically in 2020. Nevertheless, the proportion of seats held by women Parliament in 2022 remains low at 17 percent. The number of seats held by women in local government more than doubled as a result of the 2021 local elections from 11 per cent in 2019 to 24 per cent. The president of Georgia, who is the head of state, is a woman. However, men continue to be dominant in high-level positions. The prime minister, who is the head of government, is male. The vice prime ministers and 10 of 12 ministers are also male. Only a quarter of deputy ministers are women. The mayors of the four self-governing cities—Batumi, Kutaisi, Poti, and Tbilisi—are men and only one – the mayor of Rustavi – is a woman. Among the 44 mayors of self-governing communities, only two (4.55 per cent) are women. Finally, none of the nine governors are women.¹⁶⁹

12. Violence against women still remains an issue. Despite the significant steps taken at the policy level, violence against women and domestic violence remains a critical problem for

¹⁶⁷ Geostat, Women and Men in Georgia, 2021, https://www.geostat.ge/media/41855/WOMEN-AND-MEN-IN-GEORGIAN_-2021.pdf

¹⁶⁸ National Statistics Office of Georgia, Women and men in Georgia, 2021, p. 97

¹⁶⁹ UN Women, Country Gender Equality Profile of Georgia, 2021. Available at: <https://georgia.unwomen.org/sites/default/files/Fieldper cent20Officeper cent20Georgia/Attachments/Publications/2021/Countryper cent20Genderper cent20Equalityper cent20ENGper cent20final.pdf>, p. 85-87

Georgia. The data indicate that women experience various forms of physical, psychological and sexual violence from intimate or non-intimate partners. Moreover, cases are often underreported due to prevailing traditional gender norms and other factors, such as the lack of social and legislative support. For SDG indicator 16.2.3 (proportion of young women and men aged 18–29 who experienced sexual violence by age 18), the SDGs National Document for Georgia reports that 6.7 percent of women have experienced childhood sexual abuse.¹⁷⁰ Studies on violence against women/gender-based violence (GBV) conducted in Georgia since 2017 provide evidence that different socio-economic factors increase the risks of violence against women. Those women that live in urban areas, and/or in bad housing conditions, and those married before the age of 18 are more likely to experience violence and abuse. The lack of stable employment and the alcohol consumption of partners also increase the risks of violence against women. In 2020, the rate of women killed as a result of GBV, per 100,000 female population, was 1.24, an increase since 2018.¹⁷¹

Legal and policy framework

13. The principles of equality, regardless of one’s sex, are embedded in Georgia’s Constitution and all the other major legislative acts. Important gender related legislative and policy frameworks have been introduced over the past decades by the Government of Georgia. The aim of these reforms has been to align Georgia’s national normative frameworks with its international and regional commitments towards gender equality and women’s empowerment.

14. In 2006, the Parliament of Georgia adopted significant and relevant gender related laws. These laws included the State Concept on Gender Equality, the Law on Combating Human Trafficking, the Law on the Elimination of Violence against Women and/or Domestic Violence, and the Protection and Support of Victims of Such Violence. In 2010, the Parliament of Georgia adopted the Law on Gender Equality. In 2012, domestic violence was criminalized as the Criminal Code of Georgia was amended and in 2014, the first Law on the Elimination of All Forms of Discrimination was approved by the Parliament of Georgia.

15. Substantive gender equality guarantees have been reflected in the Constitution as a result of the 2017 reform of the Constitution of Georgia. Article 11 (“Right to equality”) stipulates that “the State shall provide equal rights and opportunities for men and women” and “shall take special measures to ensure substantive equality of men and women and to eliminate inequality.”¹⁷²

16. The Government of Georgia ratified in 2017, the Council of Europe Convention on preventing and combating violence against women and domestic violence (the Istanbul Convention). This ratification was one of the most significant steps towards improving legislation on violence against women and domestic violence. Also in 2017, the Inter-Agency Commission on Gender Equality, Violence against Women and Domestic Violence Issues was

¹⁷⁰ Ibid. p. 63

¹⁷¹ ¹⁷¹ Femicide Monitoring Report 2020, Public Defender of Georgia

¹⁷² Georgia, *Constitution of Georgia*, Article 11, paragraph 3.

established with the aim to coordinate the implementation of national action plans on gender equality and women's empowerment.

17. Legislation establishing regulations on sexual harassment were adopted by the Parliament of Georgia in 2019, and respective amendments were introduced to the Labor Code and the Code of Administrative Offences. In 2020 and later in 2021, the Parliament approved amendments to the Election Code of Georgia requiring political parties to establish mandatory gender quotas in the election lists that are submitted to the Central Election Commission.¹⁷³ In 2020, significant amendments were made to the Labor Code of Georgia, including clarifying the definition of discrimination, obliging employers to pay equal pay for equal work, and outlining details regarding leave, working hours and internships.¹⁷⁴

18. Over the past decade the Government of Georgia has adopted and implemented periodic actions related to gender. These actions have included National Action Plans (NAPs) on Combating Violence against Women and Domestic Violence as well as a NAP on UN Security Council resolution 1325 on Women, Peace and Security. The Government of Georgia has adopted and implemented periodic Human Rights Strategy and Action Plans, which include results and activities per various critical areas of human rights, including gender equality.

National Institutional and coordination structures

19. Institutional mechanisms for the gender equality and advancement of women are established at different levels.

Legislative branch – Gender Equality Council of the Parliament (GEC) was established in 2004. The main aim of the council is to support the Parliament of Georgia in defining state policy on gender issues, ensuring gender mainstreaming in legislative processes and providing monitoring and oversight to the executive government's progress on gender equality. While GEC's mandate is quite broad, its Charter which regulates its key functions does not mention gender responsive budgeting.

Executive Branch – Inter-Agency Commission on Gender Equality, Violence against Women and Domestic Violence Issues (CGE) was established in 2017. It is the central unit within the executive government on gender equality and women's empowerment. It is headed by the Human Right Advisor to the Prime minister of Georgia. It aims to promote gender mainstreaming in all policies and programs within the government, support the collection and analysis of gender-disaggregated data, and coordinate the implementation and monitoring of NAPs on gender equality, violence against women and UN Security Council resolution on Women, Peace and Security. Its Charter tasks the Inter-Agency Commission with coordinating the implementation of gender (mainstreaming across governmental policies. However, the Charter does not

¹⁷³ See in: Country Gender Equality Profile: <https://georgia.unwomen.org/sites/default/files/Fieldper cent20Officeper cent20Georgia/Attachments/Publications/2021/Countryper cent20Genderper cent20Equalityper cent20ENGper cent20final.pdf>, p. 17

¹⁷⁴ PDO, The Situation in Human Rights and Freedoms in Georgia 2020. <https://ombudsman.ge/geo/saparlamento-angarishebi>

specifically reference GRB. While the CGE is ideally positioned to lead gender mainstreaming work across the government, including the work on gender responsive governance, it is currently not undertaking any decisive steps in this area.

Monitoring and Oversight – The Public Defender’s Office (PDO) is the key institution in Georgia’s gender equality architecture legally mandated to monitor the protection of gender equality and provide an appropriate response to violations of gender equality. To implement this work, the Gender Equality Department was established within the PDO in 2013. The PDO identified lack of gender responsive budgeting as a critical area of concern and called on the Government of Georgia to “take appropriate measures to ensure the development of a state strategy on the introduction of gender budgeting in the management of public finances and its practical implementation” in its 2019 report “Review of Georgia’s gender mainstreaming obligations and their fulfillment status.”¹⁷⁵

Ministry of Finance – Ministry of Finance (MoF) does not have a specific role in coordinating gender equality and GRB issues. The design and implementation of GRB could be subsumed under the general mandate of the MoF. However, GRB has not been a priority of the MoF due to many other reform initiatives it is undertaking. Similar to other ministries, MoF has a gender focal point.

20. **In summary, the existing legislation, state policies and institutional mechanisms on gender equality and women’s empowerment in Georgia have so far fallen short of prioritizing gender responsive budgeting.** GRB is not yet established as a mechanism of state fiscal policy, budgeting and PFM. Nevertheless, some GRB initiatives have been implemented at the state and local levels with the support of development partners and civil society organizations (CSOs). These measures have strengthened national and local capacities on GRB, as well as offering important lessons and valuable insights on which to build. In 2022, Georgia, together with Ukraine and Moldova, requested EU membership candidacy status by the expedited rule. On June 17, 2022, the European Commission issued an Opinion stating that Georgia will be granted the candidate status, once the twelve priorities were addressed. Among these priorities the ninth priority concerns gender, particularly, it is recommended to notably consolidate efforts to enhance gender equality and fight violence against women. The European Commission will monitor Georgia’s progress to address these priorities and report on them by the end of 2022.

1.3 Sources of information

21. **There were many primary sources of data for the assessment.** These sources included (i) interviews with relevant public servants, and (ii) a desk review, including review of reports and publications, analytical data and any other documents prepared by the government which

¹⁷⁵ PDO, 2019. “Review of Georgia’s gender mainstreaming obligations and their fulfillment status”. Available at: <https://www.ombudsman.ge/eng/190306081201spetsialuri-angarishebi/genderuli-meinstrimingi-sakartvelos-mier-aghiarebuli-valdebulebebisa-da-mati-shestrulebis-statusis-mimokhilva>

are relevant to assessing PEFA indicators. The assessment team validated the evidence provided by the government agencies with relevant diagnostic and analytical reports developed by non-governmental partners, including development partners, CSOs and academics. The main government counterparts during the assessment included the Ministry of Finance, as well as line ministries and state agencies.

