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Georgia
Public Expenditure and Financial Accountability (PEFA)

Joint World Bank-European Commission Public Financial Management Assessment

Programmatic Public Finance Policy Review

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Europe and Central Asia Region
Poverty Reduction and Economic Management Unit
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CURRENCY AND EQUIVALENT UNITS

Currency Unit = Lari

US$1 = 1.650 GEL

(As of November 26, 2008)

FISCAL YEAR

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ACRONYMS AND ABBREVIATIONS

BDD	Basic Data and Directions
BEEPS	Business Environment and Enterprise Performance Survey
BSL	Budget Systems Law
CFAA	Country Financial Accountability Assessment
CoC	Chamber of Control of Georgia
CPAR	Country Procurement Assessment Report
DSA	Debt Sustainability Analysis
EC	European Commission
EDPRP	Economic Development and Poverty Reduction Program
ENPI	European Neighborhood Policy Initiative
EU	European Union
GDP	Gross Domestic Product
GEL	Georgian Lari
GFS	Government Finance Statistics
GoG	Government of Georgia
GTZ	Gesellschaft Furt Technische Zusammenarbeit
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISPPIA	International Standards for the Professional Practice of Internal Auditing
LEPLs	Legal Entities of Public Law
LSG	Local Self-Government
MCC	Millennium Challenge Corporation
MDAs	Ministries, Departments, and Agencies
MoE	Ministry of Energy
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoLHSA	Ministry of Labor, Health and Social Affairs
MTAP	Mid-Term Action Plan
MTEF	Medium-Term Expenditure Framework
NBG	National Bank of Georgia
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditures and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPFPR	Programmatic Public Finance Policy Review
PPG	Public and Publicly Guaranteed
PRGF	Poverty Reduction and Growth Facility
PRSO	Poverty Reduction Support Operation

ROSC	Report on Standards and Codes
RS	Revenue Service
SEMA	State Enterprise Management Agency
SOE	State-Owned Enterprise
SPA	State Procurement Agency
SUSIF	State United Social Insurance Fund
TACIS	Technical Assistance for Commonwealth of Independent States
TSA	Treasury Single Account
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value-Added Tax

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TABLE OF CONTENTS

List of Tables

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SUMMARY ASSESSMENT

1. This Public Expenditure and Financial Accountability (PEFA) assessment provides an updated and systematic diagnostic of the Public Financial Management (PFM) system in Georgia and provides mid-2007 as a base line for complementing the Government's efforts to monitor progress in the PFM reforms going forward. This summary presents (i) an assessment of Georgia's PFM performance in applying the PEFA Performance Measurement Framework structured across six dimensions, (ii) an assessment of the impact of PFM weaknesses, and (iii) an assessment of the institutional framework underpinning the prospects for PFM reform.

2. Reform of the PFM system has been a priority for the Georgian Government in the last four years. The new Budget System Law approved in January 2004 set in place the principles of comprehensiveness, transparency and accountability for the budget system as well as rules and procedures for the processes at all stages of the preparation, discussion, approval, execution, consolidation, reporting and auditing of the budget. All extra budgetary funds were closed and all state financial transactions were unified within a Treasury Single Account (TSA).

3. Legislation is in place which defines the division of power among the Government, the external control and Parliament. The annual budget law determines the appropriations to the spending units, and reallocation between spending units is not allowed without the Parliament's approval of the revised budget. The commitment control mechanism that is in place ensures that the spending units maintain their commitments within their approved appropriation. To strengthen the link between government development priorities and the annual budget, a Medium Term Expenditure Framework (MTEF) has been developed to reflect sectoral priorities in the budget and improve the efficiency of public expenditures.

4. A new public sector accounting reform strategy under implementation, and new financial and performance requirements issued for the Legal Entities of Public Law (LEPLs), have further strengthened the Treasury system and its financial accounting and reporting framework. The law on local self-government finances has defined the budget and financial control procedures for local self-governments and has established rules for the formulation, control, audit, evaluation and execution of local government budgets. In addition, the State Procurement Agency (SPA) has developed guidelines for efficient procurement procedures and continues to improve transparency in public procurement processes by adopting international standards.

5. There are, however, areas in the existing internal and external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements that are in need of continued reform to further enhance the effectiveness of the PFM. It is envisaged that this assessment would contribute to the government reform agenda by highlighting the areas in which reform has succeeded and those in which weaknesses remain. The assessment would also serve the donor community in directing its assistance programs in those areas of public financial management where the Government's PFM strategy can be further strengthened.

Integrated Assessment of the PFM Performance

6. **Budget Credibility** *(Indicators 1-4).* An examination of the budget revenues and expenditures over the last three years shows large deviations in comparison with the originally approved budget. Despite large deviations between original budgets and overall outturns and in the composition of public expenditures, the Government has maintained its fiscal deficit within the originally planned targets.

7. These deviations are partly explained by significant over-performance in revenue collection resulting from the implementation of tax reform and other structural reforms, and from the response to pressing needs and severe external and domestic shocks. In most countries, tax policy reform has tended to result initially in a decline in tax revenue collection before revenue collection improves. And when revenue collection improves, it does so gradually, over time and in magnitudes of 1-2 percentage points of GDP per year. This international experience was considered in developing conservative budgetary estimates during the period of review.

8. However, Georgia's tax policy reform was accompanied by other structural reforms, such as the simplification of the regulatory regime and other measures to improve the business environment, as well as the restructuring and re-staffing of key units in government. Together, these reforms resulted in significant over-performance in tax revenue collection. Tax revenue collection improved from 9.4 percent of GDP in 2003 to 13.5 percent in 2004, 15.8 percent in 2005 and 19.1 percent in 2006.

9. At the same time that budgetary resources were over-performing relative to reasonable ex ante conservative budgetary estimates, Georgia faced pressing needs and unusually severe shocks during the 2004-06 period of review. In 2004, with higher budget revenues, the Georgian authorities cleared the bulk of pension and wage arrears inherited from previous administrations. In 2005 the economy was subject to unusually severe shocks including floods, and higher energy prices; and in 2006 Georgia faced significant increases in energy prices and the loss of its markets in Russia. As mandated by the State Budget Law, differences of 2 percent or more relative to the originally approved budget require the approval of the Parliament of a supplementary budget where the executive branch presents proposed adjustments.

10. Significant increases in revenue collection allowed Georgia to have on average four supplementary budgets per year during the period of review. The amended budget has always been greater than the originally approved budget, which has led to large differences in budgetary outturns relative to the original budgets. As such, the composition of public expenditures also showed large adjustments relative to original budget composition. All supplementary budgets were reviewed, discussed, and approved by the Parliament. Overall during the period of review, social spending increased from 15 percent of total public expenditures in 2004 to 36 percent in 2006; and military expenditures increased from 17 percent of total public expenditures in 2004 to 25 percent in 2006.

11. Despite the unusual circumstance of significant structural reforms being implemented whose impact would be difficult to forecast ex ante as well as the unusually severe shocks present during the period of review and progress in the budgetary process, the PEFA criteria on

the four dimensions focusing on budget credibility are unequivocal. The aggregate expenditure outturn compared to the original approved budget has exceeded 15 percent in all three years of review. The rating of indicator PI-1 is D. The variance in expenditure composition at the spending agency level exceeded 10 percent in no more than one of the last three years studied and as result the rating of indicator PI-2 is C. In contrast, since the actual domestic revenue collection was not below 97 percent of the budgeted domestic revenue collection in any of the years studied, the rating of indicator PI-3 is A. It should be noted, however, that such large variances in revenue, although satisfying a high score for this indicator, are not considered a good practice by international standards. Since guidelines are being implemented and there are monitoring systems on expenditure arrears and nearly complete records on the total stock of arrears, the rating of indicator PI-4 is B+.

Budget Credibility ***(Indicators 1-4)***

Indicator	**Brief Explanation**	**Rating**
1. Aggregate expenditure outturn compared to original approved budget	Deviation of actual expenditure from the approved expenditure as passed by Parliament in the State Budget Law has exceeded 15 percent in all of the three years studied.	D
2. Composition of expenditure outturn compared to original approved budget	The variance in expenditure composition at the spending agency level exceeded 10 percent in no more than one of the last three years studied	C
3. Aggregate revenue outturn compared to original approved budget	Actual domestic revenue collection was not below 97 percent of budgeted domestic revenue collection in any of the three years studied.	A
4. Stock and monitoring of expenditure payment arrears	There are directions and systems for monitoring expenditure arrears enabling the Treasury Service to monitor and account an acceptable and nearly complete record on the total stock of arrears. However, a computerized commitment ageing module is still missing. Data are currently available for monitoring the stock of expenditure payment arrears.	B+

12. **Transparency and Comprehensiveness** *(Indicators 5-10).* The comprehensiveness and transparency of the budget in Georgia has significantly improved over the past few years. Administrative, economic and functional classifications of the budget have been following the 1986 GFS standards fully, and are gradually adopting the new 2001 GFS methodology. The level of unreported extrabudgetary expenditure has decreased significantly by the closure in 2005 of the two large extrabudgetary funds (Social Security Fund and Road Fund).

13. Fiscal relations between the central government and the local self-governments are transparent, rules-based, and fully integrated into the annual budget and approved by the Parliament. Public access to fiscal information is generally good and information is available on various government websites.

14. The budget formulation and execution is based on administrative, economic, and functional classifications using GFS standards. The functional classification covers 10 main functions in line with the GFS classification. The rating of indicator PI-5 is B. The 2007 budget documentation fulfils 7 of the 9 information benchmarks of indicator PI-6. Estimates of the budgetary impact of a number of revenue and expenditure policy changes/initiatives (part of the

ninth benchmark) are also provided in the consolidated macro aggregates but there are no explanations provided. Hence, the rating of indicator P-6 is A.

Transparency and Comprehensiveness *(Indicators 5-10)*

Indicator	Brief Explanation	Rating
5. Classification of the budget	The budget formulation and execution is based on administrative, economic, and functional classifications using GFS standards. Functional classification does cover 10 main functions in line with GFS classification.	B
6. Comprehensiveness of information included in budget documentation	The 2007 budget documentation fulfills 7 of the 9 information benchmarks required. Estimates of the budgetary impact of a number of revenue and expenditure policy changes/initiatives (part of the ninth benchmark) are also provided in the consolidated macro aggregates but there are no explanations provided.	A
7. Extent of unreported government operations	The level of unreported extrabudgetary expenditure has decreased significantly in recent years. There are two types of LEPLs. One set is fully incorporated into the budget and Treasury accounts. A second set receives transfers which are explicit in the budget and Treasury but their liabilities are not part of the government. Complete income and expenditure information is provided in the fiscal reports for the significant majority (more than 90 percent) of all donor- funded projects, with the possible exception of some small projects, mainly reflecting inputs in kind.	B+
8. Transparency of Inter-governmental fiscal relations	The inter-governmental fiscal relations are organized. The LSG budget preparation and execution cycle is documented. Although depending on Parliament's approval, information on state transfers does not delay much the final LSG budget preparation. The MoF is provided in due time by the LSG with periodical fiscal information (ex ante and ex post) and consolidates it into annual reports. Accounting and procurement weaknesses have been reported by the CoC, but should be reduced with the systematization of audit guidelines and routine practices.	B
9. Oversight of aggregate fiscal risk from other public sector entities	Audited annual financial statements are provided by major SOEs to SEMA. The annual consolidation is rather delayed by SEMA without really focusing on the SOE fiscal risk incurred by the state. SOEs are dividend-oriented monitored and are not seen as a public service delivery. It is hoped that the current market competition distortion (1,518 SOEs) and the state fiscal risks are decreasing along with the privatization program. Aggregating the annual fiscal risk of SOEs + LEPLs is monitored by the MoF, but not consolidated into an annual report. Sub-national governments cannot generate any liabilities without the authorization of the MoF.	C+
10. Public access to key fiscal information	The government makes available 4 of 6 listed types of information.	B

15. The level of unreported extrabudgetary expenditure has decreased significantly in recent years. There are two types of Legal Entities of Public Law (LEPLs). One set is fully incorporated in the budget and Treasury accounts. A second set receives transfers which are explicit in the budget and Treasury but their liabilities are not part of the government. Complete income and expenditure information is provided in the fiscal reports for the significant majority (more than 90 percent) of all donor funded projects, with the possible exception of some small projects, mainly reflecting inputs in kind. As a result, the rating of indicator PI-7 is B+.

16. In 2006 Georgia implemented a major inter-governmental relations reform including territorial, administrative, and fiscal dimensions. The inter-governmental fiscal relations are clearly defined and organized. The budget preparation and execution cycle of the Local-Self Government (LSG) units' is documented. Although dependent on Parliament approval, information on state transfers does not much delay the final LSG budget preparation. The Ministry of Finance (MoF) is provided in due time by LSGs, with periodical fiscal information (ex ante and ex post) and consolidates this information into annual reports. Accounting and procurement weaknesses have been reported by the Chamber of Control (CoC) but should be reduced with the systematization of audit guidelines and routine practices. The rating of indicator PI-8 is B.

17. The Ministry of Finance is responsible for the oversight of aggregate fiscal risk for the Government. Audited annual financial statements are provided by major state-owned-enterprises (SOEs) to SEMA. The annual consolidation is rather delayed by SEMA without really focusing on the SOE fiscal risk incurred by the Government. SOEs are dividend-oriented monitored and are not seen as a public service delivery. The possible market distortion of 1,518 SOEs and the state fiscal risks are probably declining along with the privatization program. The aggregate annual fiscal risk of SOEs and LEPLs fully covered by the Government is monitored but not reported in a consolidated fiscal report as required by PEFA. The rating of indicator PI-9 is C+. Regarding public access to key fiscal information, the Government makes available four of the six listed types of information required by indicator PI-10, and hence its rating is B.

18. **Policy-based Budgeting** *(Indicators 11-12).* Significant progress has been made in the past few years to improve the policy content of the budget formulation. Georgia's recent medium term poverty reduction strategy is reflected in the Government's Economic Development and Poverty Reduction Program (EDPRP) update of August 2006. The elements of this strategy form the basis of the Basic Data and Directions (BDD) document which presents the proposals for the budget arising from the government's sectoral policies and priorities.

Policy-based Budgeting *(Indicators 11-12)*

Indicator	**Brief Explanation**	**Rating**
11. Orderliness and participation in the annual budget process	A clear budget calendar exists and allows sufficient time for the budget formulation and MTEF process. Budget ceilings are approved prior to budget circular distribution to ministries, departments, and agencies (MDAs). Parliament approves the annual budget before the start of the fiscal year.	A
12. Multi year perspective in fiscal planning, expenditure policy and budgeting	Fiscal aggregates are forecasted on the basis of economic classification only. Annual budget ceilings, on the other hand, are based on functional classification. As such, it is difficult to trace the link between the two. DSA was undertaken twice in the last three years for both external and domestic debt. Sector strategy statements exist for most sectors, representing 54 percent primary expenditures, however, they are not fully costed and the links between investment decisions and sector strategies as well as respective recurrent cost implications remain weak.	C+

19. Sector strategies are reflected in a three-year forward-looking program as part of the Medium Term Expenditure Framework (MTEF) process for all spending units. There exists a

budget calendar which allows adequate timing for preparation, review and discussion of the budget by the Cabinet and the Parliament.

20. A clear budget calendar exists and allows sufficient time for the budget formulation and the MTEF process. Budget ceilings are approved prior to the budget circular distribution to ministries, departments, and agencies (MDAs). Parliament approves the annual budget before the start of the fiscal year. Hence, the rating of indicator PI-11 is A.

21. Fiscal aggregates are forecasted only on the basis of economic classification. Thus, although annual budget ceilings exist, according to PEFA methodology if the forecasts of fiscal aggregates are based only on economic classification, this undermines the value and usefulness of the setting of annual budget ceilings. Debt sustainability analysis was undertaken twice in the last three years for both external and domestic debt. Sector strategy statements exist for most sectors representing 54 percent primary expenditures; however, these are not fully costed and the links between investment decisions and sector strategies as well as respective recurrent cost implications remain weak. The rating of indicator PI-12 is C+.

22. **Predictability and Control in Budget Execution** *(Indicators 13-21).* Georgia has implemented a major tax policy reform, and further revenue administration reform is under way. Tax legislation and procedures are relatively clear but ambiguities, although largely reduced, lead to discretionary powers. Taxpayers have access to some information and booklets which have begun to be published. Much of the information is available on the Revenue Service (RS) website. While an appeal system exists within the MoF, there is no tax-specific appeals and arbitration mechanism in line with modern international practices. There are weaknesses in the current mechanism which the MoF has begun to address in order to provide a reliable and credible appeal mechanism with independence from the MoF, improved transparency, and increased fairness.[1] There are backlogs in appeals but the Parliament and the Revenue Service have been serious about addressing these issues. The rating of indicator PI-13 is C+.

23. Taxpayer registration procedures are simple and quick. There exists a relatively complete tax and customs database with some direct linkages to other agencies. Penalties are adequate and act as a deterrent. Audit selection is based on a continuous program, but risk assessment criteria are still in the process of being implemented. The rating of indicator PI-14 is B.

24. While several dimensions of effectiveness in tax collection are rated A, Georgia still has to deal with two key issues. First, there is the issue of modernizing tax administration to a system that provides a reliable and credible appeals and arbitration mechanism for taxpayers. Second, there is the issue of old tax arrears inherited from the past. The Government has started to address both issues. A new revenue department in the Ministry of Finance has unified revenue collection while an appeals and arbitration mechanism is being developed. The Government has also started to address the issue of old tax arrears, particularly as a large part is unrecoverable. The average debt collection ratio for the last two fiscal years was 16.5 percent. The transfer of revenues to the Treasury is undertaken daily on a real time basis. Reconciliations

[1] MoF presentation, "Improving the Tax and Customs Dispute Resolution System", May 21, 2007

of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly. Overall, the rating of indicator PI-15 is D+.

