



GEORGIA

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

Based on **Guidance for Subnational Government PEFA Assessments**
published May 2022

**MUNICIPALITY
SYNTHESIS REPORT**

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WORLD BANK GROUP

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Abbreviations and Acronyms

CoA	Chart of Accounts
COFOG	Classification of the Functions of Government
E-	Electronic-
GEL	Georgian Lari
GFS	Government Finance Statistics
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Development)
IT	Information Technology
MOF	Ministry of Finance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMIS	Public Financial Management Information System
SAO	State Audit Office
SN	Sub National
TSA	Treasury Single Account
USAID	United States Agency for International Development

Executive Summary

Purpose

1. The purpose of this Public Expenditure and Financial Accountability (PEFA) assessment synthesis report is to provide an objective analysis of the present performance of the Public Financial Management (PFM) system in Georgia's municipalities using PEFA indicators. The synthesis report provides a collective assessment of PFM in three municipalities¹, assessed by the World Bank funded by the European Union, plus fifteen municipalities², assessed with support from the German Corporation for International Development (GIZ) and the United States Agency for International Development (USAID). The latter assessments used the 2016 PEFA methodology adopted for subnational governments; while the three assessments conducted by the World Bank followed the PEFA CHECK quality assurance process. The field assessments by the World Bank, which covered financial years 2019-2021, were done in October 2022. With regard to the 15 municipalities assessed by GIZ/USAID, ten were assessed in 2021 and five in 2022.³ The assessments were made at the request of Ministry of Finance (MOF) within the framework of the Good Governance for Local Development in South Caucasus (GGLD) program (funded by GIZ) and the Good Governance Initiative (GGI) program funded by USAID.

Municipalities assessed

2. The PEFA assessment municipality synthesis report is mainly based on the analysis of the indicators for the three municipalities (Tbilisi, Batumi, and Martvili) with scores presented in the summary table⁴ that followed the PEFA CHECK quality assurance process, but strong similarities are also pointed out amongst the fifteen municipalities whose assessments did not follow this process.

3. Nevertheless, there are important caveats. Although the GIZ/USAID assessments used the methodology in the Supplementary Guidance for Subnational PEFA Assessments dated December 2016, the World Bank assessed the municipalities using the Guidance for Subnational Government PEFA Assessments, published in May 2022. These assessments, along with the 2022 central government assessment, were performed to inform the development of a new PFM Action Plan. Indeed between 2017 and 2022, a total of 53 subnational assessments were performed. The purpose of these 53 assessments was to sign a memorandum between MOF and each municipality based on the assessment results. The indicators presented in the memorandum are to be achieved by the municipality and are related to the weaknesses revealed by the assessment. Municipalities receive an additional transfer from the central budget in accordance with the improved performance of these indicators. The motivation for these evaluations was to evaluate the issues of PFM that directly affected the municipality. During these assessments, some indicators were not evaluated, for example, the state external audit – PI-30 as at that time very few municipalities were audited. In addition,

¹ The 3 municipalities are Tbilisi, Batumi and Martvili which were assessed by a team comprising John Short, Lasha Gotsiridze and Papuna Petriashvili.

² The 15 municipalities are Akhmeta, Ambrolauri, Baghdadi, Chkhorotsku, Keda, Kharagauli, Tetrtskaro, Khulo, Tsalenjikha, Vani, Dmanisi Lentekhi, Tkibuli, Tsageri, and Khelvachauri.

³ The 18 were part of 53 subnational PEFA assessments over the 2017 to 2022 period: 16 in 2017 to 2018, 10 in 2019, 12 in 2020, 10 in 2021, and 5 in 2022.

⁴ The evidence for the scores is presented in detail in Chapter 3 of the PEFA Assessment Report for each of the municipalities.

differences in the coverage and scoring between the two methodologies are noted in the report, where appropriate.

Key Observations

4. Table 1 presented in the Annex 1 presents the PEFA scores of the 15 municipalities for information purposes only given the divergence of the methodologies used and assessment process. However, Annex 1, Table 2, gives an approximation or comparison of how the mean, mode, and median of the 15 municipalities compare with the assessments of Tbilisi, Batumi, and Martvili. This is summarized by indicator below. It is notable that a number of indicators have comparable scores which is unsurprising given the structure of the Treasury and accounting system that applies to both the central and local government in Georgia.

5. Overall, the results of the 3 World Bank-managed assessments show that public financial management systems in the municipalities of Georgia are strong and improved as the PFM Reform Action Plan has been implemented. Annex 1, Table 3 charts the scores for 2018 and 2022 for Martvili, Batumi, and Tbilisi. The results are very positive: an increase in the number of A and B scores, and a decrease in D and C scores.

6. Budget reliability in the municipality context depends for the most part on the reliability of information on grants which are received from the national government. The strengths from the distribution of VAT as a grant is offset by weakness on targeted grants which is, however, a small element of the grants total. Although the aggregate expenditure side of the budget has not been weak, the expenditure composition both by administrative type and by economic type needs improvements, given the uncertainties relating to targeted grants often not having been in the original budget.⁵ In addition, these composition results have been affected by the uncertainties from COVID-19. Georgia has an impressive array of information regarding the finances of the budgetary central government and this fact is replicated in the municipalities. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is good. Public access to fiscal information is also strong, but there is a lack of citizen involvement in the identification of investment, service delivery, and budget planning. A Citizens' Budget has not been produced in any of the municipalities in recent years.

7. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach. A medium-term approach is taken to expenditure budgeting. The budget is presented for the up-coming year and the following two fiscal years with a focus on determining medium term expenditures aligned to strategic plans and medium-term budgets. The multi-year information on grants from the distribution of VAT assists in this process but this is offset by information on other grants for the budget year only.

8. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the municipality management. Municipalities work in conjunction with the Georgian Treasury and based on its cash inflows and outflows forecasts, deposits a part of its cash in commercial banks through daily auctions. 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.

⁵ The calculations for the deviations ensure that positive and negatives do not cancel each other, which they do in the aggregate calculation.

9. The payroll system is strong. All government contracts are procured through the Georgian E-Government Procurement System. The adoption of competitive procurement methods is high. Internal controls on non-salary expenditure are very high with strong segregation of duties, effective commitment controls and compliance with payment rules and procedures. The internal audit function is strong with a focus on evaluations of the adequacy and effectiveness of internal controls in high risk areas. Accounts reconciliation and financial data integrity are areas of strengths. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo and published. The situation with respect to the annual financial reports is positive. Municipalities apply the current national accounting standards for their financial statements.

10. While external audit standards are an area of significant strength, annual audit coverage is not mandatory. Only in Tbilisi did the SAO conduct an audit of the 2019 consolidated financial statement and this was repeated for 2020. The Sakrebulo now conducts its own legislative scrutiny of audit reports. In the past this aspect of external scrutiny was left to Parliament. The Tbilisi Sakrebulo Audit Commission carried out the scrutiny function.

11. The effectiveness of the internal control framework in municipalities 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. 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.

12. 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 at both the central government and Subnational levels where applicable. This has been achieved even with the impact of the COVID-19 pandemic on the country. This achievement has continued mainly due to 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 roll out of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency. In addition, performance grants engineered by the MOF to municipalities based on PFM performance indicators in budgeting, accounting and reporting, have been a key stimulator of reforms.

Strength and areas of Improvement for Subnational Government PFM Systems

18. A review of the PEFA indicators shows the following areas of strength:

- Budget classification is comprehensive and consistent with GFS/COFOG;
- Budget documentation includes basic and some supplementary information required to support a transparent budget process but there is need to add debt stock, financial assets, and contingent liabilities;
- All expenditure and revenue are included in financial reports; there are no subnational government operations outside financial reports;

- There is good public access to fiscal information, but more formal public consultation needs to be implemented;
- Public asset management is good with respect to monitoring financial assets and strong on transparency of asset disposal, but improvement is required in the monitoring of non-financial assets;
- Legislative scrutiny of budgets is effective and efficient;
- Accounting for revenue is strong;
- Predictability of in-year resource allocation is good but improvements are required to reduce the number of supplementary adjustments to no more than twice in a year;
- Management of expenditure arrears and payroll controls are strong;
- Procurement is very good;
- Internal controls on non-salary expenditure are strong;
- Internal audit is effectively guided by the Center for Harmonization Unit under Ministry of Finance;
- Accounts reconciliations and financial data integrity are strong;
- In-year budget report coverage and timing is strong while accuracy can be improved by not only covering expenditure information at the payment stage but also at the commitment stage;
- Annual financial statements are comprehensive;
- Although audits are not carried out each year, the Sakrebulo in municipalities is now able to scrutinize them. Tbilisi has performed scrutiny but this can be improved by having more in-depth hearings and better dissemination to the public.