22. **The assessment team met the representatives of different service delivery ministries of Georgia.** These included the Ministry of Healthcare, Ministry of Economy and Sustainable Development, Ministry of Infrastructure, Ministry of Education and Ministry of Finance. Meetings were also held with the representatives of the Parliament of Georgia, State Audit Office and the Administration of the Government of Georgia. The full list of persons met, and the documents reviewed are presented in the annex of this report.

2. OVERVIEW OF ASSESSMENT FINDINGS

2.1 Main findings

23. An overview of key findings of Georgia’s PEFA GRPFM assessment aligned with the PEFA GRPFM framework is presented in this section. It also highlights key PFM tools and processes in place to promote gender equality. In line with the template of the PEFA GRPFM assessment framework this section has a quantitative basis as it follows the PEFA scoring structure. Qualitative information can be found in the more detailed discussion in section 3. An additional summary of performance indicators at the dimension level is presented in Annex 1 of this report. With respect to the scoring of indicators relevant to GRPFM these are as follows.

SCORE	LEVEL OF GRPFM PRACTICE
A	Gender impact analysis is mainstreamed in the relevant PFM institution, processes, or system.
B	Gender impact analysis is partially mainstreamed in the relevant PFM institution, processes, or system.
C	Initial efforts have taken place to mainstream gender impact analysis in the relevant PFM institution, process, or system.
D	Gender considerations are not included in the relevant PFM institution, processes, or system, or performance is less than required for a C score.

24. Gender impacts are not partially or fully mainstreamed in any of the nine areas, according to the criteria. The overview of findings of the assessment of gender responsiveness of institutions, processes, and systems is presented in Table 1 based on the PEFA scoring criteria.

Table 1: SUMMARY OF INDICATORS

PEFA GRPFM INDICATOR		SCORING METHOD	DIMENSION RATINGS		OVERALL RATING
			1	2	
GRPFM-1	Gender impact analysis of budget policy proposals	M1	D	D	D
GRPFM-2	Gender responsive public investment management	M1	D		D
GRPFM-3	Gender responsive budget circular	M1	D		D
GRPFM-4	Gender responsive budget proposal documentation	M1	C		C
GRPFM-5	Sex-disaggregated performance information	M2	C	C	C
GRPFM-6	Tracking budget expenditure for gender equality	M1	D		D
GRPFM-7	Gender responsive reporting	M1	C		C
GRPFM-8	Evaluation of gender impacts of service delivery	M1	D		D
GRPFM-9	Legislative scrutiny of gender impacts of the budget	M2	D	D	D

25. Six out of the nine GRPFM indicators gender considerations are not included in the relevant PFM institutions, processes, or systems identified in the GRPFM framework. These are:

- Gender impact analysis of budget policy proposals
- Gender responsive public investment management
- Gender responsive budget circular

- Tracking budget expenditure for gender equality
- Evaluation of gender impacts of service delivery
- Legislative scrutiny of gender impacts of the budget

26. **In three areas, initial efforts have been made to mainstream gender impact analysis in the relevant PFM institution, process, or system.** These are:

- Gender responsive budget proposal documentation
- Sex-disaggregated performance information
- Gender responsive reporting

27. **The assessment clearly demonstrates that Georgia does not have a comprehensive GRB framework in place yet.** Despite some singular activities to include a gender perspective in the public financial management system, GRB related instruments have not been institutionalized in Georgia. Georgia's legislation on PFM, Budget Code and PFM Reform Strategy and Action Plan for 2018-2021 does not integrate gender dimensions. There is significant gap in terms of capacities of public servants on GRB, as well as lack of coordination and accountability mechanisms for implementing GRB reform in Georgia.

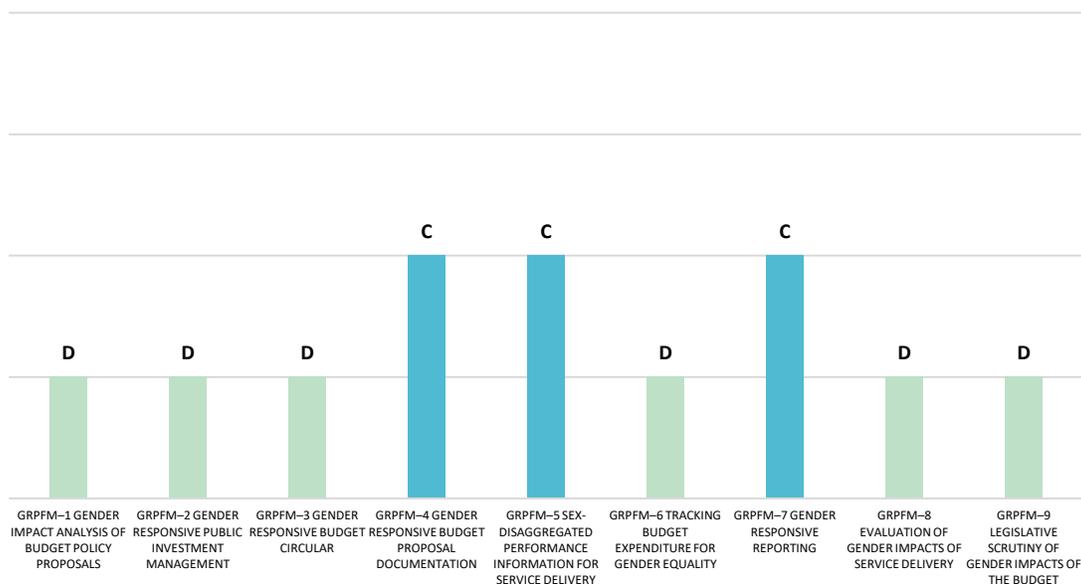
28. **The majority of PFM institutions, processes, and systems scored only a D (gender considerations not met), while some achieved C (initial efforts made towards the inclusion of gender considerations).** Nevertheless, the assessment revealed some progress in terms of integrating gender considerations, which could provide a good starting point for efforts to improve the gender responsiveness of PFM. While the limitations are evident, there have been achievements in the following areas:

- The existing program budgeting provides a good starting point for systemic implementation of GRB.
- Program budget methodology recommends that all spending units define at least one gender-related performance indicator to measure the outputs/outcomes of the program/subprogram, especially when the program/subprogram is gender sensitive.
- The program-based budgets include some gender-sensitive indicators in a few ministries.
- Some project appraisals of major investment projects funded by donors include gender impact assessments, but the national guidelines do not incorporate relevant requirements and a methodology.
- A handful of state reports include gender-related information (e.g., SDG reporting, CEDAW reporting, monitoring reports on the NAPs relating to gender equality and women's empowerment and the yearly statistical publication of the National Statistics Office of Georgia (Geostat) – Women and Men in Georgia).
- Several key public policy documents developed by the Government of Georgia include information on gender gaps, as well as gender sensitive objectives and performance indicators.
- Several governmental action plans on gender equality and women's empowerment have been costed in the past.

- Some audit reports focus on topics with a gender component; however, systemic gender evaluations of programs are not conducted, and ex-post impact assessments undertaken by the government are rare.
- Significant progress is under way in terms of strengthening capacities of public servants on GRB as the Academy of the Ministry of Finance (MoFA) has developed officially accredited face-to-face and online training courses on GRB MoFA will be delivering GRB training courses to several hundred public servants at national and local levels in 2022.

29. **Both the central government PEFA and GRPFM PEFA reports provide inputs into PFM Action Plans that are able to contribute to enhanced GRPFM implementation.** In 6 out of 9 GRPFM indicators gender considerations are not included and in 3 areas only initial efforts have been made to mainstream gender equality; however, most PEFA indicators concerning PFM tools linked to support and to promote the gender equality are scored in A in the CG PEFA assessment. They enable the integration of a gender perspective within the Public Finance Management system of Georgia. The budget classification is well established using international standards, which forms the basis for integrating the gender dimension into it. Public investment management is based on good practices for economic analysis of investment proposals, project selection, costing and monitoring. The budget circular clearly guides the budget preparation process and is well implemented in practice, and could ensure the budgetary units to provide gender information. Tools for sex-disaggregated performance information and gender responsive reporting are integrated into a comprehensive performance information system.

30. The Chart presents a visual depiction of the scores.



31. **There is significant potential for the Government of Georgia to strengthen a gender perspective in the PFM system.** Reforms to the PFM system (such as fiscal transparency,

medium-term budgetary frameworks, public investment management) over the last few years can provide a solid foundation for the GRB reform to build on. At the same time, the GRB reform must be prioritized within the overall reform agenda. The development of the new PFM strategy to be launched by the Government of Georgia in 2022 provides an excellent opportunity to integrate gender equality into the broader public finance management reform agenda.

3. DETAILED ASSESSMENT OF GENDER RESPONSIVE PUBLIC FINANCIAL MANAGEMENT

32. **This section includes a detailed assessment of gender responsive public financial management in line with the framework indicators.** The narrative also includes appropriate information on any relevant activities undertaken by the government or other stakeholders related to the indicators.

GRPFM–1 GENDER IMPACT ANALYSIS OF BUDGET POLICY PROPOSALS

33. **This indicator assesses the extent to which the government prepares an assessment of the gender impacts of proposed changes in government expenditure and revenue policy.** It contains two dimensions and uses the M1 (weakest link) method for aggregating dimension scores. The indicator recognizes that changes in budget policies can have different impacts on the delivery of services to men and women and to subgroups of those categories; and that new policy proposals should therefore undergo an ex-ante assessment of social impacts.