25. The Treasury's regulations and procedures for cash planning and management have attained a large degree of predictability and control in the execution of the budget. Quarterly allocations of expenditure plans are prepared by the Treasury for all spending units based on the annual budget for the year. These are subsequently updated monthly as the spending units submit their new payment and commitment information, as well as during the year when budget supplements are approved. Given higher than anticipated revenues in recent years, the Treasury has not faced any shortage of funds to pay for the commitments. The rating of indicator PI-16 is B+.

Predictability and Control in Budget Execution *(Indicators 13-21)*

Indicator	Brief Explanation	Rating
13. Transparency of taxpayer obligations and liabilities	Tax and customs legislations and procedures are relatively clear but ambiguities, although largely reduced, lead to discretionary powers. Taxpayers have access to some information and booklets which have started being published. Much of the information is available on the RS website. While an appeal system exists within the MoF, there is no tax-specific appeals and arbitration mechanism in line with modern international practices. There are weaknesses in the current mechanism which the MoF has begun to address in order to provide a reliable and credible appeal mechanism with independence from the MoF, improved transparency, and increased fairness. There are backlogs in appeals but the Parliament and the RS have been serious about addressing these issues.	C +
14. Effectiveness of measures for taxpayer registration and tax assessment	Taxpayer registration procedures are simple and quick. There exists a complete tax and customs database with some direct linkages to other agencies. Penalties are adequate and act as a deterrent. Audit selection is based on a continuous program, but risk assessment criteria are still in the process of being implemented.	B
15. Effectiveness in collection of tax payments	The average debt collection ratio for the last two fiscal years was 16.5 percent. Transfer of revenues to the Treasury is made daily on a real time basis. Reconciliations of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly.	D+
16. Predictability in the availability of funds for the commitment of expenditure	The Government is implementing cash planning procedures. Cash flows are well forecasted and monitored. Adjustments to the budget are made several times during the year and in line with cash plans and availability. However, management of budget ceiling commitments relies on the ability of the Treasury to refuse approval of these commitments.	B+
17. Recording and management of cash balances, debt and guarantees	Debt and cash management are operated under generally accepted international practices. In the absence of a Treasury account in the past and historical recording weaknesses, some information gaps remain on historical disaggregated domestic debt. There is also need for a more frequent (monthly) reconciliation of domestic debt records.	A

18. Effectiveness of payroll controls	The process is decentralized and personnel and payroll functions are carried out by the accounting and human resources departments of the spending units. This has allowed adjustments to the composition of staff and salary levels within the approved annual ceilings which results in lack of effective control. Unable to score owing to lack of overall information.	Could Not Score
19. Competition, value for money and controls in procurement	While the legislative framework is partially aligned with international practices, weaknesses remain in several areas. Current procurement practices show weaknesses in over-reliance on single source, and the complaint mechanism is poorly designed and operated.	D+
20. Effectiveness of internal controls for non-salary expenditure	Expenditure commitment controls exist and, while they are reasonably effective, could be improved. There are basic internal control procedures and compliance with rules is high. However, there are significant weaknesses in the current framework for internal control.	C+
21. Effectiveness of internal audit	Internal audit systems and procedures in accordance with international standards are not established (nor supported by any legal framework) for checking that the systems of internal control are countering the perceived risk, and are evaluating and improving effectiveness of risk management, control, and governance processes.	D+

26. Debt management is currently centralized by the Ministry of Finance and strictly regulated. Specifically, Chapter 4 of the Budget System Law, "Government Borrowing and Debt," and Law on Public Debt No. 1429/1998, amended in 2004, 2005 and 2006, provide the rules governing public debt management. Local self-governments (LSGs) may borrow only from the central government or with the permission of the Ministry of Finance. Information on debt is readily available in English in the websites of the Ministry of Finance, the National Bank of Georgia, and the Department of Statistics. The central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets and are always approved by the Ministry of Finance and promulgated by the Parliament. Georgia's debt profile has improved markedly over the past few years. Regarding cash management, Georgia relies on the Treasury Single Account which provides information on real time on cash balances. The Treasury edits daily cash balances and a consolidated monthly report (ex ant and ex post) on the execution of the cash plan. All cash balances are calculated daily and consolidated monthly. The rating of indicator PI-17 is A.

27. The payroll system is decentralized and the personnel and payroll functions are carried out by the spending units. Under this arrangement there is no overall effective payroll control system in place. There exist certain internal control systems and their procedures are being followed. However, these systems do not conform to any international standards, are in general weak, and are not supported by a legal framework with core principles systematically applied across government units. Accounting systems are heavily relied on for the control, management and planning of the public finance administration. Under these circumstances indicator PI-18 cannot be rated.

28. A new Law on State Procurement was approved on April 20, 2005, and became effective on January 1, 2006. The number of procurement entities was reduced, and amendments to the Administrative Violations Code made procurement fraud punishable. In addition, the State Procurement Agency (SPA) launched its website making procurement information available to the public. Several amendments have been enacted over the last year and a half, including

amendments introducing provisions for retroactive financing and the inclusion of SOEs. Despite these efforts, procurement practices still have weaknesses, as is exhibited by the heavy reliance on single sourcing. The procurement system is decentralized but it lacks a systematic approach to monitoring and reporting. While in principle procurement is part of the budget planning and execution, without integrated systems for monitoring and reporting the system is fragmented. Georgia faces important challenges if it is to upgrade its current procurement practices in line with international practices. The rating of indicator PI-19 is D+.

29. Expenditure commitment controls and basic internal control procedures exist and compliance with rules is high. However, the existing internal control systems and procedures do not adequately help the PFM system to accomplish its objectives of systematically evaluating and improving the effectiveness of control and governance processes. There is no system for monitoring and controlling contracts registered, but instead controls rely on funds for approved items being available in the Treasury. Similarly, security policy shows weaknesses. The internal control practices of the line ministries vary and there are no clear basic operational guidelines to be implemented by all of them. The rating of indicator PI-20 is C+.

30. The Georgian authorities first developed and operationalized the Treasury Single Account (TSA) while implementing a major accounting reform. Financial controls are exercised and seem to be effective. However, current control practice in Georgia, called "complex revisions," is carried out by the inspector general offices and inspectorate departments in several ministries, including the Ministry of Finance, Ministry of Justice, Ministry of Education, and Ministry of Internal Affairs. The Ministry of Labor, Health and Social Affairs hired commercial auditors to perform the ministry's internal audits. After these practices were examined, it was concluded that Georgia does not currently have the laws, regulations, and system needed to carry out the function of internal controls in accordance with international standards. The rating of indicator PI-21 is D+.

31. **Accounting, Recording and Reporting** *(Indicators 22-25)*. The operationalization of the TSA undertaken in 2005 was a central first step in strengthening Georgia's financial management system. The technical accounts used by the Treasury are reconciled daily. LEPLs which are fully the responsibility of the Government are also consolidated. The reconciliation of suspense accounts in the Treasury is carried out on a monthly basis and only those balances which can be justified are carried forward. The rating of indicator PI-22 is A.

Accounting, Recording and Reporting ***(Indicators 22-25)***

Indicator	**Brief Explanation**	**Rating**
22. Timeliness and regularity of accounts reconciliation	All below the line accounts of the Treasury are reconciled regularly. While there may be some delay in the reconciliation process in the bank accounts of LEPLs which are part of the government, this is checked quarterly through the reporting process.	A
23. Availability of information on resources received by service delivery units	No comprehensive data collection has been undertaken in the last three years. There are weaknesses in the capacity of the accounting systems to report financial resources transferred accurately and no comprehensive record of aid in kind is available.	D
24. Quality and timeliness of in-year budget reports	In-year reports on budget execution are generated on a regular and	B+

	timely basis. However, the reports do not include a breakdown of the expenditures and revenues of LEPLs whose liabilities are not part of the government. There are no material concerns regarding data accuracy.	
25. Quality and timeliness of annual financial statements	Financial statements of aggregated cash transactions measured against budget lines together with some unreconciled information on certain financial assets and liabilities are produced. However, consolidated financial statements reflecting the overall financial position as well as the financial assets and liabilities of the Government are not produced. The annual budget statement is submitted to the CoC within six months of the end of the fiscal year. Given the functioning of the TSA and the information available on the financial assets and liabilities, the Government is well equipped to produce financial statements in line with cash basis international standards.	D+

32. Service delivery units follow different approaches to funding, accounting, and reporting. For example, in the case of education, schools are LEPLs and are funded by transfers from the Ministry of Education following a per student allocation criterion. The resources are channeled from the Ministry of Education through the Treasury and deposited in commercial bank accounts managed by each school independently. Schools then report to their corresponding Resource Center. There are 25 Resource Centers where the reports are aggregated and then transmitted to the Ministry of Education for internal use. In the case of health care, financing is provided through invoices managed by the State United Social Insurance Fund (SUSIF) which pays the invoices through the TSA. As a result, aggregate payments per unit can be obtained easily. However, decomposition of the payments is not readily available. Policymakers and stakeholders in service delivery do not have readily available information on the distribution of the use of resources, for example, between current expenditures and capital investments, and between wages and salaries, and quality enhancing expenditures such as renovating curricula, and so on. In sum, basic monitoring and reporting of use of funds is not readily available. The rating of indicator PI-23 is D.

33. The Treasury produces monthly and quarterly reports on budget execution on a timely basis and generally within two weeks of the month end. The reports are prepared based on the TSA and include all the transfers to LEPLs. The reports are designed and used for reconciliation, authorization, and cash control purposes rather than as a management and decision-making tool. There are no material concerns regarding data accuracy. Reconciliation with the original budget, however, is not done systematically. The rating of indicator PI-24 is B+.

34. While the TSA is equipped to produce consolidated financial statements in line with international standards, only consolidated cash financial statements are produced. Financial statements of aggregated cash transactions measured against budget lines and some unreconciled information on certain financial assets and liabilities are produced. And no consolidated financial statements reflecting the overall financial position and the financial assets and liabilities of the Government are produced. The rating of indicator PI-25 is D+.

35. **External Scrutiny and Audit** (*Indicators 26-28*). Government entities representing at least 75 percent of total expenditures, including SOEs, are audited annually. The scope of the audit mandate includes extrabudgetary funds and autonomous agencies. However, the structure and

quality of the reports are far removed from the requirements of international auditing standards. Audit standards are not disclosed, the reports do not include an attestation of the financial accountability of the entities accountable, or of financial records, or the expression of opinions on financial statements. In sum, the external audit system being used does not follow the recognized international standards of INTOSAI and ISA issued by IFAC and IAASB. The rating of indicator PI-26 is D+.

External Scrutiny and Audit ***(Indicators 26-28)***

Indicator	Brief Explanation	Rating
26. Scope, nature and follow-up of external audit	The external audit system applied does not follow recognized international standards and is characterized by capacity limitations due to weaknesses in its structure, skills of staff, and technical quality of reports.	D+
27. Legislative scrutiny of the annual budget law	The annual budget law review process is clear and has been adhered to; examination covers are medium term framework as well as annual details; an adequate time frame is available for the legislative review. Clear rules exist for in-year amendments; however no limits are set for the extent and nature thereof.	B+
28. Legislative scrutiny of external audit reports	Scrutiny of audit reports is completed on a timely basis by the legislature. The Parliament is holding in-depth hearings in the presence of responsible officers of the audited entities. Actions are recommended by the CoC according to the Law, but there is no information from current sources on any formal response to audit findings.	C+

36. There are laws, regulations and procedures for the scrutiny of the annual budget law by the legislative branch. These are in line with international practices and are well implemented. The Parliament examines the annual budget in the context of the BDD framework which defines national objectives and a program to achieve them. All of the comments from the sectoral committees in the Parliament are compiled by the Budget and Finance Committee, and corresponding recommendations and conclusions are presented to the Government by June 1 for the consideration and finalization of the BDD. The Parliament annually passes a resolution on the process and time frame for the annual budget review. This process is well executed. However, rules for budget supplements within the year are the same as for the initial draft law, and there are no limits on the extent and nature of the amendments, albeit no retroactive approval is allowed or practiced. The rating of indicator PI-27 is B+.

37. The CoC submits three annual reports to the Parliament: one on the objectivity of the draft budget, a second examining the previous year's state budget execution and a third summarizing the annual activities of the CoC. In addition, the CoC submits six month reports on the execution of the state budget and all reports on individual inspections and revisions, and a report on the activities of the National Bank of Georgia prepared by the CoC. Following the review of various audit reports and the submission of the relevant conclusions from the committees, the Parliament holds a discussion and reaches a conclusion. However, according to Georgian legislation, the follow up on the recommendations issued by Parliament is the responsibility of the CoC as the controlling arm of the Parliament for the financial and economic control of the state. Actions are recommended by the CoC according to the Law, but there is no information from current sources on any formal response to the audit findings. The rating of indicator PI-28 is C+.

38. **Donor Practices** *(Indicators D-1 to D-3).* The Georgian authorities indicated that forecasts of disbursements are received by the Government in plenty of time for inclusion in the annual budget documents. Furthermore, donor assistance largely matches the forecasts other than in exceptional circumstances. The Government has come to expect donor assistance to arrive towards the end of the fiscal year and hence plans the disbursements in the third and fourth quarters only. However, direct budget support outturn fell short of the forecast by more than 15 percent in one year of the period of 2004-06. The rating of indicator D-1 is C+.

Donor Practices (*Indicators D-1 to D-3*)

Indicator	Brief Explanation	Rating
D-1. Predictability of direct budget support	Over the course of the year as a whole, the deviation between actual and forecast donor disbursements is generally small, although exceptional circumstances in one year did result in a significant deviation. Moreover, within the year, donor disbursements are largely made during the quarter planned, although it is rare for there to be disbursement planned in any period other than quarter four.	C+
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, in neither of these cases is the Government's own budget classification system used.	C
D-3. Proportion of aid that is managed by use of national procedures	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Likewise, reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, nearly all financial support from donors uses their own procurement, accounting, audit, and reporting arrangements.	D

39. Project and program financial support accounts for at least 60 percent of all donor assistance. And while the information that these donors provide to the government is complete, it is presented in a wide variety of formats which are not consistent with the Government's budget classification. The Ministry of Finance then unifies the presentation for purposes of the budget. The rating of indicator D-2 is C.

40. Official financial flows to Georgia represented 10 percent of total public expenditures in 2006. This level is expected to increase over the coming years. Major donors representing 90 percent of total financial flows confirmed that they do not use national systems in procurement, accounting, audits, and reporting arrangements. The rating of indicator D-3 is D.

Assessment of the Impact of PFM Performance

41. In the wake of the Rose Revolution in November 2003, Georgia was akin to a failed state. Public wages and pensions were in arrears; budgets were poorly prepared and poorly executed; and corruption was pervasive. Since then, there have been noticeable improvements in the PFM system, particularly in budget planning, budget discussion and approval by the Parliament; development and operationalization of the TSA; scrutiny of public finances by the CoC and by the Parliament; and elimination of arrears and extrabudgetary funds. Other areas, however, show important weaknesses which might place the hard won achievements at risk. Weaknesses in the

PFM system have a direct impact on budgetary outcomes in the three areas: (i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient service delivery. Georgia has made significant progress in maintaining its macro fiscal discipline over the last several years. Reforms in the areas of tax and customs administration and in particular the creation of the new Revenue Service, combined with successful anticorruption measures and improvements in the business environment, have raised revenue outcomes considerably and improved Georgia's fiscal position. Government progress in improving the policy content of the budget preparation and execution, developing and implementing the MTEF-based budget framework, and preparing sector strategies have significantly increased the efficiency of resource allocation. In addition, sustained efforts in strengthening and modernizing the Treasury system and introducing international standards in accounting and reporting have increased the transparency and effectiveness of public financial management.

42. The areas of internal audit, control, and external audit need to be modernized, with internal audit and controls exercised by the executive branch while the CoC focuses on external auditing functions. Similarly, information systems need to be developed to carry out basic monitoring and reporting of procurement and payroll.

Prospects for Reform Planning and Implementation

43. Strengthening the management of public finances and budget operations has been a cornerstone of public finance reform since 2004. The Strategic Vision for Public Financial Management (PFM) of the Ministry of Finance has provided the framework for the coordination of reform initiatives in this area. The strategy identified several objectives of the PFM system reform: (i) to maintain fiscal discipline; (ii) to support a strategic approach to the management of public finances; (iii) to ensure that resources are used efficiently and effectively; and (iv) to ensure accountability.

44. The Government of Georgia is aware that despite important achievements to date the PFM system has weaknesses which need to be addressed. The Strategic Vision for Public Financial Management is being updated to address these weaknesses. The prospects for implementation are, in general, good. The Government's PFM reform agenda is strongly supported by a coordinated donor program; through the World Bank PRSO program, PSFMSP project, and the Treasury Modernization project, and through the European Neighborhood Policy Initiative (ENPI) which plans to support the PFM reforms program, and their Tax and Customs Administration Modernization project. Donor efforts in timely provision of information on transfer of resources in line with the Georgian budget cycle would significantly enhance predictability of resources to the budget. The Government has a strong ownership of the reforms being outlined and the Ministry of Finance has shown solid leadership in implementing reforms. Further efforts, however, are needed in coordinating the reform efforts across the government. This is particularly important in the areas of procurement, payroll, internal auditing, and control systems. A new government has taken office as this report is being finalized. It is expected that PFM reform will continue to receive strong support from the political leadership if Georgia is to continue to make progress in the efficiency, transparency and accountability of its public finances.