19. A review of the PEFA indicators shows the following areas where there is room for improvement:

- Earmarked grants information needs to improve in terms of the budget process to have a positive impact on the indicator on transfers from a higher-level government;
- Revenue out-turn where improvements are required in revenue composition and producing accurate total revenue projections;
- Performance information for service delivery is adequate but there is need to improve on performance evaluation;
- Citizens' involvement across the budget process is an area that is underdeveloped and a Citizen's Budget is not produced'
- Fiscal risk management related to monitoring public corporations owned by a municipality needs improvement;
- Public investment management needs improvement in terms of assessment and selection methodologies;
- Debt management needs improvement especially with regard to strengthening the recording and reporting of debt and guarantees by more frequent reporting and developing a debt management strategy;
- Medium-term perspectives in expenditure budgeting needs improvement especially with regard to improving medium-term expenditure ceilings and consistency of budgets with previous year estimates;

- Although financial statements are produced in a timely manner, distribution to the SAO should be at the same time they are sent to the MOF and posted on the municipality's website;
- Coverage of the audits of municipalities by the SAO needs to improve;
- There is a need to ensure that audit reports are distributed directly to each Sakrebulo and to the municipality administration to improve on legislative scrutiny of audit reports.

Priorities for the PFM Strategy and Action Plan

20. In terms of a PFM Strategy and Action Plan the following appear to be of higher priority:

Annual Budget Preparation:

- Align decision making on targeted grants to the budget process so that it occurs earlier, and these grants are able to be included in the planned budget.

Medium Term Expenditure Framework:

- Where feasible, align targeted grants to the Municipal Priorities Document so that they cover the medium term in the same way that VAT related transfers are aligned.

Key Performance Indicators:

- Assist the municipalities in specifying better KPIs (both output and outcome). This could be linked with the assistance central government ministries is to receive.
- Carry out more performance audits:
 - By the Internal Audit Unit, in a municipality supported by the Central Harmonization Unit
 - By the SAO, carrying out thematic performance audits across a representative sample of municipalities.

External Audit:

- Ensure that Financial Statements are submitted to the SAO at the same time they are posted on the municipality website and submitted to the Ministry of Finance
- Ensure that SAO Audit reports are send directly to the relevant Sakrebulo once they are completed.

Improve Communication with Citizens:

- Publish the Municipality Priorities Document earlier
- Publish Economic Analysis of Investment
- Produce a Citizen's Budget

Formally Involve Citizens in:

- Budget Formulation
- Service Delivery Design
- Investment Identification and Planning

Summary Table
Overview of Georgia Subnational PEFA Scores
Combined Assessments Scores by Indicator
Tbilisi, Batumi and Martvili
Mean Mode and Median of the 15⁶ GIZ/USAID Assessed Municipalities

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
	2022			2021-2022		
HLG-1. Transfers from a higher-level government	C+	C	C	D+	D+	C+
Pillar I - Budget Reliability						
PI-1 Aggregate expenditure out-turn	B	C	D	D	D	D
PI-2 Expenditure composition out-turn	D+	D+	D+	D+	D+	D+
PI-3 Revenue out-turn	D	D	D	D	D	D
Pillar II - Transparency of Public Finances						
PI-4 Budget classification	A	A	A	A	A	A
PI-5 Budget documentation	A	A	B	C	C	C
PI-6 Subnational government operations outside financial reports	A	A	A	A	A	A
PI-7 Transfers to sub-national governments	NA	NA	NA	NA	NA	NA
PI-8 Performance information for service delivery	B+	B	B	C	C	C
PI-9A Public access to fiscal information	B	B	B	C	C	C
PI-9B Public Consultation	D+	D+	D+	Not assessed		
Pillar III - Management of Assets & Liabilities						
PI-10 Fiscal risk reporting	C	C	NA	NA	NA	NA
PI-11 Public investment management	C+	B	C+	C+	C+	C+
PI-12 Public asset management	B	B	B	B	B	B
PI-13 Debt management	D+	C+	C	B+	B+	B+
Pillar IV - Policy-based budget strategy and budgeting						
PI-14 Medium-term budget strategy	C+	C+	D+	C+	C+	C+
PI-17 Budget preparation process	B+	B+	C+	C+	C+	C+
PI-18 Legislative scrutiny of budgets	A	B+	A	C+	C+	C+
Pillar V - Predictability & Control in Budget Execution						
PI-19 Revenue administration	NA	NA	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A	A
PI-21 Predictability of in-year resource allocation	B+	B+	B+	B	B	B
PI-22 Expenditure arrears	A	A	A	A	A	A
PI-23 Payroll controls	D+	B+	B+	D+	D+	D+
PI-24 Procurement	A	A	B+	A	A	A
PI-25 Internal controls on non-salary expenditure	A	A	A	A	A	A
PI-26 Internal audit	A	B+	B+	C+	C+	C+
Pillar VI - Predictability & Control in Budget Execution						
PI-27 Financial data integrity	A	A	A	A	A	A
PI-28 In-year budget reports	B+	B+	B+	C+	C+	C+
PI-29 Annual financial reports	D+	D+	D+	D+	D+	D+
Pillar VII - External Scrutiny & Audit						
PI-30 External audit	B+	D+	D+	Not assessed		
PI-31 Legislative scrutiny of audit reports	C	D	NA	D	D	D

⁶ The 15 municipalities are Akhmeta, Ambrolauri, Baghdadi, Chkhorotsku, Keda, Kharagauli, Tetrtskaro, Khulo, Tsalenjikha, Vani, Dmanisi Lentekhi, Tkibuli, Tsageri, and Khelvachauri.

1. Introduction

1.1. Rationale and Purpose

21. The purpose of this synthesis PEFA assessment is to conduct a review of Public Finance Management (PFM) in municipalities in Georgia using the PEFA methodology.⁷ Three PEFA assessments were carried out in Tbilisi, Batumi, and Martvili in 2022. These subnational assessments followed on from the central government⁸ assessment of 2022. In addition, GIZ/USAID performed assessments of 15 municipalities, ten in 2021 and five in 2022.⁹ The results of these 15 assessments have been used to complement the findings of the assessment for Tbilisi, Batumi, and Martvili.

22. These assessments have been carried out to facilitate the continued development of the government's common vision and goals in respect of Public Finance Management reforms for central and subnational government.

23. The assessment covered the three municipalities including their executive spending units and Assembly (Sakrebulo), as well as the services supplied by the central government agencies that the municipalities interact with on PFM: the State Procurement Agency, State Audit Office, and Ministry of Finance (only regarding delivery of services by the municipality). Service delivery by the central government was assessed through the central government assessment. There are no extrabudgetary units and there is no local government below the municipality level. Tbilisi and Batumi have public corporations. The time period covered was fiscal years 2019 to 2021 and the time of assessment was September to October 2022. The assessment team met with the Mayors, Vice Mayors, Heads and Deputy Heads of Finance Departments and other relevant officials.

2. Methodology

24. The assessment of the three municipalities¹⁰ Tbilisi, Batumi, and Martvili was performed using the May 2022 *Guidance for Subnational Government PEFA Assessments*. All indicators (and their dimensions) were assessed and followed the methodology without deviation in terms of coverage and application. Those indicators that were not applicable have been scored Not Applicable (NA). These assessments are repeats of the 2018 assessments which applied the Supplementary Guidance for Subnational PEFA Assessments December 2016.

25. The full PEFA CHECK procedures were followed for these three municipalities. A Concept Note was subject to review by Ministry of Finance and municipality officials as well as other interested parties (World Bank, Ministry of Finance, EC, and PEFA Secretariat).

⁷ Guidance for Subnational Government (SNG) PEFA Assessments May 2022

⁸ Both the 3 municipality and central government PEFAs were conducted by the World Bank funded by the EC.

⁹ These were part of 53 SN PEFA assessments over the 2017 to 2022 period: 16 in 2017 to 2018, 10 in 2019, 12 in 2020, 10 in 2021 and 5 in 2022. The Supplementary Guidance for Subnational PEFA Assessments December 2016 was used in these assessments.

¹⁰ Separate PEFA Reports are available for each municipality.

26. The scoring process began at the individual municipality level. The M1 (weakest link) and M2 (average) methodology was applied, as appropriate to the dimension, to generate the overall indicator score for a municipality. The process continued with the determination of mean, median, and mode scores for the group of 3 municipalities (Tbilisi, Batumi, and Martvili). The mean scores were calculated for each dimension and indicator by converting an A score to a 4, B to a 3, C to a 2, and D to a 1. The mean average was calculated and then the result converted back to the ordinal scoring method, rounding down or up as appropriate. All of the individual municipality and group mean, median, and mode scores can be found in the Summary Table.

27. With respect to the assessments of the 15 municipalities carried out in 2021 and 2022, the same level of rigor had not been adopted. As well there are some differences in the specification of indicators as well as some modification in the scoring criteria. Desk based research underpinned the assessments with some contact with the municipalities. Where the scoring from these 15 assessments is generally compatible with the scoring methodology for Tbilisi, Batumi and Martvili, they are used to complement these scores in this synthesis report. Annex 1 presents the 15 municipalities' set of scores. It also presents their mean, mode and median scores alongside the scores for Tbilisi, Batumi and Martvili. The differences in methodologies are noted in the introduction to the annex.