Coverage: Central government.

Time period: last completed fiscal year (2021)

Background and measurement

34. **Good budgetary practices require governments to assess the impacts on beneficiaries of expenditure, including new or additional expenditure and proposed reductions in expenditure.** Changes in policies can have different impacts on the delivery of services to men and women and to subgroups of those categories. An increasing number of countries perform gender impact evaluations, analyses, or assessments of policies to understand their envisaged impacts on those categories. The aim is to improve the design and planning of the policy under consideration, in order to avoid any negative impacts and to strengthen gender equality through better-designed, transformative policies.

35. **An expenditure proposal to expand childcare, for example, will likely have a greater impact on women than men because, globally, women are more likely to assume primary parenting responsibilities.** Similarly, an expenditure proposal to improve benefits and support for military veterans is more likely to have an impact on men than women because, globally, men are more likely to be serving in the armed forces (unless the government's explicit gender-

specific objective is to increase number of women in the armed forces then it may be important to monitor this particular aspect as well).

36. **On the revenue side, increasing tax allowances for non-working spouses, for example, can create disincentives to work, particularly for women, as the global data demonstrate.** Similarly, changes in personal income tax may affect different groups of women and men differently. The assessment should focus on proposals with significant, direct impacts on revenue, including, for example, changes in the rates and coverage of corporate income tax, value added tax, personal income tax, customs and excise taxes, and taxes on natural resources. The assessment should focus on the government’s own revenue sources.

37. **The gender impacts of expenditure and revenue policy proposals typically are prepared by individual budgetary units for their respective policy areas.** They may be prepared by the MoF or equivalent central government entity.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–1 Gender impact analysis of budget policy proposals (M1)		D
GRPFM–1.1 Gender impact analysis of expenditure policy proposals	In the last completed fiscal year, gender impact analyses were not carried out for any new expenditure policy proposals. The government currently does not require gender impact assessments of its own new spending proposals in its methodologies or guidelines.	D
GRPFM–1.2 Gender impact analysis of revenue policy proposals	In the last completed fiscal year, the government did not conduct a gender impact analysis of new revenue policy proposals.	D

GRPFM–1.1 Gender impact analysis of expenditure policy proposals

38. **The framework of the measures planned for the implementation of the new policy is regulated in the Program Budget Methodology.** There is a requirement to indicate the approximate number of employees needed for the implementation of the new policy and indicative financial allocations in the medium term, including commitments under various policy matrices and action plans that the spending agency plans to enact in the medium term. The Budget Methodology, however, does not include requirements for a gender assessment, neither for new policies, nor for existing policies.

39. **The annual Budget Law submitted to the Legislature consists of several documents.** These include the Basic Data and Directions (BDD) Document, the Annex on capital projects,

and the Explanatory Note. These three documents provide an insight on the fiscal impact of revenues and expenditure policy proposals of the budget. In particular, the Explanatory Note provides relevant quantitative information about the breakdown of some main appropriations or revenues into baseline and new policies but for the budget year only.

Table GRPFM-1.1 Gender impact analysis of expenditure policy proposals

Key changes in expenditure policy	The amount allocated to expenditure policy change in Mil. (GELL)	As a per cent of key changes in expenditure policy	Gender impact analysis included (Y/N)
Social Security of Population (in particular, increase of pension provisions, social assistance to target groups of the population, social benefits in a highland settlement, subsidy of different costs of population caused by Covid-19)	424,000,000.00	22per cent	N
Measures against the Pandemic (bed mobilization, treatment of infected people, testing costs and reimbursement of pandemic management medical staff overtime work, as well as funding of an incentive program to increase vaccination coverage)	376,000,000.00	20 per cent	N
Improvements for regional and municipal roads, water supply, solid waste and educational infrastructure	636,000,000.00	33per cent	N
Financing of the education, science, culture and sport sector	333,370,300.00	17per cent	N
Development of agriculture food safety, development of viticulture and winemaking, modernization of reclamation systems)	151,715,000.00	8per cent	N
Total/Coverage	1,921,085,300.00	100per cent	

Source: Explanatory Note of state budget Law 2021

40. **Due to the Covid-19 global pandemic, the state budget of 2021 (last fiscal completed year) was dominated mostly by measures against the pandemic and the improvement of social conditions in the country.** Some key changes of expenditure policies were also observed in infrastructure projects, such as the development of education and agriculture. The total amount allocated to expenditure policy change was 1.92 billion GEL. However, gender impact analyses have not been carried out for any of the key expenditure policy proposals.

41. **Score D**

GRPFM -1.2 Gender impact analysis of revenue policy proposals

42. **Gender impacts assessments are not systematically conducted by government agencies.** This is because as yet there is no legal requirement to do so. Budget documentation as well as any complementary material—including the 2021 budget—therefore does not contain gender impact data.

43. **The Parliamentary Gender Equality Council (GEC) developed draft legislative amendments in 2021.** This positive action was with the support of UN Women and the government of Norway and had the aim to institutionalize gender impact assessment in the legislative processes. The dialogue and advocacy regarding this issue in legislative and executive branches are ongoing. Additionally, a number of gender impact assessments of state laws, policies and programs have been conducted with the support of various international organizations and development partners.¹⁷⁶

44. **Score D**

GRPFM–2 GENDER RESPONSIVE PUBLIC INVESTMENT MANAGEMENT

45. **This indicator assesses the extent to which robust appraisal methods, based on economic analysis, of feasibility or prefeasibility studies for major investment projects include analysis of the impacts on gender.** There is one dimension for this indicator. The indicator recognizes that different groups of men and women benefit differently from investment projects, and it is therefore important for the government to include a gender perspective in the economic analysis of major investment projects.

Coverage: Central government.

Time period: last completed fiscal year (2021)

Background and measurement

46. **Public investments can serve as a key driver of economic growth.** However, the effectiveness and efficiency of public investment are also key determinants in maximizing the impact of public investment on the government’s social and economic development objectives, including achieving gender equality. Different groups of men and women benefit differently from investment projects, and it is therefore important to ensure a gender perspective is included in the economic analysis of major investment projects. For example, designing a new public space that is aimed at promoting physical activity but is planned to be located in an area

¹⁷⁶ A list of gender impact assessments conducted by the Government of Georgia with the support of various international organizations and development partners in 2021: Gender Impact Assessment (GIA) - Self-employment Promotion Grant Program and Vocational Education Support Program of LEPL on IDPs, Eco-Migrants and Livelihood Provision Agency (2021); Gender Impact Assessment (GIA) of Strategy on Small and Medium Business Development of the Ministry of Economy and Sustainable Development (2021); Gender Impact Assessment (GIA) - The State Program "Plant the Future" (2021, mixed approach – ex ante and ex post); Gender Impact Assessment (GIA) of Equal Pay Review Mechanism (2021); Gender Impact Assessment (GIA) of the Labor Code (2022).

with no street lightning and no safe public transportation is likely to be perceived as a safety concern for girls and women who are, as a result, less likely to use the space even if the investment project originally was intended to target both men and boys and women and girls equally. The public space also needs to consider the needs of different subgroups of women and men (including factors such as the needs of people with disabilities, the needs of youth and elderly population).

47. **Major investment projects for this indicator in this report are defined as projects exceeding the total investment cost of the project amounts of 1 percent of total annual budget expenditure.** The term “major investment project” also includes investments implemented through structured financing instruments such as public-private partnerships.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–2 Gender responsive public investment management (M1)		D
GRPFM–2.1 Gender responsive investment management	In the last completed fiscal year, economic analysis for none of the major investment projects included an analysis of the impacts on gender, and the results of the analysis were not published for any project. The Project Proposal Application or the so-called concept note for investment projects which are part of the national guidelines does not require information on gender. While major investment projects funded by development partners require gender impact analysis, these respective reports have not yet been available and/or finalized.	D

48. **The Investment Projects Management Guide approved by the Decree No. 191 of April 22, 2016 by the Government of Georgia defines the general framework of the public investment implementation process.** Aligned with the Investment Projects Management Guide, the Minister of Finance approved the "Investment Project Management Methodology" under the Ministerial Decree No. 165, dated as of July 22, 2016. The methodology set out the rules and procedures for developing investment projects. It defines the roles and responsibilities of the parties involved in all stages of the investment project management process prior to the implementation of projects. The guide ensures the evaluation of the various proposed capital investments in a consistent manner and prioritizes projects for strategic planning and budget preparation. This is for both the entire budget and the sectoral and regional budgets. In line with the internationally established best practices and standards, the investment project management process consists of six main components: project pre-selection / evaluation stage, project final selection / evaluation stage, project reflection in the budget, project implementation, project monitoring and follow-up (final) evaluation.

49. **The MoF reviews all projects.** This includes projects initiated by the Law of Georgia on Public-Private Partnership. These are covered by the Government of Georgia Resolution №426 of 17 August 2018 on the Approval of the Rules for Development and Implementation of Public-Private Partnership Projects and in accordance with the procedures defined by the guidelines, taking into account the obligations in the guidelines defined by the MoF. At the next stage of consideration, the procedure for reviewing and agreeing such projects is regulated by the legislation governing public-private partnership projects.