1. INTRODUCTION

1. The PEFA assessment is intended to elicit an updated and systematic diagnostic of the Public Financial Management (PFM) system in Georgia and to provide a base line for monitoring the progress of the PFM reforms going forward. In particular, the assessment aims at informing policymakers of the Government of Georgia, the World Bank, the European Community (EC), and other development partners on the following: (i) the effectiveness of the PFM system in place in Georgia relative to international standards; (ii) the specific areas in which the donor community is supporting the PFM reform agenda, identifying the areas in which no support is provided; and (iii) useful information and diagnostics to enable the Government to gauge the reforms going forward. The assessment covers public financial management at the state level, which represents at least 85 percent of the consolidated budget.

2. In support of the assessment, the Government established a task force headed by the Deputy Minister of Finance, and comprising of representatives from the Budget, Treasury Service, Macro Economic Analysis, Revenue Service, External Relations, and Inspectorate General Departments of the Ministry of Finance, the State Enterprise Management Agency, the Chamber of Control, and the State Procurement Agency. The assessment was undertaken during June-July 2007 in the field with a team of World Bank and EC staff and consultants and with intensive consultation and interviews with the Government task force team and other development partners. The assessment also drew upon various existing diagnostic and analytical reports of the Georgia PFM system by the World Bank, the EC, the IMF and other development partners, as well as by the Government.

2. COUNTRY BACKGROUND INFORMATION

2.1 DESCRIPTION OF THE COUNTRY ECONOMIC SITUATION

3. In the wake of the Rose Revolution, Georgia faced considerable deficiencies in public finance management including the following: (i) *lack of strategic planning* in the budget process, which constrains the implementation of key reforms and limits links between expenditures and national and sector objectives and policies; (ii) *weaknesses in the budget execution* resulting from weak cash-flow management, which caused spending outturns to deviate markedly from the budget plan; (iii) *weak tax administration,* which contributed to unstable tax policies and inadequate revenue mobilization; and (iv) *ineffective sector expenditures* owing to poor budgetary allocations, which has resulted in inadequate social spending. Georgia also faced significant problems relating to extrabudgetary revenues and expenditures, which were manifested in weak budget execution and in deviations between formulated and executed budgets.

4. Transparency and accountability in the *fiduciary framework in the area of procurement* was basically non existent. And although the State Procurement Agency was established in 2001, its functioning was deficient. Similarly, Georgia had significant deficiencies in the area of external auditing as the Chamber of Control had developed a poor reputation and was closed for a period of time. Furthermore, corruption was pervasive and the public sector was unable to provide basic public services, and arrears in pensions and wages accumulated rapidly. Georgia was a failed state.

These conditions contributed to the peaceful "Rose Revolution" of late November 2003. The Rose Revolution was a popular uprising against years of mismanagement and corruption in government, triggered by frustration over fraudulent abuses in parliamentary elections.

5. Over the last four years, the Government of Georgia has been implementing reforms intended to fight corruption, develop public financial management, and improve transparency and accountability including in public finances. The new Government made anti-corruption efforts its main agenda in order to establish strong mechanisms of accountability and transparency across all areas of government. In addition, it embarked on a strategy aimed at developing a dynamic and competitive private sector as the main engine of growth, with the public sector playing an essential supporting role of providing basic public goods and services. The Government also undertook complementary reforms in education and health care delivery, as well as taking the first steps towards developing an effectively targeted social safety net to protect the extreme poor.

6. Despite the severe shocks of the last few years, macroeconomic management in Georgia continues to show a solid performance and a remarkable ability to mitigate internal and external shocks. In spite of large increases in energy prices and the loss of part of the traditional export market, fiscal and external current account balances are in line with the program. The fiscal deficit on a cash basis was 2.9 percent of GDP in 2006 compared with 2.4 percent in 2005, with about one-third of public spending being allocated to the social sectors and another 12 percent being allocated to infrastructure. As a result, public spending is complementary to private investment and is supportive of growth and poverty reduction. GDP growth in Georgia for the last three to four years has been impressive, averaging to 9 percent. However, poverty rates have yet to show improvement.

7. Social spending to GDP had increased by about 4 percentage points by 2006. Social assistance policy has been targeted to assist the most vulnerable in society (first of all pension arrears were eliminated, and pensions have been tripled since 2003). Furthermore, in August/September 2006 the Government introduced the targeted social assistance program—a cash-benefit program targeting the extreme poor—as the most direct and effective means of reducing extreme poverty. In addition, the Government introduced the Basic Benefit Package for health care, which includes a supplemental package for the poor. To reduce the negative impact of energy price increases on vulnerable segments of the population, the budget covered the electricity lifeline and the gas subsidy for the first four months of 2006, and in 2007 it has substantially reduced the negative impact of external shocks. Despite the inflationary pressures of large capital inflows which contributed to a rapid expansion of credit to the private sector, the Government implemented an appropriate macroeconomic policy mix to safeguard growth and maintain inflation at single digit levels during the period 2003-06 (albeit the inflation rate in 2007 reached 11 percent per year).

8. The quality of public finances is improving gradually, with the largest improvement in the level of tax revenue collection. However, further reforms are needed to improve transparency and accountability, and also in terms of aligning public finances, particularly public expenditures, with national priorities. Specifically, reforms should continue to aim at public expenditures becoming more supportive of growth and of the development of a fiscally sustainable social safety net, and should begin to address the large basic infrastructure needs. As a result, the medium-term prospects would be positive, provided structural reforms (particularly Financial Management Systems (FMS) reforms) are continued.

2.2 DESCRIPTION OF BUDGETARY OUTCOMES

9. Over the last four years, Georgia has made significant progress towards strengthening its public finances and achieving fiscal discipline. The state budget deficit declined from 2.9 percent of GDP in 2003 to 0.3 percent in 2006 (see Table 1). Until recently, tax revenue collection in Georgia had been substantially below that of other countries in the region and reflected widespread corruption and significant weaknesses in public finances. During the period of review, tax policy reform together with other structural reforms have increased tax revenue collection from 9.4 percent of GDP in 2003 to 19.1 percent in 2006. The financing of the state budget deficit did not crowd out the private sector and was not inflationary. The Ministry of Finance has been reducing its debt with the National Bank of Georgia since 2004 as shown by the negative internal financing of 0.2 percent of GDP in 2004, 1.0 percent in 2005 and 0.9 percent in 2006. Table 1 also shows that external financing is essential for the state budget deficit financing.

10. In addition to strengthening the country's public finances, the Georgian authorities have made substantial progress in reducing the debt burden. External public and publicly guaranteed debt declined from 46.4 percent of GDP in 2003 to 22 percent in 2006 and a record low of 18 percent in 2007. The Joint IMF-World Bank Debt Sustainability Assessment of August 2006 concluded that Georgia is at low risk of debt distress since its debt indicators are well below the relevant debt burden thresholds used by the IMF and the World Bank to signal debt distress.

Table 1: State Budget of Georgia, 2003-2006 (as percent of GDP)

	2003	2004	2005	2006
Total Revenues and Grants	11.2	18.1	22.4	27.4
Total Revenues	10.3	16.8	21.5	26.0
Tax revenues	9.4	13.5	15.8	19.1
Non Tax revenues of extrabudgetary funds, total	0.0	0.2	0.0	0.0
Other nontax revenues	0.9	2.5	2.4	3.5
Capital revenues	0.3	0.7	3.3	3.4
Grants	0.6	1.3	0.9	1.4
Total state budget expenditure and net lending (by economic categories)	14.1	19.6	22.5	27.7
Wages and salaries	1.6	2.0	2.4	2.7
Employers contribution	0.3	0.3	0.5	0.6
Business travel	0.1	0.1	0.3	0.0
Other goods and services	2.6	3.1	3.4	4.9
of which: food spending	0.2	0.2	0.2	0.0
Interest payments	2.0	1.5	1.0	0.7
external debt	0.9	0.5	0.3	0.3
internal debt	1.1	1.0	0.7	0.5
Subsidies and current transfers	4.6	9.0	11.0	13.0
Capital expenditures	0.1	1.2	2.3	3.7
Lending minus repayment	2.8	2.4	1.7	0.3
State budget balance	-2.9	-1.6	-0.1	-0.3
State budget deficit financing	2.9	1.6	0.1	0.3
Internal	1.4	-0.2	-1.0	-0.9
External	1.6	1.8	1.1	1.2

Source: Ministry of Finance.

11. The composition of public expenditures has gone through major changes during 2003-06. Social spending on education and health care increased from 1.2 percent of GDP in 2003 to 4 percent of GDP in 2006 (see Table 2). All social spending taken together, including pensions and social assistance programs, now represents about one-third of the state budget. There have also been increases in transport and communications from 0.6 percent of GDP in 2003 to 1.3 percent in

2006. Similarly, public capital expenditures increased from 0.1 percent of GDP in 2003 to 3.7 percent in 2006. Georgia is starting to address several decades of the neglect of basic infrastructure, which has seriously limited access to domestic markets by many in rural areas and limits the expansion of Georgia's trade with world markets. However, the largest increase in public expenditures was on defense, which increased from 0.7 percent of GDP in 2003 to 5.2 percent in 2006. The average public expenditures on defense in Central Eastern European countries were 2.7 percent of GDP in 2006. The Georgian authorities explained that Georgia needs to invest far more than other countries in modernizing its defense sector to reach normal standards, since it faced a larger gap back in 2003.

Table 2: State Budget of Georgia, 2003-2006 (as percent of GDP)

	2003	2004	2005	2006
Functional Categories				
General public services	3.2	3.1	2.3	2.9
Defense	0.7	1.6	3.3	5.2
Public order and safety	1.3	2.4	2.3	2.7
Education	0.5	0.7	0.7	2.5
Health care	0.7	1.5	1.4	1.5
Social security and welfare services	3.4	3.7	4.6	4.5
Recreation, culture, and religion	0.3	0.4	0.4	0.5
Energy	0.4	0.8	2.0	1.8
Agriculture, forestry, fishing and hunting	0.3	0.3	0.4	0.5
Mining and processing industry, mineral resources, construction	0.01	0.02	0.01	0.0
Transport and communications	0.6	0.7	1.1	1.3
Environmental protection and other economic affairs	0.03	0.05	0.15	0.14
Expenditure not elsewhere classified	2.8	4.4	4.0	4.2
Total state budget expenditure and net lending	14.1	19.6	22.5	27.7

Source: Ministry of Finance.

12. Until recently, Georgia had no systematic approach to budget planning and there was no statement of national objectives. As a result, there were no links between budgetary allocations and national objectives. The public finance policy reforms initiated in 2004 have made progress in this area. Budget planning is now done on a four year cycle through a Medium Term Expenditure Framework (MTEF). The starting point is the Basic Data and Directions (BDD) document, which outlines the national objectives and shows the links to the budget. The BDD provides an explanation of the objectives and the main activities of all primary spending units and their programs. The MTEF has included all spending units since 2006 and has become the central tool of the Government for anchoring much of the macroeconomic policy and structural reform program in the medium term. However, the quality of sectoral budget plans varies across spending units. Building on the progress to date, the Georgian authorities indicated that they are determined to follow a more systematic approach across all spending units in budget planning, particularly in the planning of public capital expenditures.

2.3 LEGAL AND INSTITUTIONAL FRAMEWORK

13. The political structure of Georgia is that of a democratic republic. The President is the highest state official and is responsible for forming a government and appointing the Prime Minister subject to approval by the Parliament. The Parliament consists of 150 members elected by a

proportional system and 85 members elected by a majority system. They are elected for a term of four years. The Constitution provides for clear rules for the scrutiny of public finances by the Parliament and the accountability of the executive branch for the planning and execution of public finances. The Parliament can reject the entire draft budget, but amendments to the draft budget require the agreement of the Government.

14. The legal framework specifying the functions, roles, and responsibilities of the Government in PFM areas is defined by the Constitution of Georgia, the Organic Budget System Law, the Law on the Chamber of Control of Georgia, and the Organic Law on Local Self-Government Units. The Ministry of Finance (MoF) is responsible for the preparation of the draft state budgets and the execution and reporting of approved budgets. The state budget covers recurrent expenditures, capital expenditures, including foreign funded expenditures, and transfers to local governments. The MoF starts the budget process on March 1 of each year with the preparation of the Medium-Term Macro-Economic Forecast, Medium Term Fiscal Forecasts, and BDD for the budget, in collaboration with the Ministry of Economic Development and other ministries, and in coordination with the National Bank of Georgia.

15. The IMF ROSC-Fiscal Transparency Module of 2003 noted that the legal framework for fiscal transparency was relatively complete. It also noted that there were weaknesses. Several of these reforms have been completed successfully such as the development and operationalizing of the TSA. Others are underway, such as the accounting reform which is moving Georgia from GFS-1986 to GFS-2001; and others are yet to be addressed, such as the development of a modern legal framework for financial control. Indeed, financial management systems have not yet adopted a modern set of rules and principles where the function of internal audit and control is well defined and systematically implemented only by the executive branch while the function of external audit is carried out only by a supreme audit institution.

16. At the local level, Georgia implemented a major consolidation of districts and municipalities in 2006. Prior to 2006 there were 60 districts or rayons, which in turn were subdivided into 1,100 towns, villages and settlements. Four cities, including the capital city of Tbilisi, were directly subordinated to the central government. The division of functions and the allocation of public resources was poorly defined. The new organic Law on Local-Self Governments of December 2005 consolidated towns, villages, and settlements into their respective rayons. As a result, the number of local governments was reduced from 1,105 to 65. Today, local self-governments in Georgia are large compared to European standards. Similarly, the Local Self-Government Budget Law of 2006 clarified the rules for inter-governmental finances. In 2007, local self-government units started implementing new rules for budget planning and execution. However, the capacity to implement these rules varies considerably across the self-government units.

17. There have been major improvements regarding extrabudgetary funds. In the first few years of this decade, spending through extrabudgetary funds in Georgia was significant, representing as much as 19 percent of total government expenditure. This contributed to a lack of transparency and accountability for public resources. However, the Budget System Law (BSL), effective from 2004, requires all state receipts to be deposited in the TSA. All extrabudgetary funds have since been closed or incorporated into the line agencies. For example, the two major extrabudgetary funds that are often referred to— the Road Fund and the Social Security Fund – were abolished in 2005 and their functions incorporated into the Ministry of Economic Development and the Ministry of Health, respectively.

3. ASSESSMENT OF PFM SYSTEMS, PROCESSES, AND INSTITUTIONS

18. The assessment is based on 28 indicators which cover the PFM system and are structured into three categories: (i) PFM system outturns to capture the credibility of the budget, (ii) cross-cutting features of the PFM system, to capture the comprehensiveness and transparency of the system across the budget cycle, and (iii) budget cycle, to capture the performance of the key systems, processes and institutions within the state budget cycle. In addition, the assessment includes 3 indicators to capture the existing donor practices and the extent to which they affect the PFM performance. Each indicator is scored on a scale from A to D based on a combined score of each of its dimensions.[2]

3.1 BUDGET CREDIBILITY

Indicator 1: Aggregate expenditure outturn compared to original approved budget *(Scoring Methodology MI)*

19. Over the period studied, actual expenditure, less interest payments,[3] was consistently higher than the original[4] approved expenditure, as passed by Parliament in the State Budget Law. This reflects the fact that with significant over-performance in revenue collection supplementary budgets have been used frequently in Georgia to approve additional expenditure requests during the course of the budget year, as mandated by the BSL.

20. The period of review is a period during which major tax and expenditure policies were undertaken at the time of the budget formulation. The Georgian authorities were correctly cautious on revenue and expenditure projections which they had to adjust later, as revenues and expenditures significantly over-performed. As has been internationally experienced, increases in tax revenues are typically within 1-2 percentage points of GDP, while Georgia experienced an increased collection of 4-6 percentage points during the period of review. Moreover, 2005 and 2006 were unusual shock years in Georgia (flood, drought, energy price hikes) which required Government response.

21. As a result, for example, in 2006 three supplementary budgets were passed, increasing expenditure by GEL 211 million, GEL 331 million, and GEL 50.6 million, respectively, reflecting the significant unforeseen increases in revenue collection that the Government has experienced in the course of recent budget years. Since the amended budget is always greater than the originally approved budget, this no doubt leads to large differences of budgetary outturns relative to original budgets. Notwithstanding the volatile economic environment, frequent amendments to the budget are not considered a good practice by international standards.[5]

[2] PEFA uses two different methodologies for combining the scores of dimensions into an overall score for the indicator. M1, the "weakest link" methodology, is used for indicators where poor performance in one of its dimensions is likely to affect the good performance of its other dimensions. M2, the "averaging" methodology, is used for indicators where poor performance in one of its dimensions does not affect the good performance of its other dimensions.
[3] Lack of data also prevented subtracting "donor expenditure" for this calculation, as the PEFA methodology recommends. However, since it is not a big share of expenditure, this is not likely to affect the rating.
[4] The reference is to the original budget as approved in December 2003, 2004, and 2005.
[5] See *Managing Public Expenditure, A Reference Book for Transition Countries*, OECD Handbook, Edited by Richard Allen and Daniel Tommasi, OECD, 2001.

22. As is shown in Table 3, actual expenditure less interest payments exceeded approved expenditure by 16.1 percent of approved expenditure in 2004, 16.8 percent of approved expenditure in 2005 and 17.7 percent of approved expenditure in 2006.

Table 3: Budget of Georgia, 2004 – 2006 (GEL thousand)

		2004	2005	2006
Total approved expenditure	(a)	1,731,577.00	2,260,784.20	3,285,417.00
Total actual expenditure	(b)	1,930,210.40	2,618,556.80	3,822,512.80
Approved interest payments	(c)	197,630.00	121,400.00	122,407.00
Actual interest payments	(d)	149,246.90	120,130.10	100,504.00
Total approved expenditure less interest	(e) = (a) - (c)	1,533,947.00	2,139,384.20	3,163,010.00
Total actual expenditure less interest	(f) = (b) - (d)	1,780,963.50	2,498,426.70	3,722,008.80
Difference	(g) = (f) - (e)	247,016.50	359,042.50	558,998.80
Difference as a percentage of approved	= (g) / (e)	16.10%	16.78%	17.67%

Source: PEFA team calculations based on data from the Law of Georgia on the State Budget of Georgia 2004/2005/2006 and data provided by the Ministry of Finance.