3. Inter-Governmental Fiscal Relationships

Legal Basis

28. In 2006 Georgia completely revamped its system of local government. Other than in the five largest cities, genuine self-government was established only at the district level while governance structures (separate budgets, elected public officials, etc.) were completely abolished at the levels below and above districts (i.e., in settlement and regions). As a result, the number of subnational government units in the country dropped from about one thousand to just seventy: five self-governing cities (Tbilisi; Kutaisi; Batumi; Rustavi and Poti), 64 district-wide municipalities, and the autonomous republic of Adjara.

29. The law on self-government (enacted in June 2014) provides simple and straightforward governance structure. Each municipality has a directly elected local council (Sakrebulo); the executive branch on the level of these municipalities is managed by directly elected Mayors. Heads of municipalities appoint representatives, or as they are called "village trustees" (rtsmunebuli) for each village within respective municipalities. There are nine territorial administrative units (mkhare) or regions in Georgia: Guria, Imereti, Kakheti, Mtskheta-Mtianeti, Racha-Lechkhumi and Kvemo Svaneti, Samegrelo and Zemo Svaneti, Samtskhe-Javakheti, Kvemo Kartli and Shida Kartli (administratively breakaway South Ossetia is part of Shida Kartli region). Governors of these regions are appointed by the Prime Minister and play a coordination role.

30. The system of intergovernmental finances went through major changes as a result of reforms in 2007. The system that existed before 2007 had de-concentrated district branches for all major line ministries (health, education, social welfare), while current local governments did not receive any responsibilities in these sectors other than communal affairs, local roads, kindergartens, and some public health programs and supplementary financing of healthcare. However, in addition to designating a number of specific functions as municipal responsibilities, the organic law on local self-government also contains: (i) 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 (ii) a clause that allows for 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. Nevertheless, at the subnational level, expenditures are reported on social programs (10.6 percent of consolidated SNG expenditures in 2017) and some health services (3 percent of consolidated SNG expenditures in 2017).

31. The legal basis for decentralization of PFM is encompassed in the framework for governance as specified above. There is a Chart of Accounts that is common to all municipalities, irrespective of size, and central government and a common IT system and Treasury Single Account with sub accounts for all spending units (including each municipality). The Budget Code applies to both central government and municipalities with sections relating specifically to municipalities. There are no earmarked revenues or extrabudgetary units in Georgia. Municipalities collect fees and charges for services. The Georgia Revenue Services collects property taxes on behalf of the municipalities. External control is exercised by the State Audit Office which reports to Parliament. The audit reports relating to municipalities are scrutinized by the Sakrebulo. The Budget Code provides for public hearings on the budget.

32. The population of the municipalities varies considerably from as little as 4,000 to over one million (Tbilisi). Municipalities are responsible for providing local roads, water and sewage, refuse collection, parks and cultural amenities such as museums and kindergarten schooling. Municipalities are independent of central government but rely on grants and this reliance varies depending on the size of the municipality.

Basis of Intergovernmental Grants

33. The Budget Code includes the following types of transfers¹¹ to includes the following types of transfers from higher level government to Local Self-Government Units:

- **Special transfer.** Allocated from the state budget of Georgia for municipal budgets or the budget of an autonomous republic in order to eliminate the effects of natural disasters, ecological and other disasters, hostilities, epidemics and other emergency situations (damages), as well as to assist municipalities in the implementation of other activities. This transfer type is allocated only if the reserve fund of the respective municipality budget is not enough to finance the measures to mitigate the aforementioned events.
- **Capital Transfer.** Allocated to municipalities according to the rule approved by government degree #23 which indicates that:
 - A special commission be created which among others includes the Deputy Minister of Finance, Budget Department representative of the MOF, Deputy Minister of Regional Development, and representatives of respective departments dealing with coordination with municipalities from Ministry of Regional Development and Infrastructure;
 - Municipalities submit proposals of different capital projects to the commission;
 - Criteria for selecting the projects is defined by the decree;¹²

¹¹ Transfers are assessed in the central government PEFA PI-7 Transfers to sub-national governments and scored B in the 2020 PEFA.

¹² Government of Georgia 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

- Municipalities are obliged to co-finance the projects at least by 5%;
 - The special commission allocates available funds per specific projects and money is transferred to the municipality according to the contract amount and actual performance.
- **Targeted transfer for delegated competencies.** Municipalities exercise delegated competencies based on various laws. Municipalities perform functions and services delegated by the central government. These functions and services are:
 - Supervision of norms of public health protection; study of epidemiological situation and prevention;
 - Conscription and registration in military service;
 - Support of guarantees of social protection of Internally Displaced Persons. Among them, provision of housing, and other forms of material and financial assistance;
 - Memorial services for war veterans. Includes the costs of funeral services for soldiers, the costs of protection, and beautification of military cemeteries;
 - Decisions about granting, terminating, suspending, and restoring the status of persons permanently living in highland settlements;
 - Development of child rights protection and support programs that ensure promotion of children's social development, promotion of children's education, promotion of health protection, promotion of individual needs of disabled children, etc.
 - Funding of relevant measures to improve the infrastructure of public schools, which involves the purchase of goods, services, and works for public schools;
 - Provision of public schools with student transportation, which aims to provide free transportation for students living far from school.
 - **Equalization transfer.** In 2019, the equalization transfer system in use was replaced by one based on a VAT sharing system. This system directs at least 19% of VAT mobilized in the state budget to the municipal budgets. This revenue becomes municipalities' own revenue, which a municipality uses at its discretion. VAT is shared in accordance with Article 71 of the Budget Code of Georgia. It is shared among municipalities according to population characteristics and the area of the municipality in the following percentages:
 - 60% - The population of the municipality;
 - 15% - Number of children under 6 years old registered in the municipality;
 - 10% - Number of adolescents aged 6 to 18 registered in the municipality;
 - 5% - Area of the municipality;
 - 10% - Number of persons permanently residing in a highland settlement.

Although municipalities record the amount received from the distribution of VAT as sales tax revenue, the revenue is from the distribution of VAT as a grant transfer from central government. The amount is not related to the actual VAT collected in the municipality.

4. Conclusions of the Analysis of Subnational PFM Systems

4.1 Integrated Assessment Across the Performance Indicators¹³

Budget Reliability

Table 4.1 HLG-1 and Pillar I scores by indicator and dimension

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
HLG-1. Transfers from a higher-level government	C+	C	C	C	C	C
HLG-1.1. Outturn of transfers from higher-level government	C	D	D	D	D	D
HLG-1.2. Earmarked grants outturn	D	D	D	D	D	D
HLG-1.3. Timeliness of transfers from higher-level government	A	A	A	A	A	A
HLG-1.4 Predictability of transfers	C	C	C	C	C	C
Pillar I - Budget Reliability						
PI-1 Aggregate expenditure out-turn	B	C	D	C	D	C
1.1 Aggregate expenditure out-turn	B	C	D	D	B/C/D	C
PI-2 Expenditure composition out-turn	D+	D+	D+	D+	D+	D+
2.1 Expenditure composition out-turn by function	D	C	D	D	D	D
2.2 Expenditure composition out-turn by economic type	D	D	D	D	D	D
2.3 Expenditure from contingency reserves	A	A	A	A	A	A
PI-3 Revenue out-turn	D	D	D	D	D	D
3.1 Aggregate revenue out-turn	D	D	D	D	D	D
3.2 Revenue composition out-turn	D	D	D	D	D	D

Highlights

34. Budget reliability in the municipality context depends for the most part on the reliability of information on grants to be received from the central government. This indicator scored D in terms of outturn relative to budgeted grants (HLG-1.1) and scored A (HLG-1.3) with respect to their timely distribution, but with weakness on targeted grants (HLG-1.2, Score D), a small element of the grants total. The challenges in producing accurate municipality own revenue projections have not been met in recent years both in terms of the total and composition (PI-3.1 and 3.2, both scored D). While the aggregate expenditure side of the budget has averaged C, with each municipality having a different score (PI-1.1, D/C/B), the expenditure composition by administrative type (function) and by economic type both scored D (PI-2.1 and 2.2). These results have been affected by the uncertainties that resulted from COVID-19 but also the impact of targeted grants and the expenditure that they support often not being in the original budget. Nevertheless, the strengths in virement (Score A) and the existence of supplementary budgets (Score C) have ensured that due process was followed. The process of controlling budget allocations to match the availability of cash was supported by good cash forecasting (PI-21.1, Score A) with budgetary units having certainty in the availability of funds to execute

¹³ Using the three municipalities assessed by the World Bank.

their budgets as planned (PI-21.3 Score A). There are no arrears (PI-22.1, Score A) which reflects the strong commitment control.