50. **In order to carry out the pre-selection procedure, a “Project Concept Card” has to be prepared for each project and its alternatives.** The project concept card includes, as a minimum, the following information: A) basic information about the project and its implementer; B) the essence of the project, the logic of the intervention, the assessment of the need and demand for the project; C) compliance of the project with the strategic documents; D) the cost of the project and its alternatives and the assumptions related to its calculation; E) assumptions related to the benefits of the project, its alternatives and its calculation; F) impact of the project on the budget; G) the economic efficiency of the project and its alternatives in relation to the single beneficiary and other similar projects already implemented; H) probable method of procurement, including the possibility of implementing the project through public-private partnership; I) other specifics related to the project implementation; and J) research methodologies required for the final selection of the project.

51. **Investment projects are implemented in accordance with the Law of Georgia on State Procurement and overall legislation of Georgia.** In case of donor-funded projects or international tenders, the project is implemented in accordance with procedures agreed with relevant donors.

52. **There is no obligation to track gender impacts specifically.** However, there is a requirement for a social impact assessment, which measures the potential negative and positive social consequences of projects, such as income redistribution, poverty, unemployment, gender equality, and more. However, due to the type of the investment projects in 2021, none of the projects required additional research on social impact assessment and thus such an assessment was not undertaken. The economic analyses of the preliminary stage under the cost and benefits determination section also includes a requirement for far-reaching social impact assessments that take into account a wider range of impacts on geographical locations, social status, income, ethnicity, gender and other similar factors.

53. **In case of donor funded projects, projects must be implemented in line with the procedures of individual donor guidelines.** These frequently call for gender impact assessments.

54. **The concept notes for each investment projects that qualify for public investment above the threshold of five million GEL, are published on the MoF website.** However, as mentioned above, the concept note does not oblige the implementing agency to include a specific gender impact assessment. As a consequence, no Investment Projects for 2021

included a gender impact assessment. On the other hand, two out of the top ten major investment projects in 2021 were fully funded by donor organizations: (1) Rehabilitation of water supply and sewerage systems in Khashuri and construction of a sewage treatment plant (Agence Française de Développement – AFD) and (2) Rehabilitation project of Vardnili and Enguri hydropower plants (European Bank of Reconstruction and Development – 84 per cent and European Union -16 per cent). These international development partners have gender impact assessments, but these reports are currently in progress and are not available publicly to review and draw conclusions on the gender coverage.

55. Score D

Table GRPFM–2.1 Gender responsive public investment management

Ten largest major investment projects	Total investment cost of project in GEL	As a per cent of top 10 major projects approved	Economic analysis includes analysis of the impacts on gender			
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity
Construction of Tbilisi-Sartichala (Lot 1) and Sartichala-Sagarejo (Lot 2) sections of Tbilisi-Bakurtsikhe-Lagodekhi auto road	600,000,000.00	63 per cent	N	N	N	Ministry of Finance
Rehabilitation of water supply and sewerage systems in Khashuri and construction of a sewage treatment plant	190,000,000.00	20 per cent	N	N	N	Ministry of Finance
Rehabilitation project of Vardnili and Enguri hydropower plants	96,000,000.00	10 per cent	N	N	N	Ministry of Finance
construction of a new educational building of LEPL "Black Sea College"	15,150,000.00	2 per cent	N	N	N	Ministry of Finance
Construction of Tbilisi public school N128 building	10,500,000.00	1 per cent	N	N	N	Ministry of Finance
Construction of Tbilisi	8,515,000	1 per cent	N	N	N	Ministry of

Ten largest major investment projects	Total investment cost of project in GEL	As a per cent of top 10 major projects approved	Economic analysis includes analysis of the impacts on gender			
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity
Public School N10						Finance
Construction of the central office building of the Public Defender's Office	8,300,000	1 per cent	N	N	N	Ministry of Finance
Construction of the College of Art of Tbilisi State University	7,105,000	1 per cent	N	N	N	Ministry of Finance
Construction of Tbilisi Public School N158	6,500,000	1 per cent	N	N	N	Ministry of Finance
Construction of the College of Media and TV Arts of Tbilisi State University named after Ivane Javakhishvili	6,100,000	1 per cent	N	N	N	Ministry of Finance
Total/Coverage	948,170,000.00	100 per cent	0 per cent	0 per cent	0 per cent	

Data source: State budget 2021, PIM Projects registry

GRPFM–3 GENDER RESPONSIVE BUDGET CIRCULAR

56. This indicator measures the extent to which the government's budget circular(s) is gender responsive. There is one dimension for this indicator. The GRB circular typically includes a requirement for budgetary units to provide justification or planned results for the impacts of proposed new spending initiatives and reductions in expenditures on men and women and/or on gender equality. The GRB circular can also require budgetary units to include sex-disaggregated data for actual or expected results.

Coverage: Central government.

Time period: last budget submitted to the legislature (2022)

Background and measurement

57. **The budget circular is the primary guidance from the MoF for budgetary units on how to prepare budget submissions.** The guidance provided in the circular or circulars should cover the budget for the entire year (and relevant subsequent years for medium-term budget systems).

58. **The budget circular will usually provide instructions for budgetary units on how to set out detailed estimates in accordance with their approved ceilings.** Instructions are provided on how to submit proposals for new spending or potential savings in accordance with government policy priorities. It will normally set out the requirements for budgetary units to provide supporting justification and, if the government is operating a program or a performance- or results-based budgeting system, planned results for both existing and proposed changes in budget allocations.

59. **The GRB circular includes a requirement for budgetary units to provide justification or planned results for the impacts on men and women and/or on gender equality.** These cover the following:

- Proposed new spending initiatives
- Proposed reductions in expenditures

The GRPFM circular also requires budgetary units to include sex-disaggregated data for actual or expected results.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–3 Gender responsive budget circular (M1)		D
GRPFM–3.1 Gender responsive budget circular	The Program Budget Methodology does not require line ministries to include sex-disaggregated data on planned outputs and outcomes or to provide information on the impacts of budget policies on gender equality for new spending proposals. Neither does Basic Data and Directions Document (BDD). However, Program Budget Methodology recommends all spending units to define at least one gender-related performance indicator to measure the program/subprogram, especially when the program/subprogram is gender sensitive.	D

Data source: BDD (Basic Data and Directions) Document 2022

Table GRPFM–3.1 Gender responsive budget circular

Circular for budget year	Requirement to provide justification or planned results for the effects on men and women or on gender equality (Y/N)	Requirement to include sex-disaggregated data in budget

	New spending initiatives (Y/N)	Reductions in expenditure (Y/N)	proposals (Y/N)
2022	N	N	N

Data source: BDD (Basic Data and Directions) Document 2022, Program Budget Methodology

60. **Gender performance indicators are recommended rather than mandated.** The Program Budget Methodology (Decree of the MoFN№385, 08.07.2011) recommends for spending units (for the State as well as at the local level) to include gender-related performance indicators for gender sensitive programs/subprograms. This information is reflected in the final budget draft. The Program Budget Methodology states that, *according to the specifics of the programs, in case of gender sensitive programs, it is important to have one gender indicator among other performance indicators*¹⁷⁷. Since due to the lack of requirement to include them, gender related performance indicators are not widely used and defined by the spending units.

61. **The Basic Data and Directions (BDD) Document is the Georgian budget circular.** It is an electronically published document. This document is prepared according to the Budget Code. It includes the ministry ceilings, which are discussed with the budgetary units during its preparation, then submitted to the parliament for opinion, and approved by the government (cabinet) before it is distributed to the budgetary units. The budget code defines the content of the BDD (paragraph 5 of article 34) which are as follows:

- Main macroeconomic indicators (nominal and real Gross Domestic Product (GDP), economic growth, inflation, investments, etc.);
- Fiscal projections and their description for the past, current, future and three following fiscal years;
- Aggregated indicators of consolidated and central government budget revenue and expenditure, financial and nonfinancial assets and liabilities for the past, current, future and three following fiscal years;
- Analysis of the central government budget execution for the past fiscal year and projections for the current fiscal year;
- State priorities defined by the government for the two next years;
- Programs, objectives and funding of budgetary units for the two next years;
- Budget ceilings for each budgetary unit; and
- Guidance on expenditure for the programs and sub-programs for each budgetary unit.

62. **The budget code does not require the provision of information on the impacts of budget policies on gender equality for new spending proposals.**

63. Score D

¹⁷⁷ Decree of the Minister of Finance №385, 08.07.2011, p. 47

GRPFM–4 GRB PROPOSAL DOCUMENTATION

64. **This indicator assesses the extent to which the government’s budget proposal documentation includes additional information on gender priorities and budget measures aimed at strengthening gender equality.** GRB documentation typically includes information on the following: i) an overview of government priorities for improving gender equality; ii) details of budget measures aimed at promoting gender equality; and iii) assessment of the impacts of budget policies on gender equality.

Coverage: Budgetary Central government.

Time period: last budget submitted to the legislature (2022)

Background and measurement

65. **The government’s budget proposal documentation includes the government’s expenditure and revenue plans for the budget year.** In the case of medium-term budgets, the two following fiscal years are covered. Gender responsive budget documentation also includes information on the following:

- An overview of government’s policy priorities for improving gender equality. This needs to be presented in a specific section of the budget proposal documentation
- Budget measures aimed at promoting gender equality. This information would include specific revenue and expenditure initiatives aimed at promoting gender equality
- Assessment of the impacts of budget policies on gender equality. This assessment would include an overview of the findings of impact assessments and a description of the envisaged outcomes and impacts of policies for men and women, and for promoting gender equality,

Such information helps the government to articulate its plans for implementing gender responsive policies and programs by identifying the resources being allocated to reach strategic goals regarding gender impacts, as well as to put in place systems for measuring the results of those policies. Sometimes governments may publish this information in the form of a gender budget statement (which is usually described as a gender-specific accountability document produced by the government agency to demonstrate its programs and budget in respect of gender and gender equality); at other times, such information may be incorporated into the standard budget documentation.