Indicator	Brief Explanation	Rating
1. Aggregate expenditure outturn compared to original approved budget	Deviation of actual expenditure from the approved expenditure as passed by Parliament in the State Budget Law has exceeded 15 percent in all of the three years studied.	D

Indicator 2: Composition of expenditure outturn compared to original approved budget *(Scoring Methodology M1)*

23. The composition of the expenditure outturn compared to the original6 approved budget as passed by Parliament in the State Budget Law varies considerably across spending agencies.[7] However, once the overall deviation between the actual and the approved expenditure[8] has been taken into account, the additional variation in expenditure at the agency level is small for two of the three years studied.[9]

24. The composition of expenditure has shown improvement over the review period. In 2004, social spending accounted for about 15 percent of the budget while today it accounts for 33 percent. Public capital expenditure, which represented only 2 percent of GDP in 2004, accounts for 6 percent today. Despite this progress, the deviation was large.

25. Additional deviation at the spending agency level was 0.2 percent in 2004, 19.4 percent in 2005 and 0.4 percent in 2006. It appears that the particularly high additional deviation at the spending agency level in 2005 was due to very high supplement budgets for a number of agencies. In particular, the difference between actual and approved expenditure at the Ministry of Energy was 92.7 percent of approved expenditure in 2005, accounting for 14.3 percent of the total sum of

[6] The reference is to the original budget as approved in December 2003, 2004 and 2005.

[7] See Tables A.1, A.2, and A.3 of Annex 3 for a breakdown of the composition of expenditure outturn versus the approved expenditure at the spending agency level.

[8] As calculated for indicator 1.

[9] It is recognized that the PEFA methodology recommends subtracting donor expenditure, in addition to interest payments, from expenditure. However, donor expenditure at the spending agency level is sparingly available. As such, it has not been subtracted from total expenditure in the calculations made for indicators 1 and 2. Given the small share of donor expenditure in total government expenditure, this is not likely to affect the rating.

absolute differences between actual and approved expenditure at the spending agency level.[10] The Ministry of Defense also accounts for a particularly high percentage of the total difference between actual and approved expenditure at the spending agency level. These differences between actual and approved expenditure as a percentage of approved expenditure were 156.7 percent in 2004, 164.1 percent in 2005 and 74.2 percent in 2006, respectively.[11]

Table 4: State Budget of Georgia, 2004 - 2006 (GEL thousand)

		2004	2005	2006
Total approved expenditure less interest	(a)	1,533,947.00	2,139,384.20	3,163,010.00
Sum of absolute difference between approved and actual expenditure at the spending agency level	(b)	249,846.10	775,463.30	572,708.00
Difference as a percentage of approved	(c) = (b) / (a)	16.29%	36.25%	18.11%
Overall deviation between actual and approved (as calculated in PI 1)	(d)	16.10%	16.78%	17.67%
Additional deviation at the spending agency level	(e) = (c) - (d)	0.18%	19.46%	0.43%

Source: PEFA team calculations based on data from the Law of Georgia on the State Budget of Georgia 2004/2005/2006 and data provided by the Ministry of Finance - more detail is provided in Tables A.1, A.2, and A.3 of Annex 3.

Indicator	Brief explanation	Rating
2. Composition of expenditure outturn completed to original approved budget	The variance in expenditure composition at the spending agency level exceeded 10 percent in no more than one of the last three years studied.	C

Indicator 3: Aggregate revenue outturn compared to original approved budget *(Scoring Methodology M1)*

26. Over the period of study, revenue collection in Georgia is characterized by a significant degree of over-collection compared to the forecasts passed by Parliament in the State Budget Law. As is shown in Table 5, actual domestic revenue[12] outturn was 130.5 percent of that approved in the State Budget Law in 2004, 138.2 percent of that approved in 2005 and 123.5 percent in 2006. Table 5 shows that this under-estimation of revenues applies to all of the subcomponents illustrated, but are especially marked in capital revenue.

27. Previous studies have also noted the persistent over-performance on tax revenues and the link with significant increases in expenditure approved by Parliament during the budget year.[13] These large variances highlight the need for improved forecasting practices. However, this indicator is concerned only with the extent to which under-collection of actual revenues as compared with approved estimates affects budget performance.

[10] See Table A.2 of Annex 3.

[11] See Tables A.1, A.2 and A.3 of Annex 3.

[12] Domestic revenue is defined here as the total of tax revenue, non-tax revenue and revenue from capital. Grants are not included.

[13] IMF (2006) Georgia: *Fourth Review under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criterion.* IMF Country Report No. 06/395, October. P6.

Table 5: Revenues of the State Budget of Georgia, 2004- 2006[14] (GEL thousand)

		Domestic Revenue	Of which: Tax Revenue	Non-tax Revenue	Capital revenue
2004	Approved	1,263,702.00	1,112,500.00	130,902.00	20,300.00
	Actual	1,649,029.40	1,322,083.10	259,937.80	67,008.50
	Actual as a percentage of approved	130.49%	118.84%	198.57%	330.09%
2005	Approved	1,812,115.00	1,554,800.00	163,115.00	94,200.00
	Actual	2,503,376.00	1,836,071.00	280,417.00	386,888.00
	Actual as a percentage of approved	138.15%	118.09%	171.91%	410.71%
2006	Approved	2,897,855.00	2,263,085.00	301,770.00	333,000.00
	Actual	3,579,231.00	2,633,110.00	482,536.00	463,585.00
	Actual as a percentage of approved	123.51%	116.35%	159.90%	139.21%

Source: Ministry of Finance.

Indicator	Brief explanation	Rating
3. Aggregate revenue outturn compared to original approved budget	Actual domestic revenue collection was not below 97 percent of budgeted domestic revenue collection in any of the three years studied.	A

Indicator 4: Stock and monitoring of expenditure payment arrears *(Scoring Methodology M1)*

28. Domestic expenditure arrears[15] are defined as "arrears incurred by the central and local governments on expenditure items, excluding external debt service payments." Owing to past commitment management deficiencies (1991-2003), measurement of the stock of verified central government and local self-government expenditure arrears remains a rather lengthy and fastidious process.

29. Impressive progress has been made in commitment management since 2004 through the rapid implementation of relevant regulations and procedures guidelines[16] and the recruitment of competent and dedicated executives in the Treasury service. When it becomes fully computerized, including an automatic commitment aging system, the assisted commitment accounting procedure[17] recently introduced will expedite the clearance of the remaining expenditure arrears and will contribute to a more efficient cash and expenditure control.

[14] Data were provided by the Ministry of Finance, based on approved data taken from the State Budget Law as originally approved by the Parliament in December 2006, and actual data taken from cash expenditures information.

[15] Expenditure Arrears definition and recommendations: 5th IMF-PRGF Review, February, 2007.

[16] MoF Decree No 571: Registration of Commitments and Expenditure Payments, August 31, 2004.

[17] Ministerial Decree No. 1825: Commitment Management and Accounting, December 25, 2006.

Table 6: Comparison of Original Budget ….

Official stock of arrears expenditure, on 31/12/2005: 124.4 mil GEL of which:		
Wages:	29.1 mil GEL	
Social contributions:	4.8 mil GEL	
Capital expenditures:	51.6 mil GEL	
Arrears cleared in 2006:		43.4 mil GEL of which
State budget clearances 2006		40.87 mil GEL
Stock of arrears expenditure, at 31/12/2006		81.0 mil GEL

Source: Ministry of Finance.

30. The stock of arrears constitutes 1.93 percent of the net expenditure, and there is evidence that it has been reduced significantly. At the end of 2006, total expenditure accounted for GEL 4,446 million, of which GEL 282.4 million was net lending charges.[18] Net expenditure was thus GEL 4,181.7 million **[Dimension (i) —A].**

31. The Treasury Department of the MoF maintains complete information on all stages of expenditure including commitments, release of funds, verification, and payment for each spending agency. With this arrangement, data on the stock of arrears are generated at least annually. However, information on the stock of arrears of local self-Governments, State-owned enterprises and legal entities of public law might be delayed or only partly collected **[Dimension (ii) —B].**

Indicator	**Brief Explanation**	**Rating**
4. Stock and monitoring of expenditure payment arrears	There are directions and systems for monitoring expenditure arrears enabling the Treasury Service to monitor and account an acceptable and nearly complete record on the total stock of arrears. However, a computerized commitment ageing module is still missing. Data are currently available for monitoring the stock of expenditure payment arrears.	B+

3.2 TRANSPARENCY AND COMPREHENSIVENESS

Indicator 5: Classification of the budget
(Scoring Methodology M1)

32. Georgia's budget formulation and execution has been based on administrative, economic and functional classification according to GFS 1986.[19] The Ministry of Finance began adopting the GFS 2001 classification from the year 2007, when the state budget was prepared in line with the functional classification of GFS 2001.[20] The first quarter 2007 budget execution report also follows the GFS 2001 functional classification. The economic classifications of the GFS 2001 are being introduced for the 2008 budget[21] and are reflected in the 2008-2011 Budget Circular issued to all the spending units by the MoF.[22] In line with GFS 2001 functional classification, public expenditures are formulated, executed, and reported according to 10 functional groups at the first

[18] MoF official website, June 14, 2007.
[19] MoF Decree No.153 of March 15, 2004 on Budget Classification.
[20] MoF Decree No. 1092 of September 4, 2006.
[21] Draft MoF Decree (to be signed by July 27, 2007.)
[22] MoF letter of June 19, 2007.

level and 69 groups at the second level. Instructions on the classification of budget expenditures and the list of and codes for the GFS 2001 classification are provided on the website of the Ministry of Finance. In addition, training sessions were provided to the staffs of the budget departments to help them with the transition to the new classification.

Indicator	Brief Explanation	Rating
5. Classification of the budget	The budget formulation and execution is based on administrative, economic, and functional classifications using GFS standards. Functional classification does cover 10 main functions in line with GFS classification.	B

Indicator 6: Comprehensiveness of information included in budget documentation *(Scoring Methodology M1)*

33. Consistent with the Budget System Law, the annual budget documentation that is submitted to the Parliament for review and approval contains comprehensive information on the budget proposals for all government entities, the actual outcome of the budget for the last two years, the estimate of the actual outturn for the current year, the proposal for the budget year, and the forecast of the state fiscal and other macro forecasts for the following four years.

34. According to PEFA guidelines, the annual budget documentation should include information on the following nine elements:

(i) Macroeconomic assumptions, including at least estimates of aggregate growth, inflation, and the exchange rate. Budget documentation not only **includes** these macro assumptions but also includes forecasts of growth, inflation, national accounts, aggregate state revenues and expenditures, balance of payments monetary aggregates, and other macroeconomic variables.

(ii) The fiscal deficit, defined according to the GFS standard or other internationally recognized standards. Budget documentation includes information on the size of the fiscal deficit. The annexes to the budget documentation include forecasts of the fiscal deficit for the following four years as well.

(iii) Deficit financing, describing the anticipated composition. The budget documentation includes information on deficit financing including its composition from domestic and external sources. The annexes to the budget documentation include forecasts of the deficit financing and its composition for the following four years as well.

(iv) The debt stock, including details at least for the beginning of the current year. The budget documentation **includes** information on the debt stock. The annexes to the budget documentation include forecasts of the size of the debt stock for the following four years as well.

(v) Financial assets, including details at least for the beginning of the current year. The budget documentation does not include information on financial assets.

(vi) The prior year's budget outturn, presented in the same format as the budget proposal. The budget documentation **includes** budget outturns for the prior two years in the same format.

(vii) The current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal. The Budget documentation **includes** the estimated outturn of the current year's budget in the same format as that of the proposed budget.

(viii) Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year. The budget documentation **includes** summarized revenue and expenditure data for the previous year, the estimate for the current year, and the proposed budget year.

(ix) An explanation of the budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs. The budget documentation **includes** estimates of the budgetary impact of the new policy initiatives in the attached annexes, but **does not include** any explanations.

Indicator	**Brief Explanation**	**Rating**
6. Comprehensiveness of information included in budget documentation	The 2007 budget documentation fulfills 7 of the 9 information benchmarks required. Estimates of the budgetary impact of a number of revenue and expenditure policy changes/initiatives (part of the ninth benchmark) are also provided in the consolidated macro aggregates but there are no explanations provided.	A

Indicator 7: Extent of unreported government operations (*Scoring Methodology M1*)

35. In the first few years of this decade, spending through extra budgetary funds in Georgia was significant, amounting to as much as 19 percent of total government expenditure.[23] This created a number of difficulties, including lack of coordination between agencies in terms of spending and policy decisions.[24] However, the Budget System Law (BSL), effective from 2004,[25] requires that all state receipts are deposited in the Treasury Single Account (TSA).[26] All extrabudgetary funds have since been closed[27] or incorporated into the line agencies. For example, the two major extrabudgetary funds that are often referred to- the Road Fund and the Social Security Fund- were abolished in 2005 and their functions incorporated into the Ministry of Economic Development and the Ministry of Health, respectively.[28]

36. Consequently, as also assessed by the IMF, unreported Government operations in Georgia are significantly reduced in comparison to the recent past. However, discussions with the

[23] IMF (2003) Georgia: Report on the Observance of Standards and Codes – Fiscal Transparency Module. October. P.10.
[24] Ibid.
[25] BSL, adopted April 24 2003, effective from January 1 2004.
[26] BSL, Article 4.
[27] Interview with Deputy Head, Treasury Service, MoF.
[28] Ibid.

Government have revealed that not all expenditures of the Legal Entities of Public Law (LEPLs) are necessarily captured within the fiscal reports.[29] According to the guidelines on the Preparation and Submission of Financial Reporting by Legal Entities of Public Law,[30] the LEPLs must submit quarterly reporting forms to the state controlling entity. That entity then prepares a consolidated source and application statement and submits it to the Treasury Service of the Ministry of Finance, together with an annex (Annex 4) detailing revenues raised by the LEPLs and expenditures made from those revenues.

37. When the statement of source and application is consolidated into the fiscal reports by the Treasury, the data detailed in annex four are not included.[31] Therefore, expenditures that LEPLs make from their own revenues are not included in the fiscal reports and so these amounts to unreported government operations. Data provided by the Treasury Service of the MoF[32] show that this expenditure was equivalent to 4.1 percent of total actual government expenditure in 2006. The true figure may be greater, given that LEPLs which are independent regulatory bodies under the President do not submit this source and application statement to the Treasury.[33] The level of unreported extrabudgetary expenditure (other than donor-funded projects) constitutes 1–5 percent of total expenditure. **[Dimension (i)—B].**

38. Income/expenditure information on donor-funded projects in the fiscal reports is largely complete. Funds provided through the Millennium Challenge Corporation (MCC) and the UNDP are two extrabudgetary funds which are reflected in the budget documents, but they do not go through the Treasury and are not subject to the national fiduciary mechanisms. The 2007 State Budget Law shows GEL 4,030,000 in grants from the UNDP[34] and GEL 158 000[35] from the MCC.[36] This does not amount to unreported operations for the purposes of this indicator.[37]

39. Other information provided by the External Relations Department of the MoF suggests that there may be other small amounts of aid provided by bilateral donors that are not captured in the State Budget Law.[38] However, these amounts are not believed significant as a percentage of overall donor-funded project expenditure. Moreover, many of these projects amount to inputs in-kind and technical assistance.[39] In addition, staffs of the Budget Department of the MoF suggest that even if planned expenditures of such projects are not reflected in the State Budget Law, they will be captured in the Budget Execution Report.[40]

40. Complete income/expenditure information is provided in fiscal reports for the majority (more than 90 percent) of donor-funded projects, except for inputs provided in-kind. **[Dimension (ii)—A].**

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[29] Ibid.
[30] As implemented in 2004 by Decree Number 984 of the MoF.
[31] Interview with the Deputy Head, Treasury Service, MoF.
[32] See Table A.4.
[33] See Table
[34] Budget Code 04 01 00 00
35 Budget Code 04 02 00 00
[36] As per the legal agreement with the donor: Interview with Head of Budget Department of MoF.
[37] See PEFA Secretariat: "Clarifications to the PFM Performance Management Framework of June 2005" which states, under PI-7, that "expenditure is 'reported' if it is included in the fiscal reports. Expenditure is therefore unreported when it fails to be captured in the fiscal reports."
[38] Interview with staff of the External Relations Department of the MoF.
[39] Ibid.
[40] Interview with the Head of the Budget Department of the MoF.