Transparency of Public Finances

Table 4.2 Pillar II scores by indicator and dimension

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Pillar II - Transparency of Public Finances						
PI-4 Budget classification	A	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A	A
PI-5 Budget documentation	A	A	B	A	A	A
5.1 Budget documentation	A	A	B	A	A	A
PI-6 Subnational government operations outside financial reports	A	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	NA	NA	NA	NA	NA	NA
7.1 Systems for allocating transfers	NA	NA	NA	NA	NA	NA
7.2 Timeliness of information on transfers	NA	NA	NA	NA	NA	NA
PI-8 Performance information for service delivery	B+	B	B	B	B	B
8.1 Performance plans for service delivery	B	B	B	B	B	B
8.2 Performance achieved for service delivery	B	B	B	B	B	B
8.3 Resources received by service delivery units	A	A	A	A	A	A
8.4 Performance evaluation for service delivery	B	D	D	D	D	C
PI-9A Public access to fiscal information	C	C	C	C	C	C
PI-9B Public consultation	D+	D+	D+	D+	D+	D+
9B.1: Public consultation in budget preparation	C	B	C	C	C	C
9B.2: Public consultation in the design of service delivery programs	D	D	D	D	D	D
9B.3: Public consultation in investment planning	D	D	D	D	D	D

Highlights

35. Georgia has an impressive array of information regarding the finances of the budgetary central government, and this characteristic is replicated in the municipalities. The Chart of Accounts, which underpins budget preparation, execution and reporting, is comprehensive and consistent with GFS standards (PI-4.1, Score A). Information is included in the budget on a timely basis. As a result, the budget documents include most of the basic, and much of the supplementary information, required to support a transparent budget process (PI-5.1, Score A). There is complete data regarding operations for public bodies as these are included in the budget documentation. Taken together with estimates of revenue and expenditure for spending units and their supported agencies, the whole of the municipality government is included in the budget documents. Information on performance plans and achievements in service delivery outputs and outcomes across the government sectors is good (PI-8.1 and 8.2, both Score B).

36. Public access to fiscal information is good (PI-9A.1, Score C) with most of basic elements made available but lacking a Citizen's (summary) Budget. The level of formal public consultations (PI-9B.1, D+) is weak although there has been some effort in budget preparation particularly in Batumi.

Management of Assets and Liabilities

Table 4.3 Pillar III scores by indicator and dimension

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Pillar III - Management of Assets & Liabilities						
PI-10 Fiscal risk reporting	C	C	NA	C	C	C
10.1 Monitoring of public corporations	C	C	NA	C	C	C
10.2 Monitoring of sub-national government (SNG)	NA	NA	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	NA	NA	NA	NA	NA	NA
PI-11 Public investment management	C+	B	C+	C+	C+	C+
11.1 Economic analysis of investment proposals	C	C	C	C	C	C
11.2 Investment project selection	C	C	C	C	C	C
11.3 Investment project costing	B	B	C	B	B	B
11.4 Investment project monitoring	B	A	B	B	B	B
PI-12 Public asset management	B	B	B	B	B	B
12.1 Financial asset monitoring	B	B	B	B	B	B
12.2 Non-financial asset monitoring	C	C	C	C	B	C
12.3 Transparency of asset disposal	A	A	A	A	A	A
PI-13 Debt management	D+	C	C	D+	D+	D+
13.1 Recording and reporting of debt and guarantees	C	B	C	C	C	C
13.2 Approval of debt and guarantees	NA	NA	NA	NA	NA	NA
13.3 Debt management strategy	D	D	NA	D	D	D

Highlights

37. A comprehensive and inclusive process is lacking in managing the public investment program. Economic analysis is conducted for some of the municipality's own financed projects with the selection process lacking standard criteria (PI-11.1 and 11.2, both Score C). However, project costing and subsequent recurrent costs are included in the budget documentation (PI-11.3, Score B). Monitoring of investment implementation also scores B (PI-11.4) with costs and physical work reported. Reporting of risks associated with public corporations scores C as the overall consolidated overview is not published. There are good records on financial (PI-12.1, Score B) and nonfinancial assets (PI-12.2, Score C) and asset disposition procedures are transparent (PI-12.3, Score A). Debt management is commensurate with need (Score C), but a debt management strategy (PI-13.3, Score D) is delegated to the individual lender.

Policy-Based Fiscal Strategy and Budgeting

Table 4.4 Pillar IV scores by indicator and dimension

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Pillar IV - Policy-based budget strategy and budgeting						
PI-14 Medium-term budget strategy	C+	C+	D+	C+	C+	D+
14.1 Underlying forecasts for medium-term budget	B	B	C	B	B	B
14.2: Fiscal impact of policy proposals	NA	NA	NA	NA	NA	NA
14.3: Medium-term expenditure and revenue estimates	B	B	C	B	B	B
14.4: Consistency of budget with previous year estimates	D	D	D	D	D	D
PI-17 Budget preparation process	B+	B+	C+	B+	B+	B
17.1 Budget calendar	A	A	A	A	A	A
17.2 Guidance on budget preparation	A	A	D	A	A	B
17.3 Budget submission to the legislature	C	C	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	B+	A	A	A
18.1 Scope of budget scrutiny	A	A	B	A	A	A
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A	A

Highlights

38. Good progress has been made towards a comprehensive medium-term expenditure framework based on a program budgeting for results approach but with the smaller municipality (Martvili) lagging the two largest. There is a detailed budget calendar (PI-17.1, Score A) with at least 6 weeks for budget preparation based on information on ceilings. The legislature has adequate time to carry out its scrutiny function. A medium-term approach is taken to expenditure budgeting. The budget is presented for the up-coming year and the following two fiscal years (PI-14.1, Score B) with a focus on determining medium term expenditures aligned to strategic plans and medium-term budgets (PI-14.3, Score B). The multi-year information on grants from the distribution of VAT assists in this process but is offset by information on other grants for the budget year only. However, there is no explanation of any changes from previous expenditure estimates (PI-14.4, Score D).

Predictability and Control in Budget Execution

Table 4.5 Pillar V scores by indicator and dimension

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

Highlights

39. Revenue administration is carried out by the Georgia Revenue Services. A revenue report is prepared monthly for the municipality management (PI-20.1, Score A).

40. All municipalities work in conjunction with the Georgian Treasury and, based on its cash inflows and outflows forecasts, deposit a part of its cash in commercial banks through daily auctions. The consolidation of cash balances in TSA and commercial banks is made daily and published on the Treasury website (PI-21.1, Score A). The municipalities prepare a cash flow forecast annually for the year to come and broken-down by quarter. It is updated on the basis of actual inflows and outflows, particularly for supplementary budgets (PI-21.2, Score B). 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 (PI-21.3, Score A). Management of budget releases has been successful in controlling arrears (PI-22.1, Score A).

41. The combined elements of the payroll system score C+ (PI-23). The budgetary units maintain their respective personnel databases under the E-Treasury (payroll module) system managed by the Treasury (PI-23.1, Score A). Personnel and payroll records are reconciled at least monthly, before salaries are paid to staff bank accounts (PI-23.2, Score A). Reconciliation between payroll records in E-Treasury and the personnel records takes place once an employee is appointed and registered in the system in the municipality. 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 (PI-23.3, Score A). Payroll audits are conducted by the State Audit Office as part of the compliance audits, and this exposes any control weaknesses and accountability issues. These have been carried out in two of the three municipalities (PI-23.4, average Score C with mode/median B).

42. All government contracts are procured through the Georgian E-Government Procurement System. Databases or records are maintained for all contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works. As this is not specific to the municipality it is deemed Not Applicable. The share of the value of contracts procured through competitive procurement methods scores B (PI-24.2, with the median and mode A). All the key procurement information is made available to the public (PI-24.3, Score A). The appeals process is independent of the State Procurement Agency (PI-24.4, Score A).

43. Internal controls on non-salary expenditure scores A overall 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 is strong (Score A). Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls, and they focus on high risk areas that have yet to be extended to systems audits in all but one of the municipalities (Score B). Internal audit activities are guided by the Center for Harmonization Unit, a department of the Ministry of Finance which ensures consistency of all internal audit activities. Management implemented all internal audit recommendations made over fiscal years 2019 to 2022 (Score A).