66. **Gender related information may also be presented in the form of a budget paper from a particular ministry or the whole of government.** These presentations relate to how policies, programs, and related budgets fulfill the government’s gender equality objectives.

67. **Public access is defined as availability without restriction, within a reasonable time frame, without a requirement to register, and free of charge.** This is in line with PEFA PI–9, Public access to fiscal information. Budget documentation refers to the executive’s budget

proposals for the next fiscal year or, in the case of medium-term budgets, the two following fiscal years, with supporting documents, as submitted to the legislature for scrutiny and approval.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM-4 Gender responsive budget proposal documentation (M1)		C
GRPFM-4.1 Gender responsive budget proposal documentation	The budget proposal documentation outlines 12 priorities aimed at improving gender equality under the programs of the government included in the sections of the different line ministries. Gender equality priorities are integrated in the 12 policy priorities of the government. Also, budget measures aimed at promoting gender and an assessment of the impacts of budget policies on gender equality is not covered.	C

Table GRPFM-4.1 Gender responsive budget proposal documentation

Budget proposal for budget year	An overview of government policy priorities for improving gender equality (Y/N)	Details of budget measures aimed at promoting gender equality (Y/N)	Assessment of the impacts of budget policies on gender equality (Y/N)
	Y	N	N

Data source: mof.ge, BDD

68. The government budget proposal documentation includes the budget statement and budget estimates for 2022 and is publicly available. It was submitted to the Parliament of Georgia by the end of 2021.

An overview of government’s policy priorities for improving gender equality

69. In its Budget Proposal Documentation, the Government of Georgia outlines around 12 governmental priorities and programs. These relate to the Ministry of the Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia implements most of the activities concerning the government priorities for improving gender equality. Other implementing units include the Civil Service Bureau, Public Defender’s Office of Georgia and Office of the State Minister of Georgia for Reconciliation and Civic Equality.

70. The program of “Affordable, quality health care and social security” for ensuring gender equality in the labor market. It supports increased women's participation through both

legislative initiatives and the implementation of various programs. Under the social security management program, one of the priorities is to prohibit/prevent violation of labor rights, including discrimination, gender inequality, forced labor and labor exploitation and sexual harassment. In the Program focused on developing state policies and programs one of the priorities is to promote gender equality in the fields of education and science.

71. **The National Human Rights Strategy also includes gender equality aims.** These are articulated through NAPs on Violence against Women and the Women, Peace and Security and Gender Equality Chapter of the Human Rights Action Plan. However, the Human Rights Strategy 2014-2020 and Action Plans expired in 2020 and a new strategy and NAPs have not been adopted so far, despite being developed with support of UN Women and other development organizations.

Details of budget measures aimed at strengthening gender equality

72. **At the central government level, a national strategy on human rights 2022-2030 is being developed.** This strategy includes a special section on gender equality with corresponding goals, objectives and gender specific indicators. Alongside the National Strategy, a short-term NAP for the implementation of the strategy will be developed, which will be costed. These documents have not been adopted at the time of assessment. Additionally, two independent NAPs have been developed at the central government level: (1) NAP for 2022-2024 on the Measures to be Implemented for Combating Violence Against Women and Domestic Violence and Protection of Victims/Survivors and (2) 2016-2017 NAP for Implementation of the UN Security Council Resolutions on Women, Peace and Security that were adopted in October 2022.

73. **An assessment of the impacts of budget policies on gender equality is not included in the budget documentation.**

74. **Score C**

GRP FM-5 SEX-DISAGGREGATED PERFORMANCE INFORMATION FOR SERVICE DELIVERY

75. **This indicator measures the extent to which the executive's budget proposal or supporting documentation and in-year or end-year reports include sex-disaggregated information on performance for service delivery programs.** It contains two dimensions and uses the M2 (averaging) method for aggregating dimension scores. Inclusion of sex-disaggregated data in government's budgeting systems facilitates discussions regarding the impacts of services on men and women, including different subgroups of these categories, and on gender equality; and helps policy makers to assess and develop appropriate, evidence-based responses and policies.

Coverage: Central government. Services managed and financed by other tiers of government should be included if the central government significantly finances such services

Time period: GRPFM 5.1: next fiscal year (2022); GRPFM 5.2: last completed fiscal year (2021)

Background and measurement

76. **Promoting the efficiency and effectiveness of public service delivery is a core objective of the PFM system.** The inclusion of performance information within budgetary documentation is considered international good practice. It strengthens the accountability of the executive for the planned and achieved outputs and outcomes of government programs and services.

77. **Increasingly, it is good practice for governments to include sex-disaggregated data in their performance-based budgeting systems.** This facilitates discussions regarding the impact of their programs and services on men and women, including different subgroups of these categories, and on gender equality. Sex-disaggregated data also help policy makers to assess and develop appropriate, evidence-based responses and policies.

78. **Service delivery refers to programs or services that are provided either to the general public or to specifically targeted groups of citizens, whether fully or partially using government resources.** These services include education and training, health care, social and community support, policing, road construction and maintenance, agricultural support, water and sanitation, and other services. They exclude services that are provided on a commercial basis through public corporations as well as policy functions, internal administration, and purely regulatory functions undertaken by the government, although performance data for these activities may be captured for internal management purposes. Also excluded are defense and national security.

79. **Performance information refers to output and outcome indicators and planned results against those indicators.** An output is the actual quantity of products or services produced or delivered by the relevant service (program or function). An outcome is the measurable effect, consequence, or impact of the service (or program or function) related to its outputs. Activities are specific tasks or functions of a service delivery or program. Performance information on gender equality can be included in program objectives, activities, outputs, and outcomes.

80. **Performance information should be included in performance plans, which include the annual budget documents.** These may be presented as a supplementary document or published separately by each line ministry, and in performance reports, presented either in the executive's budget proposal or in an annual report or other public document. They should be in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–5 Sex-disaggregated performance information for service delivery (M2)		C
GRPFM–5.1 Gender-responsive performance plans for service delivery	Sex-disaggregated information is published annually on the planned outputs for <i>some</i> of key service delivery ministries, but sex-disaggregated information is not presented for all programs and sub-programs. This information is presented in ministries' corporate plans, and basic data and directions documents. The updated Program Budget Methodology (Decree of the Minister of Finance №385, 08.07.2011) recommends for spending units (for the State as well as at the local level) to include gender-related performance indicators for gender sensitive programs/subprograms.	C
GRPFM–5.2 Sex-disaggregated performance achieved for service delivery	Sex-disaggregated information is published annually on the actual outputs for <i>some</i> service delivery ministries, but sex-disaggregated information is not presented for all programs and sub-programs.	C

GRPFM–5.1 Gender-responsive performance plans for service delivery

81. **Research indicates that only two line ministries indicated sex-disaggregated data on planned outputs in the 2022 state budget.** Only two ministries have included sex-disaggregated data on outputs in the annual implementation report on the 2021 budget.

82. **Table GRPFM–5 presents the main state service delivery entities in eight line ministries of Georgia.** In its corporate action plan, as part of the Basic Data and Directions documentation, the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia presents sex-disaggregated data in the baseline and target indicators in two sub-programs. These are: (1) Pension provision for the population (27 02 01). (2) Social assistance to target groups of the population (27 02 02). According to the available data, 558,603 women and 223,331 men received pensions in 2021, 174,000 received a social package, of whom 65 per cent were men and 35 per cent were women. The Ministry of Education and Science presents sex-disaggregated data on only one of their sub-programs, implemented by the LEPL Zurab Zhvania School of Public Administration: Vocational training of national minorities (32 03 03). The data revealed that there were 55 per cent female and 45 per cent male retrained beneficiaries. Some of the other ministries like the Ministry of Environmental Protection and Agriculture and the Ministry of Regional Development and Infrastructure formerly presented sex-disaggregated information on outputs and outcomes in some of the previous years but have ceased this practice.

Table GRPFM–5 Sex-disaggregated performance information for service delivery

Name of service delivery ministry	Percentage of service delivery ministries	Percentage of Programs with Sex-disaggregated data	GRPFM–5.1 Gender-responsive performance plans for service delivery		GRPFM–5.2 Sex-disaggregated performance achieved for service delivery	
			Sex-disaggregated data on planned outputs (Y/N)	Sex-disaggregated data on planned outcomes (Y/N)	Sex-disaggregated data on actual outputs produced (Y/N)	Sex-disaggregated data on actual outcomes achieved (Y/N)
Ministry of Internally displaced persons from the occupied territories, labor, health and social affairs of Georgia	44 per cent	28 per cent	Y	N	Y	N
Ministry of Culture, Sport and Youth Affairs	3 per cent	0	N	N	N	N
Ministry of Economy and Sustainable Development	7 per cent	0	N	N	N	N
Ministry of Infrastructure and Regional Development	21 per cent	0	N	N	N	N
Ministry of Justice	2 per cent	0	N	N	N	N
Ministry of Internal Affairs	6 per cent	0	N	N	N	N
Ministry of Environment Protection and	4 per cent	0	N	N	N	N

Agriculture							
Ministry of Education and Science	12 per cent	0.02 per cent	Y	N	Y	N	
Total	100 per cent	28 per cent	28 per cent	0 per cent	28 per cent	0 per cent	

Data source: 2022 State budget results and indicators of programs

83. Score C

GRPFM–5.2 Sex-disaggregated performance achieved for service delivery

84. **The same information is reflected in the execution report of the reporting period – 2021.** Sex-disaggregated information is presented on the actual outputs of indicators within the state program. Budget Execution report for year 2021 was prepared and published on MoF website in April 2022.