Indicator	Brief explanation	Rating
7. Extent of unreported government operations	The level of unreported extrabudgetary expenditure has decreased significantly in recent years. There are two types of LEPLs. One set is fully incorporated into the budget and Treasury accounts. A second set receives transfers which are explicit in the budget and Treasury but their liabilities are not part of the government. Complete income and expenditure information is provided in the fiscal reports for the majority (more than 90 percent) of all donor-funded projects, with the possible exception of some small projects, mainly reflecting inputs in kind.	B+

Indicator 8: Transparency of inter-governmental fiscal relations *(Scoring Methodology M2)*

41. Fiscal relations between the central Government and LSGs are regulated by the Organic Law on Local Self-Governance of December 2005; the Law on the Budget of Local Self-Governments of January 2007; and audit procedure guidelines prepared by each local council. Since 2007, budget preparation and execution reporting is organized through a well-documented uniform system prepared by the MoF.[41]

42. LSGs are financed from a tax-sharing system. However, but since 2007 an increasing portion of the LSG revenues should come from unconditional and conditional transfers, since the control of land privatization is improving. The main unconditional transfer is now (2007) based on a classic equalization formula[42] which includes specific Georgian coefficients, such as mountainous areas and refugee compensations. Conditional transfers are based on specific agreements/programs or delegated public services to be fully funded or co-funded by the state budget. The distribution of revenue and expenditure competences among the state, autonomous regions, and LSGs is formulated by the Government into the annual budget law and approved by the Parliament. The horizontal allocation (2006) of almost all transfers from central government is determined by a transparent and rules-based system. **[Dimension (i) –B].**

43. With regard to the LSG budgeting cycle,[43] the local governments are required to provide their data for equalization by June 15 and should receive the proposed appropriations for the unconditional transfers from the MoF by September 20. The LSGs are provided (2007) reliable information on allocations before the start of their detailed budgeting process. **[Dimension (ii)—A].**

44. The LSG are providing the MoF with ex ante and ex post information (budget execution reports, by value) within 10 months of the end of the fiscal year. However, because of contradictory auditing regulations[44] and possible lack of accounting capacity, internal controls and auditing capacity at the local levels, the reliability and the quality assurance of the financial statements can be questioned. Fiscal information (ex ante and ex post) that is consistent with central government fiscal reporting is collected for at least for 90 percent (by value) of the LSG

[41] LSG Budget Preparation Guidelines, 2008, Budget Preparation Guidelines, 2007, and LSG Financial Statement Template for quarterly reporting,

[42] Chapter 4, LSG Budget Law.

[43] LSG Budget Law, Article 13, para. 11.

[44] Article 25 of the LSG Budget Law limits the CoC's auditing competences to state transfers; this contradicts Articles 5 and 6 of the law on Chamber of Control (CoC) (29/12/2004) which establishes CoC's unlimited auditing competences on state or local public entities.

revenue and expenditure and consolidated into quarterly and annual reports[45] within 10 months of the end of the year, but are of questionable quality given the limited capacity of the LSGs for budget planning, monitoring and reporting. A large share of this consolidation is represented by the four large municipalities including Tbilisi, which have much better accounting and reporting practices than smaller local governments, where there is a considerable need to improve the technical capacity for budget accounting and reporting. This limits the extent of fiscal consolidation. The data collected, maintained, and reported complies with GFS standards and are of reasonable quality as reviewed at both the municipal and the state levels. With the introduction of GFS 2001, the LSGs have been receiving training so that their reporting complies with the new classification. Thus, the extent of consolidation with the state budget has limitations during the transition. The Georgian authorities are working with the EC to address the capacity constraints in the accounting of LSG finances[46] **[Dimension (iii) –C]**.

Indicator	Brief Explanation	Rating
8. Transparency of Inter-governmental fiscal relations	The inter-governmental fiscal relations are organized. The LSG budget preparation and execution cycle is documented. Although depending on Parliament's approval, information on state transfers does not much delay the final LSG budget preparation. The MoF is provided in due time by LSG with periodical fiscal information (ex ante and ex post) and consolidates them into annual reports. Accounting and Procurement weaknesses have been reported by the CoC, but should be reduced with the systematization of audit guidelines and routine practices.	B

Indicator 9: Oversight of aggregate fiscal risk from other public sector entities *(Scoring Methodology M1)*

45. The Georgian public sector comprises the central Government units, the local self-governments (LSGs), the Legal Entities of Public Law (LEPLs) and the state-owned enterprises (SOEs).[47] The LEPLs are generally subordinated to line ministries and report to sector ministers or in certain cases to the MoF.[48] The SOEs are monitored by the State Enterprise Management Agency (SEMA), which reports to the Minister of Economic Development.[49] The MoF has indicated that the state budget no longer subsidizes the SOEs.

46. There are 1,518 SOEs[50] recorded in the SEMA portfolio. The monitoring of SOEs is mostly dividend-oriented,[51] and SEMA appears to give little consideration to consolidated fiscal risks incurred by the state. SEMA consolidates the SOE year-end financial reports within 18 months, but requires only independent auditing of the 20 major SOE financial statements (2004).

[45] Excel file on 2006 consolidated LSG revenue and expenditure (Source: Budget Department of MoF).
[46] Examples of deficiencies in accounting and public procurement practices are reported in CoC Report No. 19/118-2007 on Dusheti District Board and Resolution 7/2, 2007 on Sighnaghi District Board.
[47] SOEs include utilities.
[48] Law on LEPL 2003, Decree No. 984 by MoF, and Regulations 1, 2 and 3.
[49] Established within Ministry of Economy by Presidential Decree of 11/05/2003, amended 22/06/2006 by Ministry's Order.
[50] Data as of June 2007.
[51] Presidential Decree N° 262 on dividend payments of SOE, June 13, 2003.

47. SEMA provided the team with SOE consolidation statements for 2003 and 2004 that included total liabilities and profits and losses by enterprise, and with SOE consolidated statements of dividends paid in 2004 and 2005.[52] Most major SOEs submit fiscal reports to SEMAs, at least annually. LEPLs submit their financial statements to the line ministries quarterly and annually, some of them directly to the MoF. A number of significant financial statements of the LEPLs are audited by the CoC.[53] Most public enterprises and LEPLs submit fiscal statements at least annually, but the MoF, although it reviews and monitors fiscal risk, does not consolidate fiscal risk associated with the SOEs or other public entities into an annual report, as required by PEFA. **[Dimension (i) – C].**

48. Sub-national governments cannot issue any debt without the authorization of the MoF which once a year defines their borrowing ceilings from the evaluation of the submitted business plan. **[Dimension (ii)—A].**

Indicator	**Brief Explanation**	**Rating**
9. Oversight of aggregate fiscal risk from other public sector entities	Audited annual financial statements are provided by major SOEs to SEMA. The annual consolidation is rather delayed by SEMA without really focusing on the SOE fiscal risk incurred by the state. SOEs are dividend-oriented monitored and not seen as a public service delivery. It is hoped that the current market competition distortion (1518 SOEs) and the state fiscal risks are decreasing along with the privatization program. Aggregating annual fiscal risk of SOE + LEPL is monitored by the MOF, but not consolidated into an annual report. Sub-National Governments can not generate any liabilities without the authorization of the MoF.	C+

Indicator 10: Public Access to key fiscal information
(Scoring Methodology M1)

49. Public access to fiscal information is accessible on various websites maintained by the Georgian authorities, including the MoF,[54] the National Bank,[55] the CoC,[56] the SPA,[57] and the Parliament.[58] The MoF posts fiscal information, Basic Data and Directions (BDD), budget plan, budget execution, and debt on a quarterly basis on its website on a timely basis.

50. According to PEFA guidelines, the elements of information to which public access is essential are as follows:

(i) Annual budget documentation: Complete budget documentation was made available on a timely basis at the website of the MoF for 2005, 2006, and 2007. This documentation is also published as a printed document (first dimension is yes).

[52] SEMA Annual Consolidated SOEs, 2003, and SEMA Report of Dividends Paid, 2004/5.
[53] CoC Report of 2006.
[54] The website of the MoF in English is http://www.mof.ge/?lang=EN. The MoF website in Georgian with all documents sent to Parliament is at http://www.mof.ge/.
[55] The website of the National Bank of Georgia is at http://www.nbg.gov.ge/.
[56] The website of the CoC is at http://www.control.ge/.
[57] The website of the State Procurement Agency is at http://spa.ge/ge/.
[58] The website of the Parliament posting draft laws (as in the case of the budget), approved laws, documents considered and discussed, resolutions, and so on are at http://www.parliament.ge/.

(ii) In-year budget execution reports: Documentation on supplementary budgets was made available at the website of the MoF on a timely basis. The Treasury produces monthly and quarterly reports on budget execution. These are also published as printed documents (second dimension is yes).

(iii) Year-end financial statements: No consolidated financial statements reflecting the overall financial position as well as the financial assets and liabilities of the Government are produced; however, budget execution reports and debt reports prepared are available at the MoF website on a timely basis. These are also published as printed documents (third dimension is no).

(iv) External audit reports: All the audit reports on central government consolidated operation are available at the website of the CoC within six month of completed audit (fourth dimension is yes).

(v) Contract awards: The SPA website posts some information about procurement but contract awards are not posted systematically (fifth dimension is no).

(vi) Resources available to primary service units: Complete budget allocations planned and executed are posted on a quarterly basis at the MoF website and in more detail at the websites of the Ministry of Education, the Ministry of Health, Labor, and Social Policies, Ministry of Justice, and Ministry of Foreign Affairs. Information is also readily available upon request for most primary service units (sixth dimension is yes).

Indicator	**Brief explanation**	**Rating**
10. Public access to key fiscal information	The government makes available 4 of 6 listed types of information.	B

3.3 POLICY-BASED BUDGETING

Indicator 11: Orderliness and participation in the annual budget process *(Scoring Methodology M2)*

51. Budget management has improved significantly over recent years. Budget calendar is clearly defined by the Law on Budget System[59] and has been generally adhered to in the last three years. The Law also clearly defines the institutional responsibility for coordinating the process of budget formulation which starts on March 1 of each year with the preparation of the documents on the BDD. The BDD provides a comprehensive and substantive overview of the macroeconomic framework of the country's social and economic development, covers the main elements of revenue, expenditure, and financing, and presents the status of the current budget, as well as proposals on the budget strategy arising from executive branch policies and priorities.

52. The process ends on the executive side on October 1 of each year with the submission of the draft Annual Budget Law by the Government (in agreement with the President) to the Parliament.

[59] Law of Georgia on Budget System, Chapter II, last amended on December 29, 2006.

The BDD is updated annually under the leadership of the MoF and with the extensive participation of all sectoral ministries as well as the state minister on reform coordination.[60]

53. Key inputs from the ministries are substantive. They are presented in the form of mid-term action plans for their respective sectors, including related budget estimates. The latter, along with fiscal forecasts prepared by the MoF, provide a basis for the Government's deliberations on, and eventual the endorsement of, the annual budget ceilings. During the budget formulation process key decisions (such as the endorsement of the sectoral mid-term action plans and BDD, and the approval of expenditure ceilings for MDAs) are made by the Cabinet. The period between the issuance of the budget circular by the MoF and the submission of budget requests by the MDAs is about eight weeks. **[Dimension (i) —A].**

54. Budget Guidelines are promptly issued by the MoF[61] after the approval of the expenditure ceilings by the Cabinet.[62] Implementation of the guidelines covers a rolling period of four years and provides (i) a general overview of the budget and fiscal situation for the respective period; (ii) reference to the state policy priorities; (iii) staffing and expenditure ceilings for the forthcoming annual budget; and (iv) a record of changes to the budget process. The guidelines also contain standard forms to be filled in by MDAs, methodological instructions for each form, and samples of completed forms. MDAs faced certain challenges while preparing the 2007 budget submissions, as they were not familiar with the new functional classification (GFS 2001). To address this shortcoming, a training program has been launched by the MoF for the staff of about 800 budget organizations (both primary and secondary spending units) on preparing the budget using the GFS 2001 economic classification which is being introduced for the 2008 budget. **[Dimension (ii)—A].**

55. Parliament of Georgia has approved the state budget before the beginning of the fiscal year for each of the last three years[63] **[Dimension (iii)—A].**

Indicator	**Brief Explanation**	**Rating**
11. Orderliness and participation in the annual budget process	A clear budget calendar exists and allows sufficient time for the budget formulation and MTEF process. Budget ceilings are approved prior to budget circular distribution to ministries, departments, and agencies (MDAs). Parliament approves the annual budget before the start of the fiscal year.	A

Indicator 12: Multi year perspective in fiscal planning, expenditure policy and budgeting *(Scoring Methodology M2)*

56. Multi-year fiscal forecasts are prepared annually by the MoF covering the forthcoming fiscal year and the following four years, as well as presenting actual data on the previous three years. These fiscal aggregates are forecasted only on the basis of economic classification. Georgia also has annual budget ceilings, but these are prepared on the basis of functional/organizational classification. According to PEFA methodology, if the forecasts of fiscal aggregates are based only on economic classification, this undermines the value and usefulness of the setting of annual budget ceilings even if budget ceilings exist. At the aggregate level, the annual budget ceiling approved by

[60] Government Resolution No. 2 of January 10, 2007.
[61] MoF letter issuing the guidelines, June 16 2006, June 19, 2007.
[62] Government Resolutions No. 109 of June 10, 2006 and No.113 of June 14, 2007
[63] Laws of Georgia on State Budget for 2005, 2006 and 2007.

the Cabinet for 2007 was within the envelope forecasted in the BDD 2007-2010.[64] However, in the absence of forecasts by functional or sectoral classification, it is difficult to trace the links between the estimates and the eventual ministry spending. There are significant differences between the first year BDD estimates and the respective annual budget ceilings, especially for the largest spending ministries, such as Defense, Economic Development, Energy and Justice. The budget documentation does not provide an explanation of these deviations. **[Dimension (i) —C].**

57. Debt sustainability analysis (DSA) was conducted twice over the last three years. The most recent, which was one undertaken jointly by the IMF and the World Bank in 2006 in consultation with the Government, covers both external and internal debt.[65] Two DSAs were prepared in 2005 by the IMF (under the PRGF) and the Bank, respectively, covering public external debt.[66] **[Dimension (ii)—B].**

58. Sector strategies are presented in the Mid-Term Action Plans (MTAPs) covering four years and updated by line ministries annually. The MTAP format is approved by the Cabinet.[67] MTAPs are submitted to the Cabinet for review and endorsement that takes place no later than March 15 of each year. Approved MTAPs are then incorporated into the BDD. The MTAPs include forecasts of fiscal aggregates on a four-year rolling basis which over the period of review has been consistent with the budget. the aggregate cost of sector strategies as reflected in the BDD 2007-2010 (including both recurrent and investment expenditures) represents about 54 percent of total 2007 expenditures, but these are not fully costed sector strategies and at times they are not consistent with the aggregate fiscal forecasts. The quality of the sector analysis underpinning the policy initiatives as presented in the strategies varies among the ministries, but generally remains weak. Not all MTAPs appear to adhere to the approved format. The cost estimates by line ministries[68] in some cases are not aligned with aggregate fiscal forecasts and therefore are eventually adjusted by the MoF for the BDD and annual budget formulation. **[Dimension (iii)—C].**

59. The Public investment program accounts for about 12 percent of the total 2007 budget. With few exceptions, links between the sector strategies and investment decisions are not apparent. The recurrent cost implications of proposed sector strategies are explicitly presented for some but not all spending units. However, four-year costing for each program indicating recurrent and investment costs were prepared by three pilot ministries in the first MTEF covering 2006-2009. These linkages between sector strategies and recurrent cost implications were expanded to 5 more ministries for the 2007-2010 MTEF. These efforts are being continued to improve the content of the weaker sector strategies. **[Dimension (iv)—C].**

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[64] GoG Basic Data and Directions for 2007-2010, Tbilisi, 2006 as posted on www.mof.ge.
[65] IMF Country Report 06/395, October, 2006; PRSO II PAD, September, 2006
[66] IMF Country Report 01/15; World Bank CPS, September, 2005.
[67] Government Resolutions No. 19 of January 26, 2006 and No. 2 of January 10, 2007.
[68] MTAPs for 2007-2010 by MoF, MoE, MoES, MoLHSP, MoENRP, MoFA, MoJ, MoC.

Indicator	Brief Explanation	Rating
12. Multi year perspective in fiscal planning, expenditure policy and budgeting	Fiscal aggregates are forecasted on the basis of economic classification only. Annual budget ceilings, on the other hand, are based on functional classification. As such, it is difficult to trace the link between the two. DSA was undertaken twice in the last three years for both external and domestic debt. Sector strategy statements exist for most sectors, representing 54 percent primary expenditures, however, they are not fully costed and the links between investment decisions and sector strategies as well as respective recurrent cost implications remain weak.	C+

3.4 PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

Indicator 13: Transparency of taxpayer obligations and liabilities
(Scoring Methodology M2)

60. The Tax Code[69] and the Customs Code[70] in place since 2005 and 2007, respectively, provide the legal basis for all taxes. Tax legislations and procedures are relatively clear, but ambiguities, although largely reduced, lead to discretionary powers. Currently, the Revenue Service (RS), a new unit created by merging the Tax Department, Customs Department and Financial Police has, among its priorities, the obligation to provide timely information and quality services to taxpayers on their rights and liabilities, and on legislative changes, and also to provide instructions on methodology and compliance procedures, through mass media and on its official website. Nevertheless, there are taxpayers who complain that while they follow these published instructions they often find that these instructions are not applied by tax officials, especially if the matter is taken up by the Financial Police (now the Investigation Department of the RS). To solve this problem, Parliament is issuing an amendment authorizing the MoF to issue ministerial decrees which will limit the discretionary powers of tax officials.[71] **[Dimension (i) – C].**

61. Taxpayers have access to some information. The EC TACIS project "Support to the Tax Administration" is helping the RS to develop booklets and pamphlets and to put information material on the website. While the good work has started, at present the scope of this information is limited. Over time it is expected that this service will be extended to cover most taxes and will become sustainable, with information being issued regularly and updated periodically.

62. With the support of the EC TACIS project, the RS is launching an Information Telephone Center to facilitate access to information on taxes and customs legislation, and on procedures for the taxpayers, and to provide answers to the most frequently asked questions. Different information booklets (9 types) are provided through tax and customs inspections and banks. Another four booklets are being prepared and another 12 types of booklets will be provided to taxpayers until the end of the year.

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[69] A new simplified Tax Code has been in effect since January 2005, reducing the number of taxes from 21 to 7, lowering rates, and abolishing exemptions. Several additional amendments were approved in April 2006, further simplifying procedures and reducing tax burdens on individuals and enterprises.

[70] A new Customs Code has been in effect since January 2007, abolishing tariffs on almost 90 percent of imports.