Accounting and Reporting

Table 4.6 Pillar VI scores by indicator and dimension

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Pillar VI - Predictability & Control in Budget Execution						
PI-27 Financial data integrity	A	A	A	A	A	A
27.1 Bank account reconciliation	A	A	A	A	A	A
27.2 Suspense accounts	NA	NA	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A	A
PI-28 In-year budget reports	B+	B+	B+	B+	B+	B+
28.1 Coverage and comparability of reports	A	A	A	A	A	A
28.2 Timing of in-year budget reports	A	A	A	A	A	A
28.3 Accuracy of in-year budget reports	B	B	B	B	B	B
PI-29 Annual financial reports	D+	D+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	A	A	A	A	A	A
29.2 Submission of reports for external audit	D	D	D	D	D	D
29.3 Accounting standards	B	B	B	B	B	B

Highlights

44. Accounts reconciliation and financial data integrity are areas of strength. The bank reconciliation for all active central government bank accounts takes place daily through Real-Time Gross Settlement System (PI-27.1, Score A). There are no active expenditure suspense accounts (PI-27.2, Score NA). Advances are reconciled in a timely manner (PI-27.3, Score A). Data integrity is good (PI-27.4, Score A) as access and changes to records is restricted and recorded, and results in a sufficient audit trail.

45. With respect to in-year budget reports, coverage and classification of data allows for direct comparison to the original budget. Information includes all budget estimates for the budgetary units. Consolidated budget execution reports are prepared quarterly and issued to the Sakrebulo as well as published within 10 days from the end of the quarter (Score A). There are no material concerns regarding data accuracy. Information on expenditure is provided at the payment stage (Score B).

46. The situation with respect to the annual financial reports is positive. The consolidated budget execution report for the municipality budgetary units are prepared annually and are comparable with the approved budget. There is also detailed analysis of performance. The financial statements contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees and long-term obligations and are consolidated with other spending units that operate under the municipality (Score A). The annual budget execution reports and financial statements are published on each municipality and State Treasury websites which makes them available for external audit if selected by the SAO for audit but these are not submitted to the State Audit which reduces as potential score of A if they were submitted to D as they are not submitted. Each municipality applies the current national accounting standards for its financial statements (Score B).

External Scrutiny and Audit

Table 4.7 Pillar VII scores by indicator and dimension

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

Highlights

47. While external audit standards are an area of significant strength in Georgia, annual audit coverage is not mandatory at the municipality level. The timing of audits should take place at least once every three years and is dependent on risk analysis and the State Audit Office's work program given its resources. The audits highlighted relevant material issues and systemic and control risks and there have been recommendations to follow up. The independence of the SAO is assured by the Constitution of Georgia and

the Law of Georgia on State Audit Office (PI-30.4, Score A). Only Tbilisi has had financial audits during the assessment period and its overall score is B+.

48. The Sakrebulo now conducts its own legislative scrutiny of audit reports. Again of the 3 municipalities, only Tbilisi's Sakrebulo has carried out the audit function through the Sakrebulo's Audit Commission which scored A (PI-31.1) on timing of scrutiny but D (PI-31.2) on in-depth hearings even though they are open to the public. Dissemination of Audit Commission reports to the public also scores D. In the past this aspect of external scrutiny was left to Parliament.

4.2 Effectiveness of the Internal Control Framework

49. 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.

50. The effectiveness of the internal control framework in the municipality 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. 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. While the State Audit Office does not carry out an audit of the municipality each and every year either a compliance or financial audit has been carried out in each of the municipalities in the assessment period.

51. The internal control environment 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 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.

52. 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.

53. 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.

54. 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.

56. 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

57. 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.

4.3 Strengths and Weaknesses in Subnational PFM Systems

58. 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 at both the central government and Subnational levels where applicable. This has been achieved even with the impact of the COVID-19 pandemic on the country. This achievement has continued mainly due to 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 roll out of IT, internet and personnel enhanced skills through training, has resulted in PFM's positive effectiveness and efficiency. In addition, performance grants engineered by the MOF to municipalities based on PFM performance indicators in budgeting, accounting and reporting, have been a key stimulator of reforms.

Aggregate Fiscal Discipline

59. Aggregate fiscal discipline has been affected by the pandemic. It has had an impact on the municipality's main source of income- grant revenue from the distribution of VAT based on population characteristics. However, the built-in procedures for other grants from the center have exacerbated fiscal discipline as they are often outside the budget preparatory process. Nevertheless, control of 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 (compliance and financial audits) enhanced fiscal discipline.

60. 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. The municipalities used 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 municipality management had the necessary instruments to assure fiscal discipline within government-approved spending parameters.

Strategic Allocation of Resources

61. 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. The Priorities Document, the medium-term action plan of the municipality, guides the allocation of resources over the next 4-years in terms of revenues and expenditures. The management of investment that has been implemented has affected the strategic allocation of resources. Recurrent cost implication of investment is factored into the budget process and investments are based on strategic objectives. Monitoring of project implementation has ensured that planned activities are being delivered.

62. Overall, Georgia, including both the central and local governments, 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 and the system performed as intended.

Efficient Use of Resources for Service Delivery

63. 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. The level of competitive bidding by the municipalities is high. The strengths in the accountability mechanisms make internal and external audits effective as counter checks on inefficient use of resources. The development of and timely consolidated annual financial statements for the municipality enhances the impact of external audits. These are not conducted annually which in turn limits the effectiveness of such oversight. Publishing of performance targets and outcomes also supports the efficient use of resources in municipal service delivery units.

4.4 Recent and On-Going Reform Actions

64. The third national PEFA assessment (2018) showed huge improvements in scores in PFM reflecting the achievements at the time of the assessment. Along with the accompanying 2018 subnational PEFA assessments, it was used to draft the Public Financial Management Reform Strategy 2018 – 2021. An overriding feature identified in the 2018 assessments 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.

65. 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 areas where continued reforms were planned all had a timeline, performance indicators, and a costed implementation plan.

66. 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 late March 2020 to late May 2020, several 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. For 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 dealer's pilot program regulation framework, SOE fiscal risk analysis and database, and the creation of a register of private and public partnerships.

67. These overall PFM reform achievements have also been recognized in the results of the Open Budget Survey 2021¹⁴ published by the International Budget Partnership. In the 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 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 publication and publicity of budget documentation, the preparation of citizen's guides and development of citizen engagement mechanisms.

68. 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 assessments are to be used as the basis of an updated PFM Strategy and Action Plan for the near future.

¹⁴ <https://internationalbudget.org/open-budget-survey/rankings>

Annex 1: Georgia Subnational PEFA Scores

Table 1 presents the assessment scores for 15 municipalities carried out by GIZ and USAID. Table 2 combines the mean, mode, and median scores of these 15 municipalities with the scores for Tbilisi, Batumi, and Martvili.

In making these comparisons it is important to note:

- The 15 GIZ/USAID used the adapted 2016 PEFA methodology for SNs whereas the 3 were assessed using the new May 2022 methodology for SNs. There are differences between the two:
 - HLG-1.4 and PI-9B did not exist under the old methodology and could not be compared.
 - HLG-1 is averaged using M2 in the new methodology whereas in the old methodology M1 is used,
 - PI-14, PI-15, and PI-16 indicators were combined into one indicator in the new methodology and compared in the table according to the nearest relevant dimensions in PI-14 to PI-16 rather than the new indicator PI-14 and its dimensions. These are not fully comparable.
- PI-30 External audit was not assessed for purposes of GIZ/USID assessments. There is also a difference in scoring in that the new methodology requires an audit in one of the three years rather than all 3 years in the previous methodology.
- In the 2021-2022 GIZ/USAID assessments were carried out in small municipalities comparable to Martvili. Accordingly, the mean, mode and median scores of the 15 municipalities are closer to Martvili municipality than to Tbilisi and Batumi municipalities.

**Annex 1 Table 1: Georgia Subnational PEFA Scores
GIZ/USAID Assessments**

	Akhmeta	Ambrolauri	Baghdadi	Chkhorotsku	Keda	Kharagauli	Tetritskaro	Khulo	Tsalenjikha	Vani	Dmanisi	Lentekhi	Tkibuli	Tsageri	Khelvachauri
Indicator/Dimension	2021										2022				
HLG-1. Transfers from a higher-level government	D+	D+	D+	D+	C+	D+	D+	A	D+	D+	D+	D+	D+	D+	B+
HLG-1.1. Outturn of transfers from higher-level government	D	D	D	D	C	D	D	A	D	D	D	D	D	D	B
HLG-1.2. Earmarked grants outturn	D	D	D	D	A	D	D	A	D	D	D	D	D	D	A
HLG-1.3. Timeliness of transfers from higher-level government	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Pillar I - Budget Reliability															
PI-1 Aggregate expenditure out-turn	D	D	D	D	A	D	D	A	D	D	D	D	D	D	B
1.1 Aggregate expenditure out-turn	D	D	D	D	A	D	D	A	D	D	D	D	D	D	B
PI-2 Expenditure composition out-turn	D+	D+	D+	D+	C+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+
2.1 Expenditure composition out-turn by function	D	D	D	D	C	D	D	D	D	D	D	D	D	D	D
2.2 Expenditure composition out-turn by economic type	D	D	D	D	B	D	D	B	D	D	D	D	D	D	C
2.3 Expenditure from contingency reserves	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-3 Revenue out-turn	D	D	D	D	B	D	D	B+	D	D	D	D	D	D	C
3.1 Aggregate revenue out-turn	D	D	D	D	A	D	D	A	D	D	D	D	D	D	C
3.2 Revenue composition out-turn	D	D	D	D	C	D	D	B	D	D	D	D	D	D	C
Pillar II - Transparency of Public Finances															
PI-4 Budget classification	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-5 Budget documentation	C	B	B	C	C	B	C	C	C	C	B	C	C	C	C
5.1 Budget documentation	C	B	B	C	C	B	C	C	C	C	B	C	C	C	C
PI-6 Subnational government operations outside financial reports	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
7.1 Systems for allocating transfers	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
7.2 Timeliness of information on transfers	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-8 Performance information for service delivery	C	C	C	D+	C	C	D+	C	C	C	C	C	C	C	C
8.1 Performance plans for service delivery	C	C	C	D	C	C	D	C	C	C	C	C	C	C	C
8.2 Performance achieved for service delivery	D	D	D	D	D	D	D	D	D	D	D	C	D	D	D
8.3 Resources received by service delivery units	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
8.4 Performance evaluation for service delivery	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
PI-9 Public access to fiscal information	C	C	C	C	C	C	C	D	C	C	D	C	B	B	C
9.1 Public access to fiscal information	C	C	C	C	C	C	C	D	C	C	D	C	B	B	C