85. **The updated Program Budget Methodology recommends the inclusion of gender-related performance indicators for gender sensitive programs/subprograms.** This applies to spending units (for the State as well as at the local level). This information is reflected in the final budget draft. The Program Budget Methodology states that, *according to the specifics of the programs, in case of gender sensitive programs, it is important to have one gender indicator among other performance indicators*¹⁷⁸. Methodology also defines that, generally each output should have no more than 5 indicators and if it is a gender sensitive program, then one out of five should be a gender indicator.

86. **Gender related performance indicators are not widely used and defined by the spending units.** The methodology is only a recommendation for gender sensitive programs/subprograms.

87. Score C

GRPFM–6 TRACKING BUDGET EXPENDITURE FOR GENDER EQUALITY

88. **This indicator measures the government’s capacity to track expenditure for gender equality throughout the budget formulation, execution, and reporting processes.** There is one dimension for this indicator. The indicator recognizes that the capacity to track expenditure in line with the budget proposal is important from a governance and accountability perspective, as it gives the assurance that resources are being used for the purposes intended.

¹⁷⁸ Decree of the Minister of Finance №385, 08.07.2011, p. 47

Coverage: Central government.

Time period: last completed fiscal year (2021)

Background and measurement

89. **Gender responsive PFM is built on the premise that public spending can be used as an instrument for achieving gender equality.** To have significant impacts on men and boys, women and girls, and different subgroups of these categories, public spending must be budgeted and disbursed for activities that help to achieve these desired impacts. It is therefore important that resources planned to promote gender equality are actually disbursed, that there is a way to track those resources, and that no major adjustments are made to allocations that are not authorized by the legislature.

90. **The capacity to track expenditure in line with the budget proposal is important from the governance and accountability perspective.** This gives the assurance that resources are being used for the purposes intended. From a gender responsive PFM perspective, this means that resources spent reach and benefit targeted groups of men and women.

91. **Tracking of gender expenditure should focus not only on budget policies that are explicitly labeled as such.** This helps with the understanding of the impacts of public spending on gender equality. Examples include expenditure allocated to national gender institutions, such as the Ministry of Gender, or expenditure allocated to addressing GBV. They should also include policies that are provided to the general public but also have a gender equality focus such as a project focusing on decentralization and local governance that has a specific objective to strengthen women’s participation in decision making at the local level.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–6 Tracking budget expenditure for gender equality (M1)		D
GRPFM–6.1 Tracking budget expenditure for gender equality	The current budget and reporting system does not incorporate a gender dimension into the chart of account and does not identify spending related to gender outcomes; nor are budget line item or program expenditure mapped ex post to specific gender outcomes.	D

92. **The budget classification and chart of accounts in Georgia are aligned and allow tracking of expenditure based on economic, administrative, functional and program classifications, and revenue based on revenue classification.** The budget classification is harmonized with the IMF Government Finance Statistics Manual 2014.

93. **The Government of Georgia does not track expenditure for gender equality.** The government does not use its chart of accounts to capture data on expenditure associated with gender outcomes. There is no separate tracking number or classification of expenditure and revenue in the chart of accounts on gender.

94. **Score D**

GRPFM–7 GENDER RESPONSIVE REPORTING

95. **This indicator measures the extent to which the government prepares and publishes annual reports that include information on gender-related expenditure and the impact of budget policies on gender equality.** There is one dimension for this indicator. Countries' practices in producing gender responsive annual reports vary. Regardless of the format, the reports should include information on the following: i) a report on gender equality outcomes; ii) data on gender-related expenditure; iii) assessment of the implementation of budget policies and their impacts on gender equality; and iv) sex-disaggregated data on budgetary central government employment.

Coverage: Central government.

Time period: last completed fiscal year (2021)

Background and measurement

96. **Reports should contain information on gender.** This should include the following:
- I. **An analysis of gender equality outcomes.** This report should include an overview of progress made in achieving gender equality overall as well as information in relation to specific sectors or areas of society, such as education, health and employment.
 - II. **Data on gender-related expenditure.** This information would include key figures on resources allocated for budget policies targeting gender equality.
 - III. **Assessment of the implementation of budget policies and their impacts on gender equality.** This assessment would include an overview of impact assessment data and the extent to which the intended outcomes and impacts of policies targeting specific gender or gender equality have been achieved.
 - IV. **Sex-disaggregated data on budgetary central government employment.** The inclusion of sex-disaggregated data on employment allows for the measurement of how employment in budgetary central government units is distributed between women and men, which is a key basic indicator of gender equity. Sex-disaggregated employment data that are broken down further by types of position include sex-disaggregated data on administrative, technical, operational, managerial positions, or others, as relevant. This type of data facilitates discussions on equal employment opportunities and consideration of any types of corrective measures needed.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–7 Gender responsive reporting (M1)		C
GRPFM–7.1 Gender responsive reporting	The National Statistics Office of Georgia publishes an annual report that includes, inter alia, sex-disaggregated data on budgetary central government employment. This annual report further captures sex-disaggregated data relating to specific sectors or areas of society, such as education, health, employment, poverty, and crime. Sex-disaggregated data on budgetary central government employment is also available in reports published annually by the Civil Service Bureau (CSB). Other reports do not contain a comprehensive analysis of gender equality outcomes and gender-related expenditure or an assessment of the implementation of budget policies and their impacts on gender equality or are not published annually.	C

Table GRPFM–7.1 Gender responsive reporting

Annual report includes the following information:				
Report(s) for budget year	Report on gender equality outcomes (Y/N)	Data on gender-related expenditure (Y/N)	Assessment of the implementation of budget policies and their impacts on gender equality (Y/N)	Sex-disaggregated data on budgetary central government employment (Y/N)
2021	N	N	N	Y

97. **The National Statistics Office (Geostat) of the Government of Georgia publishes an annual report that includes sex-disaggregated data on employment by the central government.** According to the latest available report for 2020, 58 per cent per cent of those employed in the public sector were male and 42 per cent per cent were female, a significant

increase from the previous year's report, when men accounted to almost 70 per cent and per cent women 30 per cent respectively. Furthermore, the Civil Service Bureau annually publishes detailed statistics on the Civil Service. Sex-disaggregated data is presented in almost every component of the analyses, such as distribution of civil servants by organizations, position rankings, age, type of contracts, managerial positions and dismissals.

98. **The report on State budget execution is prepared annually and published on the website of the MoF.** The report contains information on revenue, expenditure, financial assets, financial liabilities and long-term obligations. In addition, the consolidated financial reports for central government budgetary units are prepared annually. They provide information on allocated budget and spending and contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations. The financial reports are supported by a reconciled cash flow statement. These reports do not include information on (i) gender outcomes or (ii) data on gender related expenditure and/or revenue.

99. **Several reports produced by the government units, international organizations and CSOs cover gender equality topics.** However, most of the reports do not cover gender equality outcomes, gender-related expenditure, the assessment of the implementation of budget policies and their impacts on gender equality in a comprehensive way. Two non-periodic reports have also been produced by the Parliamentary Budget Office: the Gender Analysis of state budget for 2019 and 2020. These reports partially cover information on gender equality; however, they are not produced annually and were not developed specifically for 2021, the time period which is covered by this indicator.

100. **In 2020 the Secretariat of the SDGs Inter-Agency Council published the Voluntary National Review reporting on the Implementation of the 2030 Agenda on Sustainable Development Goals.** The Secretariat is housed under the administration of the Government of Georgia. Under the "Democratic Governance" section, the report covers Gender Equality issues, presenting different sex-disaggregated information in terms of complying with SDG 5. Similarly, to other reports, it is not developed annually, therefore cannot be considered in the assessment of this indicator.

101. **Score C**

GRPFM-8 EVALUATION OF GENDER IMPACTS OF SERVICE DELIVERY

102. **This indicator measures the extent to which independent evaluations of the efficiency and effectiveness of public services include an assessment of gender impacts.** There is one dimension for this indicator. The indicator recognizes that impacts assessments of public services on gender responsiveness and gender equality provide important feedback to the initial design of services as well as any other unintended consequences for the provision of services for men and women and different categories of these subgroups.

Coverage: *Central government.*

Time period: last three completed fiscal years (2019-2021)

Background and measurement

103. **Men and women in different socio-economic positions should have equitable access to the full range of public services provided by government.** It is important that such services meet gender-specific needs.

104. **Evaluations of the impact of public services on gender and gender equality provide important feedback to the initial design of services.** These evaluations can point to any other unintended consequences for the provision of services for men and women and different categories of these subgroups. Such evaluations can include, but are not limited to, program evaluation, assessment, and analysis; performance audits; public expenditure reviews; and impact assessments. In some cases, a separate gender-sensitive evaluation may be undertaken, although it is more desirable to include the assessment of gender impacts in the regular evaluation processes.