[71] Draft amendment to the Tax Code by Parliament authorizing the MoF to issue instructions.

63. Since January 2007, Tax and Customs Inspections have "Open Door Days" on a monthly basis. These are informal meetings with taxpayers with question and answer sessions.

64. The RS has already developed a new website through which taxpayers can receive information about tax and customs legislation changes, new procedures, and reporting forms and formats, and there is a taxpayer calendar reflecting all the important days to remind taxpayers about their liabilities.[72] The RS actively disseminates information on taxes and customs through the printed media and television programs. **[Dimension (ii) – B].**

65. A tax appeals system exists in Part VIII of the Tax Code. This involves the MoF's appeal system, dispute resolution through the RS, and dispute resolution through the court system. While an appeal system exists within the MoF, there is no tax-specific appeals and arbitration mechanism in line with modern international practices. There are weaknesses in the current mechanism which the MoF has begun to address in order to provide a reliable and credible appeal mechanism with independence from the MoF, improved transparency, and increased fairness[73] With the focus on higher revenue collection, there has been reluctance on part of the authorities in the RS or MoF to compromise with taxpayers in making decisions that result in reduced revenue. As such, there are high numbers of appeal cases in the process and for a long period of time, of which many are unnecessary appeals, often due to lack of clarity in the Tax Code, mistakes in liabilities, or lack of legal guidance on interpretation of liabilities. Lack of an arbitration mechanism for exercising a resolution of disputes before reaching the court exacerbates the high volume of dispute cases, often causing backlogs in the system. A backlog of 900 cases was pending for over a long period of time which the RS has made an enormous effort to clear. As of June 3, 2007, more than half of the cases (428 cases) had their hearings.

66. Taxpayers often use the court system because the internal appeals system within the tax structure is not perceived as fair, independent or transparent. RS rules and procedures for dispute resolutions are underdeveloped and non-transparent, decisions are perceived as adhoc, there are difficulties in executing decisions, and there exist no feed back mechanisms on monitoring and assessment of the appeal process to the RS or MoF management.[74] The available data suggest that a large number of cases have in practice been decided in favor of the RS. During 2005 and up to mid-2007, about 25 percent of appeals in the RS or the MoF were decided in favor of taxpayers. The appeal council of the RS[75] consists of the Chairman and three Deputy Chairmen of the RS, the Chairman of the Legal Department, and several divisions of the RS, including the Head of the Customs Division. Likewise, the appeal council of the MoF[76] is chaired by the Finance Minister and has as members several Deputy Ministers of Finance, the Deputy Minister of Justice and the Head of the Legal Department of the MoF. Both the RS and the MoF appeal system[77] have appeal structures that, in terms of organizational structure and appointments, are not independent from the units and officials of the MoF, and require substantial redesign in order to be perceived as fair, transparent and effective. By international standards, in addition to the appeal mechanism within the MoF, a tax specific appeal and arbitration mechanism should be constituted outside of the

[72] EU Six Monthly Progress Report.
[73] MoF presentation, "Improving the Tax and Customs Dispute Resolution System", May 21, 2007.
[74] These reflect weaknesses identified by MoF in its presentation,,"Improving the Tax and Customs Dispute Resolution System", May 21, 2007.
[75] RS decree on the appointment of The RS Dispute Resolution Council.
[76] Government decree on the appointment of the MoF Dispute Resolution Council.
[77] Government Resolution No.65, March 28, 2007, Tbilisi, on Approving Regulation and Rules for Functioning for the Council for Dispute Resolution of the MoF of Georgia.

authority of the MoF, and its decisions should be recorded, published, and acted upon. **[Dimension (iii) – C].**

Indicator	Brief Explanation	Rating
13. Transparency of taxpayer obligations and liabilities	Tax and customs legislation and procedures are relatively clear but ambiguities, although largely reduced, lead to discretionary powers. Taxpayers have access to some information and booklets which have started being published. Much of the information is available on the RS website. While an appeal system exists within the MoF, there is no tax-specific appeals and arbitration mechanism in line with modern international practices. There are weaknesses in the current mechanism which the MoF has begun to address in order to provide a reliable and credible appeal mechanism with independence from the MoF, improved transparency, and increased fairness. There are backlogs in appeals but the Parliament and the RS have been serious about addressing these issues.	C +

Indicator 14: Effectiveness of measures for taxpayer registration and tax assessment
(Scoring Methodology M2)

67. Significant improvement has been achieved in business registration which formerly took 19 days, but is now carried out by the RS in a single day. The procedure is simple and good.[78] There exists a relatively complete tax and customs database where individuals and businesses are registered and assigned a tax ID. There are direct linkages between the tax and customs database and some relevant government registration systems, but these direct linkages are not sufficiently comprehensive regarding all of the relevant agencies and registration systems that can more fully capture taxable output/turnover and assets (e.g. acquiring business licenses, opening bank accounts, and pension fund accounts, etc.). **[Dimension (i) – B].**

68. Penalties for noncompliance exist for most relevant areas. The rates of penalties are adequate to serve as a deterrent and seem to be effective in reducing non-filing.[79] There are amendments that permit the restructuring of unpaid taxes above certain levels to encourage compliance. Investigations start within 45 days of noncompliance above certain levels, and the penalties continue to occur even during appeal times. **[Dimension (ii) – A].**

69. The RS has an Audit Department which develops a continuous program of tax audits for the territorial units. Fraud investigations are conducted directly by the Investigations Department (formerly the Financial Police). Audit selection programs based on risk assessment criteria are being developed with technical assistance from USAID for customs and from EC TACIS project for taxes. The software for risk-based audit selection is under development. It is expected that such audits will be available in the near future. **[Dimension (iii) – C].**

Indicator	Brief Explanation	Rating
14. Effectiveness of measures for taxpayer registration and tax assessment	Taxpayer registration procedures are simple and quick. There exists a relatively complete tax and customs database with some direct linkages to other agencies. Penalties are adequate and act as a deterrent. Audit selection is based on a continuous program, but risk assessment criteria are still in the process of being implemented.	B

[78] EU Six Monthly Progress Report.
[79] Information based on interview with the Head of RS, MoF.

Indicator 15: Effectiveness in collection of tax payments
(Scoring Methodology M1)

70. In the early years of independence, Georgia had one of the lowest tax collections in transition countries, with tax revenue amounting to only 4 percent of GDP. By 2003, although collection had risen to 9 percent of GDP, Georgia was still among the lowest countries. Reforms in tax policy and administration in place over the last four years, together with a significant reduction in corruption, resulted in an increase in tax collection to 19 percent of GDP in 2006, an increase of over 43 percent in tax receipts in 2006 alone. Today, collection is around 21 percent of GDP.

71. Against the backdrop of this remarkable progress in tax collection there has been no increase in tax arrears in recent years. However, there is an accumulation of tax arrears from the past remaining on the books which do not appear to be collectible and the Government is in the process of verifying these amounts and identifying the liable parties, if any.[80] Once the old uncollectible arrears are removed, the total amount of remaining arrears is believed to be insignificant. Based on the current data, which include the uncollectible arrears as well as a significant part as penalty, the debt collection ratio (the percentage of tax arrears at the beginning of the year, collected during the year was 16 percent in 2006 and 17 percent (projected) in 2007.[81] **[Dimension (i) – D].**

72. Analyses of the arrears[82] show that on January 1, 2006, there was an amount of GEL 3,124 million in tax arrears (principal amount – GEL 1,140 million, sanction – GEL 134 million, fine - GEL 1,850 million). Payment made during the year was GEL 495 million, or 16 percent of total arrears. On January 1, 2007, arrears equal to GEL 3,431 million (principal amount – GEL 1,190 million, sanction – GEL 173 million, fine - GEL 2,068 million). By June 1, 2007, GEL 241 million was collected, which, if annualized, will amount to approximately GEL 582 million, or 17 percent of total arrears. It is important to note that 63 percent of total liabilities are fines.

73. During the year 2006, the number of late taxpayers increased by 17,415 (resulting from the organizing of the tracking system), while tax arrears increased by GEL 307.2 million.

74. In comparison with January 1, 2007, by June 1, 2007, the arrears had increased by GEL 13.2 million in total. While the principal amount showed a reduction of GEL 56.5 million (a 2 percent reduction of old liabilities) and sanctions of GEL 21.0 million (a 1 percent reduction), fines increased by GEL 90.8 million (a 3.5 percent increase).

75. The RS has implemented actions for collecting tax liabilities by issuing notifications of hypothecation, attaching the assets and auctions. Auctions held during 2007 resulted in revenues of GEL 16 million. The writing off of arrears is hindered by significant problems with the identification of the realistic activities of taxpayers, weaknesses in legislation and the absence of a centralized database of assets. Appropriate amendments to the existing legislation are planned to enable non-recoverable arrears to written off.

76. All tax revenues are transferred to the Treasury daily on a real time basis. **[Dimension (ii) – A].**

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[80] Some of these arrears appear to belong to enterprises which are no longer in operation.
[81] Data on tax arrears provided by the RS, MoF.
[82] Note of the Chairman, RS on Tax Arrears.

77. Complete reconciliations of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly. **[Dimension (iii) – A].**

78. To ensure the full tracking of tax liabilities, an electronic personal card has been created within a special computer program for each tax. The data on registered taxpayers are accumulated within the unified computer program of the RS.

79. Any changes in tax liabilities as a result of assessment, collection or refund are reflected on the personal card of the taxpayer online, after these changes have been included in the system. In addition, at the end of each year the program automatically calculates the remainder or extra amount on the personal cards of the taxpayers. At the same time, the software ensures the automatic calculation and application of the fine amount in case of arrears.

Indicator	**Brief Explanation**	**Rating**
15. Effectiveness in collection of tax payments	The average debt collection ratio for the last two fiscal years was 16.5 percent. Transfer of revenues to the Treasury is made daily on a real time basis. Reconciliations of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly.	D+

Indicator 16: Predictability in the availability of funds for the commitment of expenditure *(Scoring methodology M1)*

80. The government has introduced regulations for preparing and approving financial plans, and the Treasury has introduced cash planning procedures. This is supported by MoF Order No. 1307 of 2005.[83] A cash plan for the year is prepared based on the approved budget. This is split into four quarters after discussion with the spending units and these form the basis for the quarterly allocations of expenditure by the Treasury. Spending units submit monthly returns showing the amount of payments made and commitments entered into for the following month. This forms the basis for updating the cash plan. **[Dimension (i)—A**].

81. The MDAs receive reliable information on a quarterly basis. In the event of a shortage, it is a requirement to provide spending departments with indications of their revised weekly limits for expenditure for the following month. The limits would be imposed through a refusal to approve these commitments. **[Dimension (ii) —B].**

82. Budget supplements are prepared and submitted to Parliament several times during the year. When approved, the cash plan is updated and spending units are advised of the updating. Recent changes have been driven by the need to allocate additional revenue resources, and spending units have reported that cash availability has not been a problem for the last couple of years. **[Dimension (iii)—A].**

[83] MoF Decree No. 1307, 2005, on cash planning and management.

Indicator	Brief Explanation	Rating
16. Predictability in the availability of funds for the commitment of expenditure	The government is implementing cash planning procedures. Cash flows are well forecasted and monitored. Adjustments to the budget are made several times during the year and in line with cash plans and availability. However, management of budget ceiling commitments relies on the ability of the Treasury to refuse approval of these commitments.	B+

Indicator 17: Recording and management of cash balances, debt and guarantees *(Scoring Methodology M2)*

83. Debt management is currently centralized by the MoF and is strictly regulated.[84] LSGs may borrow only from the central government or with the permission of the MoF. The stock of domestic and external debt can be found on the Department of Statistics website. Domestic debt consists of Treasury bill issues, loans from the National Bank of Georgia (NBG) and historical debt.[85] The annual report of the NBG provides information on all Treasury bill auctions to date and on monthly loans of the NBG to the Government in the past year. According to the MoF's Domestic Debt Division, the medium term strategy of Georgia is to gradually replace the NBG debt with government securities.[86] On March 20, 2006, the NBG signed an agreement with the government detailing the securitization of the Government's debt to the NBG. The Government debt to the NBG, totaling GEL 832.8 million, will gradually be converted into marketable government securities.

84. Georgia's external public and publicly guaranteed (PPG) debt burden has fallen from more than 80 percent of GDP to less than 22 percent over the last decade. Over the same period, the composition of Georgia's external PPG debt by creditor changed markedly. Whereas bilateral debt comprised over 80 percent of total external debt 10 years ago, this share dropped to less than 40 percent by end-2005. By contrast, the share of multilateral creditors increased from under 5 percent in 1994 to more than 60 percent. This change in creditor composition has resulted in a significant increase in the degree of concessionality. The grant element in 2005 was higher than 30 percent.

85. The external debt is managed by the International Relations Department of the MoF, in connection with the Treasury. The cumulative debt position is reconciled monthly between the two departments.[87] Foreign debt records are complete and are updated and reconciled on a monthly basis with data considered to be of a fairly high standard. Domestic debt records are updated but are not reconciled on a monthly basis. In the absence of a Treasury account in the past, and owing to historical recording weaknesses, domestic debt records are considered fair but some gaps remain in terms of information at the disaggregated level, and there is also a need for more frequent (monthly) reconciliation of records. **[Dimension (i)—B].**

[84] Chapter 4, Budget System Law: "Government Borrowing and Debt," and Law on Public Debt No. 1429/1998, amended in 2004, 2005 and 2006.

[85] Domestic Debt Statements, January 2007.

[86] Table A.6 of Annex 3.

[87] External Debt Reconciliation Statements.

86. Georgia applies the TSA procedures. According to cash management regulation,[88] line ministries prepare their monthly cash requirements which are captured in the Treasury database. The Treasury edits daily cash balances and a consolidated monthly report (ex ante and ex post) on the execution of the cash plan. All cash balances are calculated daily and consolidated monthly. **[Dimension (ii)—A].**

87. Central Government borrowing and guarantying are strictly regulated by Articles 2 and 3 of the Law on Public Debt and defined each year within the annual Budget Law (Attachment on main economic and financial indicators) as part of the MTEF and budget roll-out model.[89] The MoF is the single authorizing entity. The central government's contracting of loans and issuance of guarantees are carried out against transparent criteria and fiscal targets and are always approved by the MoF and promulgated by the Parliament. **[Dimension (iii)—A].**

Indicator	**Brief Explanation**	**Rating**
17. Recording and management of cash balances, debt and guarantees	Debt and cash management are operated under generally accepted international practices. In the absence of a Treasury account in the past and historical recording weaknesses, some information gaps remain on historical disaggregated domestic debt. There is also need for a more frequent (monthly) reconciliation of domestic debt reports.	A

Indicator 18: Effectiveness of payroll controls *(Scoring Methodology M1)*

88. The team could not obtain the information/documentation needed to assess and rate this indicator in a reasonable amount of time.

89. The payroll system is decentralized to the spending units. Each spending unit has its own staffing list and salary scale on the basis of which they request Treasury wage bill payments, following the quarterly appropriation schedules. The only limitation imposed on line ministries is the salary scale range between the maximum and the minimum levels.[90] However, there is no unified payroll information system that is linked and reconciled regularly with personnel records with which to monitor and report on payroll and civil servants in the government.

90. Thus, it is not possible to carry out an overall assessment of the quality of the reconciliation, the consistency of the data, the timeliness of data changes and the quality of management and record keeping across the whole of government. However, discussions with the Ministries of Health and Education provided evidence of a reasonable level of compliance with the first three dimensions. **[Dimension (i) – insufficient data to score; Dimension (ii) – insufficient data to score; Dimension (iii) - insufficient evidence to score].**

91. For payroll audits the impression was not so favorable. The absence of internal audit services in government places the burden for performing this task on the Inspectors General and the CoC and neither is well suited to this specialist task. Indeed, the Ministry of Education indicated

[88] MoF Cash Management Order N° 1307 of December 29,2005.
[89] Treasury Cash Execution Statement.
[90] EC Public Finance Assessment Report, 2005.

that they did not see this as a function to be performed by the Inspector General and had commissioned a private audit firm to undertake an audit prior to the formal external audit. Nonetheless, sufficient information was not available to allow a conclusion to be reached as far as the rest of the government was concerned. **[Dimension (iv) – insufficient evidence to score].**

Indicator	**Brief Explanation**	**Rating**
18. Effectiveness of payroll controls	The process is decentralized and personnel and payroll functions are carried out by the accounting and human resources departments of the spending units. This has allowed adjustments to the composition of staff and salary levels within the approved annual ceilings which results in lack of effective control. Unable to score owing to lack of overall information.	Could Not Score

Indicator 19: Competition, value for money and controls in procurement [91] *(Scoring Methodology M2)*

92. A new Law on State Procurement was approved on April 20, 2005, and became effective on January 1, 2006. The number of procurement entities was reduced, and amendments to the Administrative Violations Code made procurement fraud punishable. In addition, the SPA launched its website making procurement information available to the public. Several amendments have been enacted over the last year and a half, including amendments introducing provisions for retroactive financing and the inclusion of SOEs. While public procurement is integrated with budget planning and execution, Georgia faces important challenges, as listed below, if it is to upgrade its current procurement practices in line with international practices.[92]

(i) The nationally established threshold for small purchases is GEL 120,000 for works and GEL 50,000 for goods and services. Above these thresholds an open competition should be used. Unfortunately, unlike many other decentralized procurement systems, the procurement framework in Georgia is not supported by a monitoring and reporting system. As a result, reports on the amount of procurement and the number of contracts awarded by open competition and other methods are not readily available. Partial information at the SPA indicates that open competition is limited. **[Dimension (i) – D]**.