Annex 1, Table 1, Pillar III / Pillar IV

	Akhmeta	Ambrolauri	Baghdadi	Chkhorotsku	Keda	Kharagauli	Tetrtskaro	Khulo	Tsalenjikha	Vani	Dmanisi	Lentekhi	Tkibuli	Tsageri	Khelvachauri
Indicator/Dimension	2021										2022				
Pillar III - Management of Assets & Liabilities															
PI-10 Fiscal risk reporting	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.1 Monitoring of public corporations	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.2 Monitoring of sub-national government (SNG)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-11 Public investment management	C	C	C+	C	D+	C+	C	D+	C	C+	C+	C+	C	C+	C+
11.1 Economic analysis of investment proposals	D	D	C	D	C	C	D	C	D	C	C	C	C	C	C
11.2 Investment project selection	B	B	B	B	C	B	B	C	B	B	B	B	C	C	C
11.3 Investment project costing	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
11.4 Investment project monitoring	B	B	B	B	C	B	B	C	B	B	B	B	B	B	B
PI-12 Public asset management	B	B	B	C+	C+	B	B	C+	B	B	B	C+	B	C+	B
12.1 Financial asset monitoring	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
12.2 Non-financial asset monitoring	B	B	C	D	D	C	B	D	C	C	B	D	B	D	B
12.3 Transparency of asset disposal	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-13 Debt management	B+	B+	B+	B+	B+	B+	B+	A	B+	B+	B+	B+	B+	B+	A
13.1 Recording and reporting of debt and guarantees	B	B	B	B	B	B	B	NA	B	B	B	B	B	B	NA
13.2 Approval of debt and guarantees	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
13.3 Debt management strategy	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Pillar IV - Policy-based budget strategy and budgeting															
PI-14 Macroeconomic and fiscal forecasting	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14.1 Macroeconomic forecasts	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14.2 Fiscal forecasts	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14.3 Macro-fiscal sensitivity analysis	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-15 Fiscal strategy	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D	D	D	D
15.1 Fiscal impact of policy proposals	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
15.2 Fiscal strategy adoption	C	C	C	C	C	C	C	C	C	C	C	D	D	D	D
15.3. Reporting on fiscal outcomes	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
PI-16 Medium term perspective in expenditure budgeting	D+	D+	D+	D	D+	D+	D	D+	D+	D+	D+	D	D+	D	D
16.1 Medium-term expenditure estimates	B	B	B	C	B	B	C	B	B	B	B	D	B	C	C
16.2 Medium-term expenditure ceilings	D	D	D	D	D	D	D	D	D	C	D	D	D	D	D
16.3 Alignment of strategic plans and medium-term budgets	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
16.4 Consistency of budgets with previous year's estimates	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
PI-17 Budget preparation process	C+	C+	C+	C+	C+	C+	C+	C+	C+	B	C+	C+	C+	C+	C+
17.1 Budget calendar	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
17.2 Guidance on budget preparation	C	C	C	C	C	C	C	C	C	B	C	C	C	C	C
17.3 Budget submission to the legislature	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
PI-18 Legislative scrutiny of budgets	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+
18.1 Scope of budget scrutiny	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
18.4 Rules for budget adjustments by the executive	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A

Annex 1, Table 1, Pillar V

	Akhmeta	Ambrolauri	Baghdadi	Chkhorotsku	Keda	Kharagauli	Tetritskaro	Khulo	Tsalenjikha	Vani	Dmanisi	Lentekhi	Tkibuli	Tsageri	Khelvachauri
Indicator/Dimension	2021										2022				
Pillar V - Predictability & Control in Budget Execution															
PI-19 Revenue administration	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.1 Rights and obligations for revenue measures	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.2 Revenue risk management	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.3 Revenue audit and investigation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
19.4 Revenue arrears monitoring	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
20.2 Transfer of revenue collections	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
20.3 Revenue accounts reconciliation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PI-21 Predictability of in-year resource allocation	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
21.1 Consolidation of cash balances	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
21.2 Cash forecasting and monitoring	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
21.3 Information on commitment ceilings	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
21.4 Significance of in-year budget adjustments	C	C	C	C	C	C	D	C	C	C	C	C	D	D	C
PI-22 Expenditure arrears	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
22.1 Stock of expenditure arrears	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
22.2 Expenditure arrears monitoring	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-23 Payroll controls	D+	D+	D+	D+	D+	D+	D+	D+	D+	C+	D+	D+	D+	D+	D+
23.1 Integration of payroll and personnel records	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
23.2 Management of payroll changes	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
23.3 Internal control of payroll	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
23.4 Payroll audit	D	D	D	D	D	D	D	D	D	C	D	D	D	D	D
PI-24 Procurement	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
24.1 Procurement monitoring	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
24.2 Procurement methods	A	A	A	A	A	A	A	A	B	A	A	A	A	B	A
24.3 Public access to procurement information	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
24.4 Procurement complaints management	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-25 Internal controls on non-salary expenditure	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-26 Internal audit	D+	D+	D+	C+	C+	D+	D+	C+	C+	D+	C+	C+	C+	C+	C+
26.1 Coverage of internal audit	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
26.2 Nature of audits and standards applied	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C
26.3 Implementation of internal audits and reporting	D	D	D	C	C	D	D	C	C	D	C	C	C	C	C
26.4 Response to internal audits	B	B	B	B	B	B	B	B	C	C	C	C	C	C	C

Annex 1, Table 1, Pillar VI / Pillar VII

	Akhmeta	Ambrolauri	Baghdadi	Chkhorotsku	Keda	Kharagauli	Tetritskaro	Khulo	Tsalenjikha	Vani	Dmanisi	Lentekhi	Tkibuli	Tsageri	Khelvachauri
Indicator/Dimension	2021										2022				
Pillar VI - Predictability & Control in Budget Execution															
PI-27 Financial data integrity	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
27.1 Bank account reconciliation	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
27.2 Suspense accounts	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-28 In-year budget reports	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	C+	D+	D+
28.1 Coverage and comparability of reports	C	C	C	C	C	C	C	C	C	C	C	C	C	D	D
28.2 Timing of in-year budget reports	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
28.3 Accuracy of in-year budget reports	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
PI-29 Annual financial reports	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	C	C	C	C	D	D	C	C	C	C	B	B	B	B	B
29.2 Submission of reports for external audit	D	D	D	D	D	D	D	D	D	D	D	D	D	D	D
29.3 Accounting standards	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Pillar VII - External Scrutiny & Audit															
PI-30 External audit															
30.1 Audit coverage and standards															
30.2 Submission of audit reports to the legislature															
30.3 External audit follow-up															
30.4 Supreme Audit Institution (SAI) independence															
PI-31 Legislative scrutiny of audit reports	NA	D	NA	D	D	D+	D	D	NA	D	D	D	D	NA	D
31.1 Timing of audit report scrutiny	NA	D	NA	D	D	C	D	D	NA	D	D	D	D	NA	D
31.2 Hearings on audit findings	NA	D	NA	D	D	C	D	D	NA	D	D	D	D	NA	D
31.3 Recommendations on audit by the legislature	NA	D	NA	D	D	D	D	D	NA	D	D	D	D	NA	D
31.4 Transparency of legislative scrutiny of audit reports	NA	D	NA	D	D	C	D	D	NA	D	D	D	D	NA	D

**Annex 1 Table 2: Georgia Subnational PEFA Scores
Combined Assessments Scores
Tbilisi, Batumi and Martvili 2022
Mean Mode and Median of the 15 GIZ/USAID Assessed Municipalities 2021/2022**