105. **Impact assessment that includes gender equality indicators can be carried out at the completion of a program or a service.** They can also be done during implementation in order to obtain feedback and use results to refine or redesign the program or service.

106. **Impact assessment reports that include an element of gender equality indicators build on sex-disaggregated data to measure results and long-term outcomes for men and women.** They provide information on the efficiency of programs or services with respect to equal access and equality; whether means and resources are used efficiently to achieve improved benefits for women and men; and whether costs and benefits have been allocated and received equitably. They also provide information on the effectiveness of programs or services by providing information on whether programs or services were effective in achieving gender equality and whether they contributed to the achievement of the planned outputs and outcomes with regard to gender responsiveness and/or gender equality.

107. **The inclusion of gender equality impacts assessment as part of impact evaluations is important.** These enable evaluators to review both the expected and unexpected impacts of programs or services on wider policies, processes, and programs that enhance gender equality and women's rights. This review can include, for example, whether programs or services had an impact on increasing the number of women entering STEM professions, increasing the number of women setting up information technology businesses, reducing the number of cases of gender-based violence, or increasing the number of men taking paternity leave to care for their children.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
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INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–8 Evaluation of gender impacts of service delivery (M1)		D
GRPFM–8.1 Evaluation of gender impacts of service delivery	Ex-post evaluations of service delivery are not legally required. Such assessments of gender impacts have not been carried out systematically. The Auditor General undertook three independent evaluations related to gender equality in the reporting period of 2019-2021. However, these evaluations cover only an insignificant portion of the state budget spending and are not carried out regularly.	D

108. **The State Audit Office of Georgia in the reporting period of 2019-2021 conducted three performance Audit reports that included gender impact analysis:**

- Performance audit of the mechanisms for protection and presentation of domestic violence - 2019:** This audit assesses the effectiveness of mechanisms for protection and prevention of domestic violence. The audit period is from 2015 to 2018. The agencies audited are: Ministry of Internal Affairs of Georgia; LEPL - Social Service Agency; and Interagency Commission on Gender Equality, Violence against Women and Domestic Violence. Issues examined through the audit included: police responses to cases of violence and the involvement of a social worker, access to security and issues related to the level of citizens' awareness-raising.
- Audit report on access to services provided by state health programs - 2021.** The State Audit Office conducted an efficiency audit to determine the availability of components of state health care programs: providing beneficiaries with medical care and related outpatient services. Seven state programs were selected for the audit, one of them – maternal and child health with one of the target indicators to reducing maternal and infant mortality. The audit revealed the shortcomings that affect both the availability of services and the effective management of programs.
- Efficiency Audit Report on the Readiness to Achieve Sustainable Development Goals – 2019.** This report examined the readiness to achieve the goals of sustainable development. In particular, it assessed whether appropriate measures had been taken by the government to (a) ensure the readiness to achieve the objectives and (b) to establish a monitoring and reporting framework. The report partially covered some aspects of the SDGs, among them the gender equality issues. Main findings of the audit reports were that (1) SDG matrix is only partially integrated into national documents; (2) The SDG Board and working groups do not include all stakeholders; (3) Relationships between goals are weakly identified and there are shortcomings in identifying responsible agencies and (4) The amount of resources needed to achieve the goals has not been identified.

109. **There are performance and other reports, developed by the Government of Georgia which includes gender information.** These are assessed in GRPFM-7. However, most of these reports do not provide any ex post evaluations of a specific policy or program. Exceptions are the policies and/or programs of the government where gender equality is the primary objective such as the evaluation reports of specific areas, supported by the development partners.

110. **The Government of Georgia does not conduct independent evaluations of gender impacts, and do not have the mechanism for such evaluations in place.** Some independent evaluations are undertaken by international organizations. However, these evaluations represent an insignificant part of the budget.

111. **Evaluations of different programs and services are conducted by the Public Defender's Office.** These are mainly funded by the development partners though they are not carried out in agreement with the government authorities. Moreover, Public Defender's Office is an independent institution that does not belong to any branch of the government and is legally mandated to monitor the protection of gender equality and provide an appropriate response to violations of gender equality.

112. **Score D**

GRPFM-9 LEGISLATIVE SCRUTINY OF GENDER IMPACTS OF THE BUDGET

113. **This indicator measures the extent to which the legislature's budget and audit scrutiny include a review of the government's policies to understand whether policies equally benefit men and women by ensuring the allocation of sufficient funds.** It contains two dimensions and uses the M2 (averaging) method for aggregating dimension scores. The indicator recognizes that inclusion of gender impacts in the legislature's review of budget proposals promotes the participation of men and women in the policy-making process and ensures that their voices are heard, and their priorities are reflected in government programs and services.

Coverage: Central government.

Time period: GRPFM 9.1: last completed fiscal year 2021); GRPFM 9.2: last three completed fiscal years (2019-2021)

Background and measurement

114. **In most countries, the legislature bestows government the authority to spend, through the passage of the annual budget law.** Legislative budget scrutiny can include internal organizational arrangements which require budget parliamentary committees or dedicated gender policy committees, which can be fully dedicated to the issue or have a combined portfolio, to provide an analysis of the impact of the proposed budget policies on gender.

115. **Legislative budget scrutiny can also include public hearings as well as presentations by gender advocacy groups.** These may be at the request of the legislature or legislative

committee in order to provide technical support or requirements for gender impact assessments of budget policies.

116. **Inclusion of gender impacts in the legislature’s review of budget proposals promotes the participation of men and women in the policy-making process.** This ensures that voices are heard, and their priorities are reflected in government programs and services.

117. **The legislature has a key role to play in exercising scrutiny not only over the budget but also over the execution of the budget that it has approved.** A common way in which this is done is through a legislative committee or commission that examines the external audit reports and questions responsible parties about the findings of the reports. This gender related indicator focuses on all types of audits (while PI–31 Legislative scrutiny of audit reports in a central government PEFA only focuses on financial audits)¹⁷⁹.

Assessment

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
GRPFM–9 Legislative scrutiny of gender impacts of the budget (M2)		D
GRPFM–9.1 Gender-responsive legislative scrutiny of budgets	The Parliament of Georgia’s scrutiny of the budget proposal did not include a review of the gender impacts of service delivery programs for the last completed year 2021. However, budgetary office of the Parliament of Georgia in 2019 published the “Gender Analysis of the 2020 State Budget”. A similar document was developed and published in 2018 – “State Budget in Gender Concept”.	D
GRPFM–9.2 Gender responsive legislative scrutiny of audit reports	The legislature’s review of audit report in the last three completed years did not include audit reports that considered the impact of service delivery programs on gender and/or gender equality, however there were three cases of reports that included a gender analysis.	D

GRPFM–9.1 Gender-responsive legislative scrutiny of budgets

118. **The Parliament of Georgia analyzes the fiscal policy, medium-term priorities, budget revenues and expenditure.** According to the Budget Code, the draft law of the state budget–that includes detailed information about revenues and expenditure –and the BDD document of

¹⁷⁹ For a definition of gender audits, please see the measurement guidance under GRPFM–8 Evaluation of Gender Impacts of Service Delivery

the country – that includes information on the medium-term macroeconomic and fiscal forecasts – must be submitted to the Parliament of Georgia by end of September annually.

119. The draft state budget law together with its attached materials and BDD documents are reviewed by the Parliament of Georgia according to its the Rules and Procedure. Submitted documents are publicly available immediately after their submission to the Parliament (Article 182, paragraph 2). The Committee sessions on the budget are publicly available (Article 49, paragraph 10) and information on these sessions and their agenda is available on the website of the Parliament. Public hearings are open for public representatives, citizens, CSOs and associations who are part of the discussion and may ask questions, express their views, argue and debate. The Parliament of Georgia’s scrutiny of the budget proposal did not include a review of the gender impacts of service delivery programs for the last completed year 2021.

120. One of the activities of the 2018-2020 work plan of the Permanent Parliamentary Gender Equality Council of Georgia was defined as “1.5. Introduction of Gender Analysis Methodology in the State Budget.” This is within the framework of defining the main directions of the state policy in the field of gender and supporting the adoption of a new concept. The main activities of Parliamentary Budget Office for 2018 included developing a pilot methodology for gender budget analysis, implementing the pilot gender analysis of the state budget program annex and conducting a pilot gender analysis of Parliament’s budget. In 2019, the Gender analysis of the State budget 2020 was conducted. The analysis was based on three main documents: The Law of Georgia on the state Budget for 2019, for 2020 and published research of the Parliamentary Budget Office of Georgia “State Budget for the Gender Perspective – Gender relevance Index.” The document analyzed the state budget programs according to the gender relevance index developed by the Parliamentary Budget Office, as well as other programs envisaged in the state budget related to gender issues, analysis of 2020 state budget allocations and gender analysis in different fields and sectors envisaged in the state budget. The 2022-2024 work plan of the Gender Equality Council contains specific activities on capacity development on GRB. However, it does not provide for commitments to strengthen parliamentary scrutiny and oversight on implementing GRB.

121. Score D

GRPFM–9.2 Gender responsive legislative scrutiny of audit reports

122. The legislature’s review of audit report in last three completed years did not include audit reports that considered the impact of service delivery programs on gender and/or gender equality.