(ii) The Law on State Procurement, Article 10.1, states that "unless otherwise provided by present article, procurement shall be implemented through a tender." And State Procurement Article 10.3 states that procurement can be implemented through a single source if " ...(c) There is an urgent need for procurement." However, there is over-reliance on single source provisions as a force majeure and it is estimated that more than 50 percent[93] of all signed contracts are single sourced. While each single

[91] This section relies on World Bank missions in January - February 2007, and June 2007, and on the preliminary findings of World Bank *Georgia: Country Procurement Assessment (based on OECD-DAC/World Bank Indicators)*, forthcoming in 2008. Further details on procurement reform from 1999 to 2002 are in *Georgia: Country Procurement Assessment Report*, June 2002, Report No. 26660-GE of the World Bank.
[92] Based on recommendations as reported in *Georgia: Country Procurement Assessment (based on OECD-DAC/World Bank Indicators)*, forthcoming 2008.
[93] For further details on the estimation methodology see *Georgia: Country Procurement Assessment (based on OECD-DAC/World Bank Indicators)*, forthcoming 2008.

source contract should be approved by the SPA, the agency is not equipped to monitor and report basic statistics on an approved number of single source contracts. The MoF estimated procurement for 2006 was GEL 1,497,673,000 (Table A of CPA). The SPA counted value of conducted tenders in 2006 was GEL 181,467,394.911 (Annex K of CPA). The ratio of contracts procured through tenders is 12 percent. The remaining 88 percent of the total value allocated for procurement is conducted not through tenders, but through other less competitive methods such as Request for Quotations, and Single Source. **[Dimension (ii) – C].**

(iii) Article 23 of the Law on State Procurement provides for the review of complaints. However, the Law (and Article 23 in particular) does not provide a hierarchy for complaints review (for example, first by the procuring entity, then by a protest review body, and then by an appeals review body). Currently, since there is no hierarchy, complaints can be submitted to a procuring entity, or to the SPA or to the court. In addition, the procurement method used should also be a subject of complaint, whereas Sub-article 9 (a) excludes it from issues on which a bidder may complain. **[Dimension (iii) –C].**

Indicator	Brief Explanation	Rating
19. Competition, value for money and controls in procurement	While the legislative framework is partially aligned with international practices, weaknesses remain in several areas. Current procurement practices show weaknesses in over-reliance on single source, and the complaint mechanism is poorly designed and operated.	D+

Indicator 20: Effectiveness of internal controls for non-salary expenditure *(Scoring Method M1)*

93. The existing internal control systems and procedures do not adequately help the public finance management system in Georgia to accomplish its objectives of systematically evaluating and improving the effectiveness of the control and governance processes.

94. In 2005, the Government introduced new commitment control procedures.[94] However, in concept they are not consistent with modern internal control systems[95] and international standards for a market economy which require control mechanisms to ensure that government's payment obligations are within the projected cash availability. The existing control procedures in Georgia are in general effective and provide for commitments to be registered and submitted to the Treasury for registration before contracts become valid and payment requests are submitted to the Treasury for action. This in theory gives the Treasury the capacity to refuse registration and stop expenditures from being committed. In practice, however, owing to cash availability, compliance with this procedure has not been adhered to, and frequently the registration of commitments and the validation of the contracts have been running in parallel.[96] While the law clearly states that the commitment must be registered before the contract is signed and before payments can be made, there is no other indication to the supplier that this is the case. **[Dimension (i) –C].**

[94] MoF Decree 571, August 31, 2004.

[95] The main components of a well functioning internal control system are identification of risk (which covers any form of misuse of resources) and failure in executing, accounting and reporting budgetary resources in line with the set principles of quality, reliability, and timeliness.

[96] Based on information from interviews with the Treasury staff.

95. In respect of other internal controls, there are no clear legal requirements for line ministries to maintain an effective internal control framework, although the current government, in response to the corrupt nature of the system it inherited, has introduced and successfully implemented some basic internal control rules and procedures for processing and recording transactions. Although these are not modern control mechanisms, they have been effective. In particular, the establishment of the TSA has enabled the Treasury to exercise much greater control over an increased proportion of the Government's financial transactions. In addition, greater emphasis has been placed on the work of the various inspector generals, whose role has not been clearly defined in line with international practices. One particular area of concern is the weakness of the controls in the Treasury information system, and in particular: the lack of a security policy; inadequate password control; poor system documentation; and sub-standard disaster recovery provisions. As part of the efforts to improve control, a double signature requirement has been introduced into the Treasury security control for payment. Recent diagnostics[97] agree that considerable work on the internal control system is needed to bring it up to a level compatible with international best practices, particularly in the identification and implementation of appropriate standards to be applied and enforced throughout the government. Among such standard practices, are those drawn on the principles laid in the EU's Public Internal Financial Control system with solid financial control framework. The establishment of an appropriate legislative foundation is, of course, necessary to support implementation of such a system. **[Dimension (ii) – C]**.

96. Accounting systems can be said to serve the control, management and planning purposes of public finance administration. Therefore the availability therefore of budgetary information in the accounting system makes it possible to track actual expenditures in relation to budgeted expenditures, which is a prerequisite for control. The Budget System Law requires that the Treasury should maintain a complete record for all items of budget classification. All cash transactions are executed through the TSA and verified through reports that the Treasury produces each month before the twentieth of the following month showing all the receipts and payments of the state budget.

97. The MoF, in its effort to establish compliance with the Treasury's unified accounting and budgeting classification system, has issued instructions on the accounting of budget organizations and legal persons of public law.[98] According to those instructions, the Treasury's financial reporting is based on a cash flow statement, including budget execution reports prepared in accordance with the mandatory elements of IPSASs (or parts there of where the instructions on accounting consist of a comprehensive set of rules that are sufficiently understood by the personnel responsible for their application).

98. The CoC's findings on the recently conducted audit to the Treasury[99] do not contain cases where rules have failed to detect and prevent instances of misuse of budget funds or illegal use of funds and waste. Compliance with rules for processing and recording in a majority of transactions has further improved following the introduction of the new accounting system. **[Dimension (iii) – B]**.

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[97] CFAA; the EC Public Finance Assessment Report, and Macro Financial Assistance Operational Assessment.
[98] MoF Decree 1278, 27th Dec. 2005.
[99] CoC Act No 41/47 March 2nd, 2007.

Indicator	Brief Explanation	Rating
20. Effectiveness of internal controls for non-salary expenditure	Expenditure commitment controls exist, and while they are reasonably effective, could be improved. There are basic internal control procedures and compliance with rules is high. However, there are significant weaknesses in the current framework for internal control.	C+

Indicator 21: Effectiveness of internal audit
(Scoring Method M1)

99. A prerequisite of the internal control system is regular and sufficient feedback to management through an independent internal audit function that is appropriately structured, that employs generally accepted standards and that reports on significant systemic issues.

100. There are no laws or regulations that define the coherent principles, systems and function of internal controls, including internal audit in Georgia. Internal controls are poorly formulated with limited compliance and oversight.[100] A draft Law on State Financial Control suggesting the establishment of a financial control regime that conforms to EU PIFC standards has been withdrawn.[101] A reference is made in Article 44 of the Budget System Law according to which the internal audit would be established in the spending agencies (line ministries and regional authorities) would follow a methodology based on international standards and approved by the MoF and the CoC.[102] To date, such methodology has not been produced.

101. Current Georgian control practice, called "complex revision," is exercised on public entities of Georgia. Inspector general offices or inspectorate departments established in certain ministries (including MoF, Ministry of Justice, Ministry of Education, and Ministry of Internal Affairs) are responsible for conducting inspections within the structure of the corresponding ministry.[103] In addition, the Ministry of Labor, Health and Social Affairs has hired private auditors under contract to perform its internal audits.[104]

102. The review of the relevant charters and the reported methodologies applied revealed significant differences between the inspection/audit functions of the said inspector offices and the internal audit function as this is defined by the Institute of Internal Auditors. Inspections do not usually adhere to a fixed schedule or a yearly workplan and do not include audits on systemic issues.[105]

103. The control and inspection methodology followed is irrelevant with respect to regular reporting on the performance of the internal control systems in compliance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA). In particular, the inspector general offices or inspection department Offices are in most cases engaged in fraud investigations

[100] Publif Finance Management Review Strategic Vision, MoF Sept 2005, p. 7.
[101] Interview with the Deputy Minister of Finance during the CFAA recommendation status update.
[102] The Law of Georgia on the Budget System as amended on December 29, 2006.
[103] Charters of the Inspectorate General of the MoF, Ministry of Justice, and Ministry of Education.
[104] Three year contract between the Ministry and GAR Consulting.
[105] Work plans of the Ministries of Education, Finance, and Justice.

initiated by the minister, into criminal accusations, and/or claims/complaints about infringements of the legality or regularity of certain operations.[106] Reported isolated cases (less than 10 percent of staff time) on compliance audits[107] do not change the overall image of the exercised function.

104. The yearly work plans issued by the inspector general offices include a very small number of scheduled inspections out of the total number of inspections that actually take place throughout the year. Most of the inspections, therefore, therefore do not adhere to a fixed schedule of regular audits and assessments of the established internal controls and are mostly related to fraud investigations. No control or audit is conducted on systemic issues. **[Dimension (i) —D].**

105. Inspectorate general reports are issued, for the majority of governmental entities, though not on a regular basis. With the exception of a provision in the charters of the inspector general offices of the MoF and the Ministry of Education to communicate the audit findings to the audited entities, there is no official provision for the distribution of the reports. Therefore, as a rule, the reports are not distributed to the MoF and the CoC. **[Dimension (ii) —C].**

106. In those ministries where inspector general are established (including the MoF, MoE, MIA, and Ministry of Justice, each ministry and department has its own operational guidelines. However, the management response to internal audit findings is often subject to the minister's decision.[108] **[Dimension (iii) —C].**

Indicator	**Brief Explanation**	**Rating**
21. Effectiveness of internal audit	Internal audit systems and procedures that are in accordance with international standards are not established (nor supported by any legal framework) for checking that the systems of internal control are countering the perceived risk, and are evaluating and improving the effectiveness of risk management, control, and governance processes.	D+

3.5 ACCOUNTING, RECORDING, AND REPORTING

Indicator 22: Timeliness and regularity of accounts reconciliation
(Scoring Methodology M2)

107. Treasury Service operates a TSA and the balances on this account and a small number of technical accounts used by the Treasury are reconciled daily. At the end of the month a formal letter is documented between the NBG and the Treasury on these balances. LEPLs which are fully the responsibility of the Government are also consolidated. While the internal frequency of reconciliation is obviously unknown, the fact that this process has been carried out can be seen in their quarterly returns to their respective ministries, which include details of bank balances. **[Dimension (i) –A].**

[106] Interview with the Inspector General of the Ministry of Justice.
[107] Interview with the Inspector General of the MoF.
[108] Evidence to establish said assurances was obtained from the Ministry of Education.

108. The reconciliation of suspense accounts in the Treasury is carried out on a monthly basis and only those balances which can be justified are carried forward. The quarterly return process in respect of LEPLs points to this work as being carried out at least quarterly. **[Dimension (ii) — A]**

Indicator	Brief Explanation	Rating
22. Timeliness and regularity of accounts reconciliation	All below the line accounts of the Treasury are reconciled regularly. While there may be some delay in the reconciliation process in the bank accounts of LEPLs which are part of the government, this is checked quarterly through the reporting process.	A

Indicator 23: Availability of information on resources received by service delivery units (*Scoring Methodology M1)*

109. There is no systematic information available on the resources received by service delivery units. Service delivery units should compile and report at least annually information on resources received in cash or kind. Reporting should be carried out either through the accounting system or by routine data collection. The Ministries of Health and Education fund their service units in completely different ways, and accounting and reporting are similarly diverse. In the case of education, for example, schools , are categorized as LEPLs and are funded by transfers from the Ministry of Education (MoE) channeled through the Treasury Service and deposited into commercial bank accounts run by those schools. In common with other similar LEPLs, quarterly reporting on the use of these funds is mandated and this is carried out on a reasonably regular basis. However, there are two sources of aggregation for about 2,500 public schools involved; all schools report individually to their respective Resource Center (25 Centers) where the reports are aggregated; these are, in turn, forwarded to the MoE for further aggregation for internal use. For the purpose of accounting for this transfer, the schools are expected to follow the guidelines issued by the MoF[109] to all LEPLs. In addition, the MoE has issued a manual for schools on financial the management of public schools which inter alia, includes a chapter on accounting and reporting.[110] While there is some provision for the reporting of non-budget revenues, such as revenues from parents or donors, and for receipts of aid in kind, this is not done systematically.

110. In the case of healthcare, expenditure in hospitals and health centers is funded through invoices sent to the State United Social Insurance Fund (SUSIF), an LEPL, for the treatment of patients. The SUSIF pays these invoices through the TSA and therefore aggregate payments per unit can be obtained reasonably easily. However, disaggregation of these payments would be a daunting task and no record is available of donor aid or other aid received either in cash or in kind.

Indicator	Brief Explanation	Rating
23. Availability of information on resources received by service delivery units	No comprehensive data collection has been undertaken in the last three years. There are weaknesses in the capacity of the accounting systems to report financial resources transferred accurately and no comprehensive record of aid in kind is available.	D

[109] MoF Decree No. 984 of January 1, 2007.
[110] Manual on Financial Management of Public Schools, Ministry of Education and Science, 2007.

Indicator 24: Quality and timeliness of in-year budget reports
(Scoring Methodology M1)

111. The Treasury produces monthly and quarterly reports on budget execution on the basis of the accounting system of the TSA. The TSA provides full financial information on the public finances of the state budget in real time, including all commitments, expenditures, revenues, etc. The reports are designed and used for reconciliation, authorization and cash control purposes rather than as a management control and decision-making tool. While quarterly reports provide detailed comparison at a reasonably disaggregated level with the budget authorized to date (which includes supplementary provisions and virements), reconciliation with the original budget is not transparent and is only possible with some difficulty, as the same level of disaggregation is not always available in the originally approved budget. Details of cash expenditures and commitments to the extent of bills received and approved as well as all transfers paid to LEPLs are included. Regarding the LEPLs whose liabilities are not part of the Government, including schools, the Government does not have a breakdown of their expenditures (wages and salaries, capital investments, maintenance, etc.), or of any revenues received by them from other sources, that would allow the reconciliation of accounts and reporting for the general government. **[Dimension (i) – B].**

112. The Treasury in-year budget reports on budget execution are produced monthly and quarterly on a timely basis and generally within two weeks of the month end. **[Dimension (ii) – A].**

113. The Treasury has the exclusive role of assuring the transparency and accountability of all state financial transactions by maintaining all cash resources in the TSA and administering all receipts and payments of the state funds according to specified rules and procedures of accounting and reporting. Therefore, there are no material concerns regarding data accuracy.[111] **[Dimension (iii)–A]**

Indicator	Brief Explanation	Rating
24. Quality and timeliness of in-year budget reports	In-year reports on budget execution are generated on a regular and timely basis. However, the reports do not include a breakdown of the expenditures and revenues of LEPLs whose liabilities are not part of the government. There are no material concerns regarding data accuracy.	B+

Indicator 25: Quality and timeliness of annual financial statements
(Scoring Methodology M1)

114. No consolidated financial statements reflecting the overall financial position as well as the financial assets and liabilities of the Government are produced. **[Dimension (i) – D].**

115. According to the Budget System Law, the MoF prepares an annual report of the final budget execution based on the final accounts submitted by each spending agency. The report contains detailed information on the budget execution comparing cash received and spent through the TSA according to the economic, functional and organizational classification of revenues and expenditures consistent with the classification of the originally approved budget and of revenues and expenditures authorized by Parliament through supplementary budgets or by the MoF through

[111] Report: Observance of Standards and Codes (ROSC) of Fiscal Transparency, Para. 21

virements over the course of the year. The CoC is responsible for reviewing the final annual accounts of the State budget and reporting its findings to Parliament. The annual budget statement is submitted to the CoC within 6 months from the end of fiscal year. **[Dimension (ii) —A].**

116. In addition, the Budget System Law provides for the report to include the opening and closing balances of the TSA, an explanation of variances from the budget that are greater than 10 percent, a report on public debt and a statement of contingent liabilities.

117. These reports, however, do not amount to consolidated financial statements showing the Government's financial position for the government as a whole, using its adopted cash basis of accounting.[112] No accounting policies are disclosed; there is no comprehensive report of the financial assets and liabilities generated in the course of the transactions; and no attempt is made to reconcile the income and expenditure with the movements in these assets and liabilities through a Source and Application of Funds statement.[113]

118. Although line ministries compile annual "balance sheets" by updating the previous "balance sheets" from their accounting records and submitting them to the Treasury, and although these are consolidated and passed to the MoF, they are not published except as and when required for statistical purposes. No reconciliation is carried out between these statements and the budget execution reports submitted to the Parliament. Financial reporting under the cash basis of accounting (IPSAS) is applied, although not all of the reports are produced and although at the same time many other reports are being produced by the Treasury as information for the Minister of Finance. **[Dimension (iii) —B].**

Indicator	**Brief Explanation**	**Rating**
25. Quality and timeliness of annual financial statements	Financial statements of aggregated cash transactions measured against budget lines together with some unreconciled information on certain financial assets and liabilities are produced. However, consolidated financial statements reflecting the overall financial position as well as the financial assets and liabilities of the Government are not produced. The annual budget statement is submitted to the CoC within 6 months of the end of the fiscal year. Given the functioning of the TSA and the information available on the financial assets and liabilities, the Government is well equipped to produce financial statements in line with cash basis international standards.	D+

3.6 EXTERNAL SCRUTINY AND AUDIT

Indicator 26: Scope, nature and follow-up of external audit
(Scoring Methodology M 1)

119. External audit in the public sector has the important function of giving regular assurance to the ultimate decision-makers (Parliament and government) and/or to the citizens of the quality of the reports on how taxpayers' money is spent, and how assets and liabilities are managed under

[112] IPSAS Cash Accounting Basis 1.3.6. The general purpose financial statements comprise the statement of cash receipts and payments and other statements that disclose additional information about cash receipts, payments and balances controlled by the entity and accounting policies and notes.
[113] This is the minimum standard required by IPSAS for financial statements.

public control. Among the most important of the auditing standards are those dealing with independent audit, coverage and professional skills.