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Indicator/Dimension	2022			2021-2022		
HLG-1. Transfers from a higher-level government	C+	C	C	D+	D+	C+
HLG-1.1. Execution of planned transfers from higher level government	C	D	D	D	D	D
HLG-1.2. Variance of intergovernmental transfers	D	D	D	D	D	C
HLG-1.3. Timeliness of transfers from higher-level government	A	A	A	A	A	A
HLG-1.4. Predictability of transfers	C	C	C			
Pillar I - Budget Reliability						
1.1 Aggregate expenditure out-turn	B	C	D	D	D	D
PI-2 Expenditure composition out-turn	D+	D+	D+	D+	D+	D+
2.1 Expenditure composition out-turn by function	D	C	D	D	D	D
2.2 Expenditure composition out-turn by economic type	D	D	D	D	D	D
2.3 Expenditure from contingency reserves	A	A	A	A	A	A
PI-3 Revenue out-turn	D	D	D	D	D	D
3.1 Aggregate revenue out-turn	D	D	D	D	D	D
3.2 Revenue composition out-turn	D	D	D	D	D	D
Pillar II - Transparency of Public Finances						
PI-4 Budget classification	A	A	A	A	A	A
4.1 Budget classification	A	A	A	A	A	A
PI-5 Budget documentation	A	A	B	C	C	C
5.1 Budget documentation	A	A	B	C	C	C
PI-6 Subnational government operations outside financial reports	A	A	A	A	A	A
6.1 Expenditure outside financial reports	A	A	A	A	A	A
6.2 Revenue outside financial reports	A	A	A	A	A	A
6.3 Financial reports of extra-budgetary units	NA	NA	NA	NA	NA	NA
PI-7 Transfers to sub-national governments	NA	NA	NA	NA	NA	NA
7.1 Systems for allocating transfers	NA	NA	NA	NA	NA	NA
7.2 Timeliness of information on transfers	NA	NA	NA	NA	NA	NA
PI-8 Performance information for service delivery	B+	B	B	C	C	C
8.1 Performance plans for service delivery	B	B	B	C	C	C
8.2 Performance achieved for service delivery	B	B	B	C	C	D
8.3 Resources received by service delivery units	A	A	A	A	A	A
8.4 Performance evaluation for service delivery	B	D	D	D	D	D
PI-9A Public access to fiscal information	B	B	B	C	C	C
9A.1 Public access to fiscal information	B	B	B	C	C	C
PI-9B Public Consultation	D+	D+	D+			
9B.1 Public consultation in budget preparation	C	B	C			
9B.2 Public consultation in the design of service delivery programs	D	D	D			
9B.3 Public consultation in investment planning	D	D	D			

Annex 1, Table 2, Pillar III / Pillar IV

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Indicator/Dimension	2022			2021-2022		
Pillar III - Management of Assets & Liabilities						
PI-10 Fiscal risk reporting	C	C	NA	C	C	C
10.1 Monitoring of public corporations	C	C	NA	C	C	C
10.2 Monitoring of sub-national government (SNG)	NA	NA	NA	NA	NA	NA
10.3 Contingent liabilities and other fiscal risks	NA	NA	NA	NA	NA	NA
PI-11 Public investment management	C+	B	C+	C+	C+	C+
11.1 Economic analysis of investment proposals	C	C	C	C	C	C
11.2 Investment project selection	C	C	C	C	C	C
11.3 Investment project costing	B	B	C	B	B	B
11.4 Investment project monitoring	B	A	B	B	B	B
PI-12 Public asset management	B	B	B	B	B	B
12.1 Financial asset monitoring	B	B	B	B	B	B
12.2 Non-financial asset monitoring	C	C	C	C	B	C
12.3 Transparency of asset disposal	A	A	A	A	A	A
PI-13 Debt management	D+	C	C	D+	D+	D+
13.1 Recording and reporting of debt and guarantees	C	B	C	C	C	C
13.2 Approval of debt and guarantees	NA	NA	NA	NA	NA	NA
13.3 Debt management strategy	D	D	NA	D	D	D
Pillar IV - Policy-based budget strategy and budgeting						
PI-14 Medium-term budget strategy	C+	C+	D+	C+	C+	C+
14.1 Underlying forecasts for medium-term budget	B	B	C	B	B	B
14.2 Fiscal impact of policy proposals	NA	NA	NA	NA	NA	NA
14.3 Medium-term expenditure and revenue estimates	B	B	C	B	B	B
14.4: Consistency of budget with previous year estimates	D	D	D	D	D	D
PI-17 Budget preparation process	B+	B+	C+	B+	B+	B
17.1 Budget calendar	A	A	A	A	A	A
17.2 Guidance on budget preparation	A	A	D	A	A	B
17.3 Budget submission to the legislature	C	C	C	C	C	C
PI-18 Legislative scrutiny of budgets	A	A	B+	A	A	A
18.1 Scope of budget scrutiny	A	A	B	A	A	A
18.2 Legislative procedures for budget scrutiny	A	A	A	A	A	A
18.3 Timing of budget approval	A	A	A	A	A	A

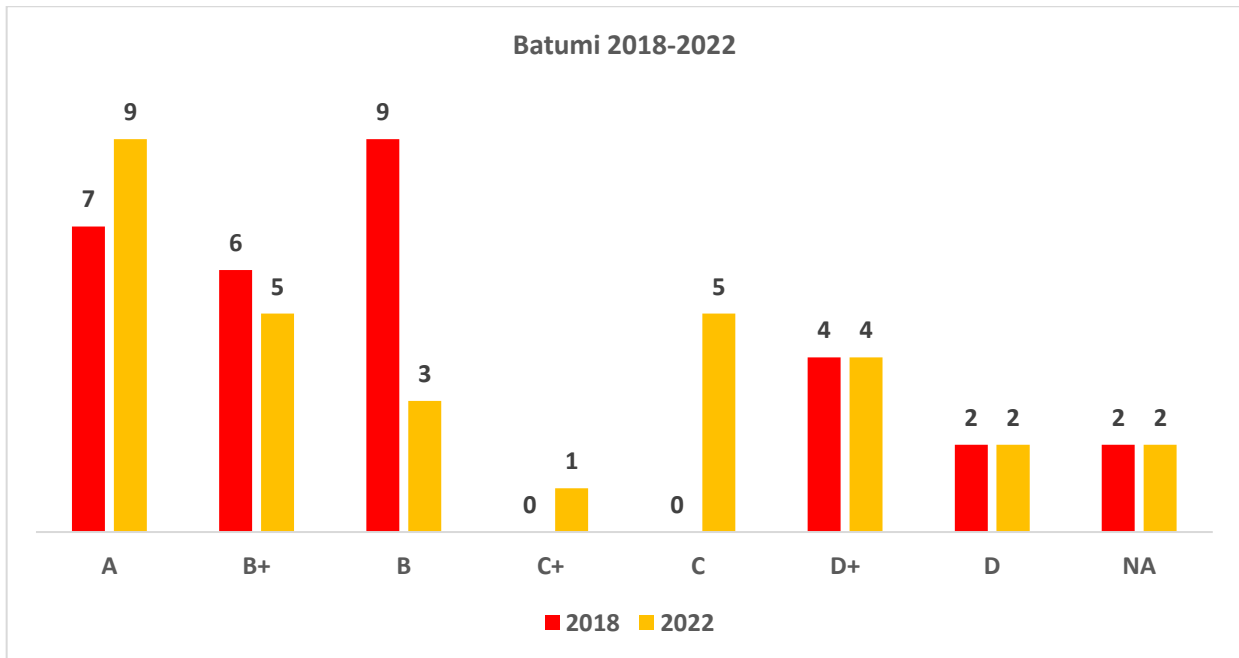
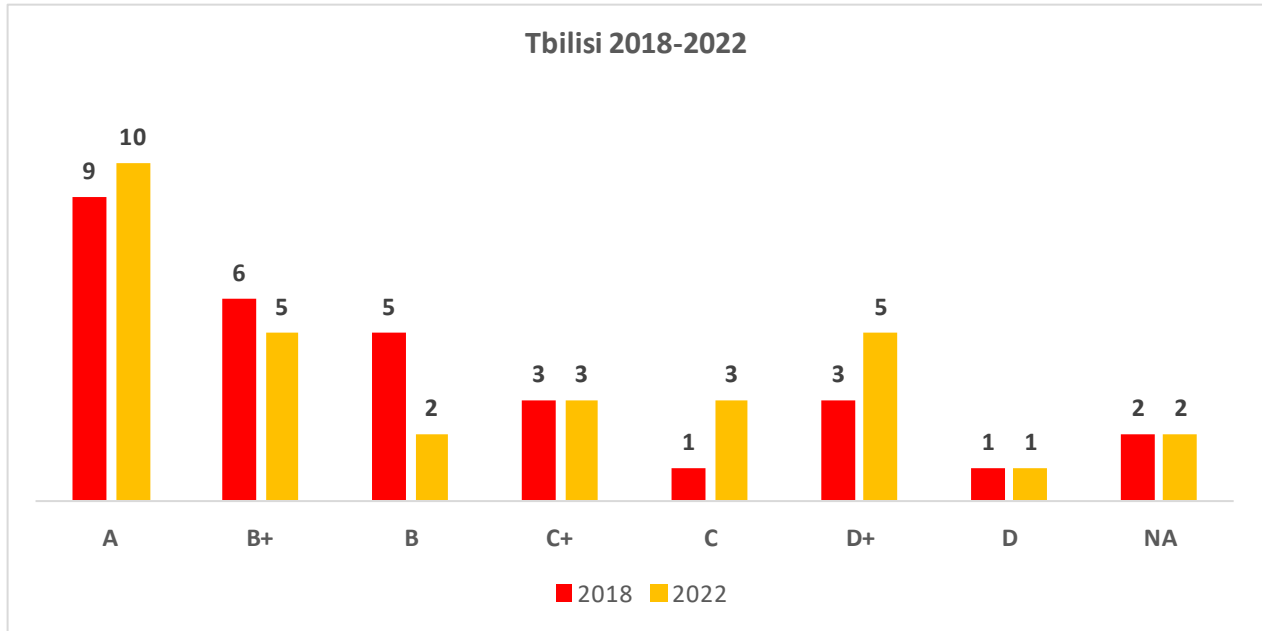
Annex 1, Table 2, Pillar V