123. Score D

GRPFM ANNEX 1: Performance Indicator Summary

Indicator	Score	Explanation
GRPFM-1 Gender impact analysis of budget policy proposals	D	
GRPFM-1.1 Gender impact analysis of expenditure policy proposals	D	In the last completed fiscal year, gender impact analyses were not carried out for any new expenditure policy proposals. The government currently does not require gender impact assessments of its own new spending proposals in its methodologies or guidelines.
GRPFM-1.2 Gender impact analysis of revenue policy proposals	D	In the last completed fiscal year, the government did not conduct a gender impact analysis of new revenue policy proposals.
GRPFM-2 Gender responsive public investment management	D	In the last completed fiscal year, no economic analysis for none of the major investment projects included a gender impact analysis. For the Project Proposal Application or the so-called concept note for investment projects which are part of the national guidelines, there is no requirement to provide any information on gender. While major investment projects funded by development partners require gender impact analysis, these respective reports have not yet been available and/or finalized.
GRPFM-3 Gender responsive budget circular	D	The Program Budget Methodology does not require line ministries to include sex-disaggregated data on planned outputs and outcomes or to provide information on the impacts of budget policies on gender equality for new spending proposals. This is also true for the BDD. However, Program Budget Methodology recommends that all spending units define at least one gender-related performance indicator to measure the program/subprogram, especially when the program/subprogram is gender sensitive.
GRPFM-4 Gender responsive budget proposal documentation	C	The budget proposal documentation outlines 12 priorities aimed at improving gender equality under the programs of the government included in the sections of the different line ministries. Gender equality priorities are integrated in the 12 policy priorities of the government. Also, budget measures aimed at promoting gender and an assessment of the impacts of budget policies on gender equality is not covered.
GRPFM-5 Sex-disaggregated performance information for service delivery	C	
GRPFM-5.1 Gender-responsive performance plans for service delivery	C	Sex-disaggregated information is published annually on the planned outputs for <i>some</i> of key service delivery ministries, but sex-disaggregated information is not presented for all programs and sub-programs. This information is presented in ministries' corporate plans, and basic data and directions documents. The updated Program Budget Methodology (Decree of the Minister of Finance №385, 08.07.2011) recommends for spending units (for the State as well as at the local level) to include gender-related performance indicators for gender sensitive programs/subprograms.

Indicator	Score	Explanation
GRPFM-5.2 Sex-disaggregated performance achieved for service delivery	C	Sex-disaggregated information is published annually on the actual outputs for <i>some</i> service delivery ministries, but sex-disaggregated information is not presented for all programs and sub-programs.
GRPFM-6 Tracking budget expenditure for gender equality	D	The current budget and reporting system does not incorporate a gender dimension into the chart of account and does not identify spending related to gender outcomes; nor are budget line item or program expenditure mapped to specific gender outcomes.
GRPFM-7 Gender responsive reporting	C	The NSO publishes an annual report that includes-disaggregated data on budgetary central government employment. This annual report further captures sex-disaggregated data relating to specific sectors or areas of society, such as education, health, employment, poverty, and crime. Sex-disaggregated data on budgetary central government employment is also available in reports published annually by the Civil Service Bureau (CSB). Other reports do not contain a comprehensive analysis of gender equality outcomes and gender-related expenditure or an assessment of the implementation of budget policies and their impacts on gender equality or are not published annually.
GRPFM-8 Evaluation of gender impacts of service delivery	D	Gender-responsive evaluations of service delivery are not legally required. Such, there has been no systematic assessment of gender impacts. The Auditor General undertook three independent evaluations related to gender equality in the reporting period of 2019-2021. However, these evaluations cover only an insignificant portion of the state budget spending and are not carried out regularly.
GRPFM-9 Legislative scrutiny of gender impacts of the budget	D	
GRPFM-9.1 Gender-responsive legislative scrutiny of budgets	D	The Parliament of Georgia’s scrutiny of the budget proposal did not include a review of the gender impacts of service delivery programs for the last completed year 2021. However, budgetary office of the Parliament in 2019 published the “Gender Analysis of the 2020 State Budget”. A similar document was developed and published in 2018 – “State Budget in Gender Concept”.
GRPFM-9.2 Gender responsive legislative scrutiny of audit reports	D	The legislature’s review of audit report in the last three completed years did not include audit reports that considered the impact of service delivery programs on gender and/or gender equality, however there were three cases of reports that included a gender analysis.

GRPFM ANNEX 2: Sources of Information

List of sources of information used to extract evidence for scoring indicators

Indicators	Evidence
GRPFM–1 Gender impact analysis of budget policy proposals	<p>Program Budget Methodology (Decree of the Minister of Finance №385, 08.07.2011)</p> <p><i>Explanatory Note of state budget Law 2021 - https://mof.ge/5355</i></p>
GRPFM–2 Gender responsive investment management Gender public investment management	<p>The Investment Projects Management Guide (developed in 2016 and approved by the Decree No. 191 of April 22, 2016 of the government)</p> <p>"Investment Project Management Methodology" (Decree No.165 of July 22, 2016 of the Minister of Finance of Georgia)</p> <p>Government Resolution №426 of 17 August 2018 on the Approval of the Rules for Development and Implementation of Public-Private Partnership Projects</p> <p><i>State budget 2021, PIM Projects registry - https://mof.ge/5355</i></p>
GRPFM–3 Gender responsive budget circular Gender responsive budget circular	<p>Program Budget Methodology (Decree of the Minister of Finance №385, 08.07.2011)</p> <p>BDD (Basic Data and Directions) Document 2022-2025 - https://mof.ge/5439</p> <p>The Budget Code - https://mof.ge/sabiujeta_kanonmdebloba</p> <p>Decree of the Minister of Finance №385, 08.07.2011</p>
GRPFM–4 Gender responsive budget proposal documentation Gender budget proposal documentation	<p>2021 Budget Statement - https://mof.ge/5355</p> <p>BDD (Basic Data and Directions) Document 2022-2025 - https://mof.ge/5321</p> <p>National Action Plan for 2022-2024 on the Measures to be Implemented for Combating Violence Against Women and Domestic Violence and Protection of Victims/Survivors</p> <p>2016-2017 National Action Plan for Implementation of the UN Security Council Resolutions on Women, Peace and Security</p> <p>Human Rights Strategy 2014-2020</p>
GRPFM–5 Sex-disaggregated performance information Sex-disaggregated performance information	<p><i>2022 state budget results and indicators of programs - https://mof.ge/5477</i></p> <p><i>State budget Execution report 2021 - https://mof.ge/5429</i></p>

Indicators	Evidence
for service delivery	
GRPFM–6 Tracking budget expenditure for gender equality	State budget Execution report 2021 - https://mof.ge/5429
GRPFM–7 Gender responsive reporting	<p>Statistics in Civil Service 2021 - http://www.csb.gov.ge/media/3308/statistics-in-civil-service-2021.pdf</p> <p>Gender Analysis of State Budget 2019</p> <p>Gender Analysis of State Budget 2020</p> <p>Voluntary National Review reporting on the Implementation of the 2030 Agenda on Sustainable Development Goals</p> <p>“We Research” in 2017, Women 2030</p> <p>Country Gender Assessment Report in 2018 (ADB)</p>
GRPFM–8 Evaluation of gender impacts of service delivery	<p>Performance audit of the mechanisms for protection and presentation of domestic violence -2019</p> <p>Audit report on access to services provided by state health programs – 2021</p> <p>Efficiency Audit Report on the Readiness to Achieve Sustainable Development Goals – 2019</p>
GRPFM–9 Legislative scrutiny of gender impacts of the budget	<p>The Budget Code - https://mof.ge/sabiujeto_kanonmdebloba</p> <p>the Rules and Procedure of the Parliament</p> <p>Gender Analysis of State Budget 2019</p> <p>Gender Analysis of State Budget 2020</p>

List of persons interviewed

Name	Position	Institution
Nato Mokverashvili	Budgetary Department	Ministry of Finance
Natia Gulua	Acting Head of Budgetary Department	Ministry of Finance
Tsotne Karkashadze	Head of state budget and Strategic analysis department	State Audit Office of Georgia
Lasha Kelikhashvili	state budget and Strategic analysis department	State Audit Office of Georgia
Mariam Danelia	state budget and Strategic analysis department	State Audit Office of Georgia
Maka Peradze	Head of Human Rights Secretariat	Administration of the Government of Georgia
Tsisnami Sabadze	Head of economic policy department	Ministry of Economy and Sustainable Development
Nino Berianidze	Department of Economic Policy	Ministry of Economy and Sustainable Development
Sopo Magvrakvilidze	Head of Budgetary Unit	Ministry of Economy and Sustainable Development
Ineza Kakalashvili	Head of Budgetary Unit	Ministry of Education
Shorena Kakhidze	Acting Head of the Parliamentary Budget Office	Parliament of Georgia
Maia Gotiashvili	Head of Budgetary Unit	Ministry of Healthcare
Nino Kvirikashvili	Head of HR Department	Ministry of Regional Development and Infrastructure
Nona Chichinadze	Specialist on Gender Mainstreaming	Municipal Development Fund of Georgia
Nino Koridze	Assistant to the Chairman of Permanent Parliamentary Council for Gender Equality	Parliament of Georgia
Nino Tsilosani	Chair of Permanent Parliamentary Council for Gender Equality	Parliament of Georgia
Ekaterine Vachnadze	Project Analyst	UN Women

Name	Position	Institution
Tamar Vashakidze	Program Analyst, Governance & Participation in Public Life	UN Women