Indicator/Dimension	Tbilisi	Batumi	Martvili	Median	Mode	Mean
	2022			2021-2022		
Pillar V - Predictability & Control in Budget Execution						
PI-19 Revenue administration	NA	NA	NA	NA	NA	NA
19.1 Rights and obligations for revenue measures	NA	NA	NA	NA	NA	NA
19.2 Revenue risk management	NA	NA	NA	NA	NA	NA
19.3 Revenue audit and investigation	NA	NA	NA	NA	NA	NA
19.4 Revenue arrears monitoring	NA	NA	NA	NA	NA	NA
PI-20 Accounting for revenue	A	A	A	A	A	A
20.1 Information on revenue collections	A	A	A	A	A	A
20.2 Transfer of revenue collections	NA	NA	NA	NA	NA	NA
20.3 Revenue accounts reconciliation	NA	NA	NA	NA	NA	NA
PI-21 Predictability of in-year resource allocation	B+	B+	B+	B	B	B
21.1 Consolidation of cash balances	A	A	A	A	A	A
21.2 Cash forecasting and monitoring	B	B	B	B	B	B
21.3 Information on commitment ceilings	A	A	A	B	B	B
21.4 Significance of in-year budget adjustments	C	C	C	C	C	C
PI-22 Expenditure arrears	A	A	A	A	A	A
22.1 Stock of expenditure arrears	A	A	A	A	A	A
22.2 Expenditure arrears monitoring	A	A	A	A	A	A
PI-23 Payroll controls	D+	B+	B+	D+	D+	D+
23.1 Integration of payroll and personnel records	A	A	A	A	A	A
23.2 Management of payroll changes	A	A	A	A	A	A
23.3 Internal control of payroll	A	A	A	A	A	A
23.4 Payroll audit	D	B	B	D	D	D
PI-24 Procurement	A	A	B+	A	A	A
24.1 Procurement monitoring	NA	NA	NA	A	A	A
24.2 Procurement methods	A	A	C	A	A	A
24.3 Public access to procurement information	A	A	A	A	A	A
24.4 Procurement complaints management	A	A	A	A	A	A
PI-25 Internal controls on non-salary expenditure	A	A	A	A	A	A
25.1 Segregation of duties	A	A	A	A	A	A
25.2 Effectiveness of expenditure commitment controls	A	A	A	A	A	A
25.3 Compliance with payment rules and procedures	A	A	A	A	A	A
PI-26 Internal audit	A	B+	B+	C+	C+	C+
26.1 Coverage of internal audit	A	A	A	A	A	A
26.2 Nature of audits and standards applied	A	B	B	C	C	C
26.3 Implementation of internal audits and reporting	A	A	A	C	C	C
26.4 Response to internal audits	A	A	A	B	B	B

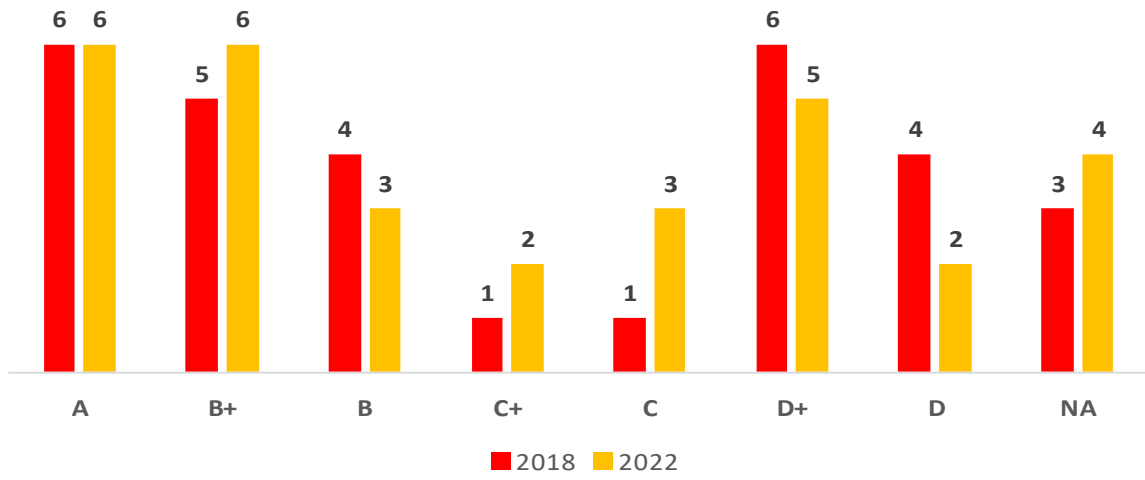
Annex 1, Table 2, Pillar VI / Pillar VII

	Tbilisi	Batumi	Martvili	Median	Mode	Mean
Indicator/Dimension	2022			2021-2022		
Pillar VI - Predictability & Control in Budget Execution						
PI-27 Financial data integrity	A	A	A	A	A	A
27.1 Bank account reconciliation	A	A	A	NA	NA	NA
27.2 Suspense accounts	NA	NA	NA	NA	NA	NA
27.3 Advance accounts	A	A	A	A	A	A
27.4 Financial data integrity processes	A	A	A	A	A	A
PI-28 In-year budget reports	B+	B+	B+	C+	C+	C+
28.1 Coverage and comparability of reports	A	A	A	C	C	C
28.2 Timing of in-year budget reports	A	A	A	B	B	B
28.3 Accuracy of in-year budget reports	B	B	B	A	A	A
PI-29 Annual financial reports	D+	D+	D+	D+	D+	D+
29.1 Completeness of annual financial reports	A	A	A	C	C	C
29.2 Submission of reports for external audit	D	D	D	D	D	D
29.3 Accounting standards	B	B	B	B	B	B
Pillar VII - External Scrutiny & Audit						
PI-30 External audit	B+	D+	D+			
30.1 Audit coverage and standards	A	D	D			
30.2 Submission of audit reports to the legislature	B	NA	NA			
30.3 External audit follow-up	A	NA	NA			
30.4 Supreme Audit Institution (SAI) independence	A	A	A			
PI-31 Legislative scrutiny of audit reports	C	D	NA	D	D	D
31.1 Timing of audit report scrutiny	A	D	NA	D	D	D
31.2 Hearings on audit findings	D	NA	NA	D	D	D
31.3 Recommendations on audit by the legislature	NA	NA	NA	D	D	D
31.4 Transparency of legislative scrutiny of audit reports	D	NA	NA	D	D	D

**Annex 1 Table 3:
Tbilisi, Batumi and Martvili 2018 and 2022 Scores**



Martvili 2018-2022



Annex 2: Population of Municipalities

As of 1 January 2022

	Tbilisi	Batumi	Martvili	Akhmeta	Ambrolauri	Baghdadi	Chkhorotsku	Keda	Kharagauli
Population, 000	1,201.8	173.7	30.9	27.8	10.2	17.6	21.0	16.6	18.3
% of the total population	32.6%	4.7%	0.84%	0.75%	0.28%	0.48%	0.57%	0.45%	0.50%
	Tetrtskaro	Khulo	Tsalenjikha	Vani	Dmanisi	Lentekhi	Tkibuli	Tsageri	Khelvachauri
Population, 000	22.5	26.8	22.6	20.5	20.9	3.9	17.2	8.1	52.7
% of the total population	0.61%	0.73%	0.61%	0.56%	0.57%	0.11%	0.47%	0.22%	1.43%