120. The CoC is the supreme body for state financial and economic control in Georgia. The roles and responsibilities of the CoC are defined in the Law on the CoC of Georgia[114] and are also enshrined in the Constitution.[115] The CoC's mandate includes the provision of an independent review of the financial management and overall performance of all Government entities to the Parliament.

121. The CoC annually defines its long-term and current plans taking into account the proposals on audits and inspections made by the Parliament and the President. Extra-plan audits and inspections may be carried out at the request of the President, the Parliament, the Chamber's Presidium and the Chambers of Autonomous Republics.[116]

122. The external audit system applied in Georgia does not follow recognized international standards (for example those of INTOSAI or ISA issued by IAASB of IFAC).[117] Audits of the financial performance (i.e., budget execution) of the Government do not include expressions of opinion on financial statements, as these are not produced, at least according to IPSAS or IFRS.

123. The external audit that the CoC exercises, which is merely a control and revision (inspection) activity, is characterized by capacity limitations due to weaknesses in its structure, the professionalism of its staff, and the quality of the reports. The checks carried out are aimed at ensuring compliance with the existing regulations, including public procurement law. Audits of financial systems and of internal controls and internal audit functions and performance audits are not included in the range of CoC's activities.

124. Governmental entities representing at least 75 percent of total expenditure, including SOE's are audited annually. The scope of the audit mandate includes extrabudgetary funds and autonomous agencies. The structure and quality of the reports, however, are far removed from the requirements imposed by international auditing standards. In particular, audit standards are not disclosed, and the reports do not include the attestation of the financial accountability of the entities accountable, involving the examination of financial records and the expression of opinions on financial statements. **[Dimension (i) – D].**

125. The current Law establishes one month[118] as the period for the CoC to provide information on the Government's consolidated annual report on budget execution. This deadline is respected, and the CoC information reports are generally submitted to the Parliament within four months of the end of the period covered. The assessment of this dimension covers only the timeliness of the submission to the legislature. However, such report is not an audit report as recognized by international standards but only an information document, and no expression of an opinion on financial statements is provided. **[Dimension (ii) – A].**

126. Inspected entities issue a formal written response to the inspection findings, reporting on the actions taken. In its next inspection report, the CoC provides information on the implementation of

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[114] Law on the CoC as of June, 2006.
[115] Constitution of Georgia, Article 97.
[116] Law on the CoC, Article 38-40.
[117] "Public Financial Management Reform Strategic Vision," 2005, p.9.
[118] Article 58, Law on the CoC as of June, 2006.

the recommendations provided previously. The common practice is to conduct the inspections once on a two years basis.[119] No audit conclusions are produced to report on the monitoring of the implementation status of audit recommendations until they are completed. **[Dimension (iii) – B].**

127. In its 2005 approved strategy for corporate development, the CoC has recognized the need to refocus its activities and deliver audit services to the Georgian public sector in accordance with international best practice.[120] Progress has been fairly slow, (except for the training component) owing primarily to the long absence of a permanent chairman. A new chairman has recently been appointed by the Parliament (May 2007). It is expected that the recent appointment will precipitate the delayed reforms.

Indicator	**Brief Explanation**	**Rating**
26. Scope, nature and follow-up of external audit	The external audit system applied does not follow recognized international standards and is characterized by capacity limitations due to weaknesses in its structure, skills of staff, and technical quality of reports.	D+

Indicator 27: Legislative scrutiny of the annual budget law
(Scoring Methodology M 1)

128. The scope and procedures for the legislative scrutiny of the annual budget law are defined by the Regulation of the Parliament.[121] The Parliament examines the annual budget in the context of the Basic Data and Directions (BDD) document for the respective period. By May 1 of each year, the Government submits the BDD to the Parliament committees for review, comments and endorsement. All comments provided by the sectoral committees are compiled by the Budget and Finance Committee and the respective conclusion (including recommendations as appropriate) is presented to the Government by June 1 for consideration and the finalization of the BDD. The Budget and Finance Committee also relies on its Budget Office for the purpose of analyzing the medium term fiscal policies, forecasts and expenditure priorities presented in the BDD as well as revenue and expenditure details for the forthcoming year. The above conclusion is to be taken into account by the Government when it finalizes the annual budget proposal and approves the annual budget ceilings. **[Dimension (i)—A].**

129. In addition to the above Regulation, the Parliament annually passes (within two days upon the submission of the draft law by the Government) a special Resolution on the process and time frame of the annual budget review.[122] The draft budget law is reviewed by all committees, fractions, and majority, and minority parties. A detailed schedule of this review is available.[123] The Budget and Finance Committee compiles conclusions provided by all of the above bodies and holds final debates to summarize the Parliament's conclusion, which is then presented to the Government. The Government has one month in which to revise the draft accordingly. In case the Government's conclusion does not fully reflect the comments provided in the revised draft and consensus cannot

[119] Interview with the top officials of the CoC.
[120] General Development Strategy and Reorganization Action Plan of the CoC, *Financial Control Quarterly Publication*, issue No.3-4, 2005.
[121] Chapter 27 of the Regulation of Parliament of Georgia as of July 25, 2006.
[122] Respective Resolution for the 2007 Annual Budget Law.
[123] Schedule for Review of the draft 2007 State Budget Law and respective Government Report as per the document provided by the Chairman of the Budget and Finance Committee of the Parliament.

be reached, the above Resolution also provides for the establishment of a joint conciliation commission (with representatives from the executive and the legislature) which has two weeks for consultations and the revision of the draft as per the agreement reached. No need for such a conciliation commission has arisen in Georgia for the last few years. The provisions of the annual Resolution have been adhered to. **[Dimension (ii)—A].**

130. Legislation provides for the Draft Annual Budget law to be submitted to the Parliament no later that October 1 of the given year. The Parliament is expected to approve the draft by December 31 and thus has three months for internal review, discussion and interim communication with the executive as deemed necessary. The established time frame has been respected in the past four years. **[Dimension (iii)—A].**

131. Rules for in-year budget supplements are the same as for the initial draft law and are clear, but the period of review could be shorter. Retroactive approval of the legislation is neither allowed nor practiced. No limits exist on the extent and nature of amendments. However, reallocations within 10 percent require the approval of the Minister of Finance and those above 10 percent require Parliamentary approval. **[Dimension (iv)—B].**

Indicator	**Brief Explanation**	**Rating**
27. Legislative scrutiny of the annual budget law	The Annual budget law review process is clear and has been adhered to; examination covers the medium term framework as well as annual details; an adequate time frame is available for the legislative review. Clear rules exist for in-year amendments; however, no limits are set for the extent and nature thereof.	B+

Indicator 28: Legislative scrutiny of external audit reports
(Scoring Methodology M1)

132. The legislature should authorize all expenditures, borrowings, and revenues to be collected through the power of the state and should hold the executive accountable. Georgia's Parliament has the legal power to exercise control of the budget, ensuring legislative oversight over revenue and expenditures.[124] The circle of Parliament's budgetary authority is closed with the approval of the final account and the report of the CoC.

133. The way this procedure is exercised is through the relevant reports of the CoC and the report of the Budget and Finance Committee of the Parliament.[125]

134. The CoC submits three annual reports to the Parliament:[126]

- Report related to the objectivity of the Draft Budget
- Report containing the Chamber's information on the previous year's state budget execution report submitted by the Government
- Report on the CoC's yearly activities

[124] Constitution Article 92.
[125] Law of Georgia on the Budget System, Article 22.2.
[126] Interview with the Deputy Head of the Parliament's Committee on Finance and Budget

135. Throughout the year the Parliament also receives CoC information on six month reports on the execution of the state budget and all reports on individual inspections and revisions conducted by the CoC as well as the report on the activities of the NBG.

136. The Government presents the budget execution reports to the Parliament within three months following the end of the fiscal year. A copy of this report is also forwarded to the CoC. The CoC submits to the Parliament its audit report on the budget execution report within one month after the latter has been submitted to the Parliament. The Parliament's Budget and Finance Committee prepares a schedule of discussions of the reports and distributes it to other Parliament committees, and to majority, minority, and individual members of Parliament.[127] The Budget and Finance Committee and also the other committees reach their conclusions on the reports as a rule within two weeks. **[Dimension (i)—A].**

137. Parliament has the authority to hold (and in practice is holding) consistently in-depth hearings on key findings in the presence of responsible officers from the inspected entities.[128] **[Dimension (ii)—A].**

138. Following the review of the various audit reports and submissions of the conclusion of relevant committees Parliament holds discussions and takes a decision (arrives at a conclusion).[129] According to Georgian legislation, the follow-up on the recommendations issued by Parliament is the responsibility of the CoC as the controlling arm of Parliament for financial and economic control of the state.[130] According to the Law on CoC,[131] recommendations on corrective measures with instructions are sent to the audited entities which will then have 20 days to notify the CoC of the corrective measures taken in response. There is no information from current sources on any formal response to audit findings. **[Dimension (iii)—C].**

Indicator	**Brief Explanation**	**Rating**
28. Legislative scrutiny of external audit reports	Scrutiny of audit reports is completed on a timely basis by the legislature. The Parliament is holding in-depth hearings in the presence of responsible officers of the audited entities. Actions are recommended by the CoC according to the Law, but there is no information from current sources on any formal response to audit findings	C+

3.7 DONOR PRACTICES

D-1: Predictability of direct budget support
(Scoring Methodology M1)

139. The Government of Georgia received a total of GEL 303,677,000 in donor assistance in 2004, GEL 229,897,000 in 2005 and GEL 368,164,000 in 2006. In each of these years, over 30 percent of that assistance was in the form of direct budget support.

[127] Parliament's Regulation Volume X Chapter XXXVIII Article 234
[128] Interview as in Footnote 3
[129] Parliament's Regulation Volume X Chapter XXXVIII Article 236.
[130] Law on CoC , Article 6.
[131] Law on CoC, Articles 51 and 52.

Table 7: Direct Budget Support to the Government of Georgia

GEL thousands	Budget support		Total donor assistance		Budget support as a percentage of donor assistance	
	Approved	Actual	Approved	Actual	Approved	Actual
2004	113,880.0	112,848.6	396,899.0	303,677.0	28.7%	37.2%
2005	120,620.0	71,095.5	364,670.0	229,897.0	33.1%	30.9%
2006	138,717.9	136,997.9	350,262.0	368,164.0	39.6%	37.2%

Source: Budget support data provided by the External Relations Department of the Ministry of Finance. Total donor assistance data are taken from the State Budget Laws for 2004, 2005 and 2006, respectively, and are equal to the sum of total grants and credits.

140. Government officials advise that data on forecast disbursements are received in plenty of time for inclusion in the annual budget documents (usually by the end of the September prior to the start of the new fiscal year in January)[132] and that over the course of the year as a whole donor assistance received largely matches forecasts given, other than in exceptional circumstances.[133]

Table 8: Budget Support Grants and Credits Provided to the Government of Georgia

GEL thousands	Annual agreed forecast (a)	Annual actual disbursement (b)	Actual as a percentage of forecast (b)/(a)
2004	113,880.0	112,848.6	99.09%
2005	120,620.0	71,095.5	58.94%
2006	138,717.9	136,997.9	98.76%

Source: External Relations Department of the Ministry of Finance.

141. The data in Table 8 mainly confirm this view. The significant deviation shown in 2005 is explained by exceptional circumstances surrounding two projects in that year.[134] The first set of circumstances concerns a specific conditionality which was not met, while the second set concerns the World Bank First Poverty Reduction Support Operation, which was originally planned as a credit of 20 million dollars, and later approved as a mix of US$ 12 million dollars of credit and US$ 7 million of grants.

142. The Government has come to expect donor assistance to arrive towards the end of the fiscal year.[135] Therefore, it tends to plan for disbursements in the third and fourth quarters only. It is unclear whether this is in line with the planned disbursements provided by donors or whether it is in fact in spite of information provided by donors on planned disbursements throughout the budget year.[136]

[132] Interview with the External Relations team of the MoF.
[133] Interview with Deputy Minister of Finance (External Relations).
[134] Ibid
[135] Interview with the Deputy Minister of Finance (External Relations) and the External Relations team of the MoF.
[136] It has not been possible to confirm whether or not the data provided by the MoF reflect the planned disbursement dates provided by the donors. It seems possible that they may instead reflect the expectations of the MoF. If this is the case, the data may significantly underestimate the true extent of in-year disbursement delays as defined in the PEFA methodology.

Table 9: In-year Timeliness and Donor Disbursements, 2004-2006		
	Total actual disbursement (GEL thousands)	**Cumulative in-year disbursement delay**
2004	112,848.6	0.9%
2005	71,095.5	43.9%
2006	136,997.9	1.5%

Source: PEFA team calculations using data provided by the External Relations Department of the Ministry of Finance.

143. Table 9 shows the cumulative in-year disbursement delay for 2004, 2005 and 2006.[137] The cumulative delay reflects not only the difference in the actual outturn of support provided compared to forecasts made but also the extent of the delay (if any) in the disbursement of this support within the fiscal year. Disbursements above forecasts for the quarter are offset against any disbursement delays within the budget year.[138] In no more than one of the last three years, the direct budget support outturn fell short of the forecast by more than 15 percent. **[Dimension (i): C].**

144. The table therefore shows that delays in disbursement are generally offset by over-payment in other quarters, so that disbursement delay over the year as a whole is small as a percentage of total annual disbursements.[139] The exception to this is 2005. In fact, all budget support for that year was planned to be received in the final quarter. Therefore, the reasons for this delay are exactly the same as those reflected under dimension (i) of this indicator.[140] Quarterly disbursement estimates have been agreed with the donors at the beginning of the fiscal year and actual disbursement delays (weighted) have not exceeded 25 percent in two of the last three years. **[Dimension (ii) — A].**

Indicator	Brief explanation	Rating
D-1: Predictability of direct budget support	Over the course of the year as a whole, the deviation between actual and forecast donor disbursements is generally small, although exceptional circumstances in one year did result in a significant deviation. Moreover, within the year, donor disbursements are largely made during the quarter planned, although it is rare for there to be disbursement planned in any period other than quarter four.	C+

D-2: Financial information provided by donors for budgeting and reporting on project and program aid *(Scoring Methodology M.)*

145. Table 10 shows that project and program aid accounted for 62.8 percent of all donor assistance to Georgia in 2004, 69.1 percent in 2005 and 62.8 percent in 2006. It is therefore clear that the quality of financial information on project and program aid will have a significant impact on the government's ability to plan and report on donor assistance.

137 For information on how the cumulative disbursement delay is calculated, see Table A.5 of Annex 3.

138 Ibid.

139 The data used here are aggregate, so that an overpayment from one donor may offset an underpayment from another donor. Therefore it is not necessarily right to assume that a donor has "made up" for poor performance in one quarter by over-payment in another quarter.

140 The cumulative disbursement delay shown for 2005 (43.9 percent) is not the same as the deviation between actual and forecast disbursements as shown in dimension (i) (58.9 percent) since they are two different measures: the first takes the difference between actual and forecast disbursement as a percentage of actual disbursement, which the second takes actual disbursement as a percentage of forecast disbursement (see Tables A.5 of Annex 3 for calculations).

Table 10: Donor Assistance to the Government of Georgia Other Than Direct Budget Support, 2004-2006						
GEL thousands	**Budget support**		**Total donor assistance**		**Percentage of donor assistance that is not direct budget support**	
	Approved	Actual	Approved	Actual	Approved	Actual
2004	113,880.0	112,848.6	396,899.0	303,677.0	71.3%	62.8%
2005	120,620.0	71,095.5	364,670.0	229,897.0	66.9%	69.1%
2006	138,717.9	136,997.9	350,262.0	368,164.0	60.4%	62.8%

Source: Budget support data provided by the External Relations Department of the Ministry of Finance. Total donor assistance data are taken from the State Budget Laws for 2004, 2005 and 2006, respectively, and are equal to the sum of total grants and credits.

146. Discussions with the Government reveal that in general donors do not provide information on budget estimates in good time. Moreover, the information provided is complete enough for the purposes of the Government.[141] However, given the broad range of donors and projects in Georgia, the format in which budget estimates are provided varies considerably. Donors present their information in a manner which is consistent neither with the Government's budget classification system, nor with other donors' formats.[142]

147. Nonetheless, the MoF feels that the current system of providing budget estimates is sufficient for its purposes. Therefore, efforts to unify the presentation format are unnecessary, especially given the complications arising from the disparate range of donors and projects in Georgia.[143]

148. At least half of all donors (which mainly include multilateral banks, bilateral donors and other international financial institutions) provide the Government with budget estimates of planned disbursements for project and program aid in advance of its fiscal year, but these estimates use donor classifications which may not be consistent with the Government's own budget classification system. **[Dimension (i)—C].**

149. Discussions with the Government have revealed that the vast majority of donors provide reports on disbursements at least every quarter.[144] In fact, for the largest donors, the Government has access to electronic systems which provide it with daily updates. However, as is the case with budget estimates, the reports provided by donors are presented in a number of different formats, and these formats do not reflect the Government's budget classification. As already noted, the Government does not consider this to be a problem[145]

150. The vast majority of donors which mainly include multilateral banks, bilateral donors and other international financial institutions provide reports of disbursements made, on at least a quarterly basis, often more frequently. These reports are presented in a number of different formats, but do not use the government's own budget classification system. **[Dimension (ii) — C].**

[141] Interview with the External Relations Department of the MoF.
[142] Ibid.
[143] Ibid.
[144] Ibid.
[145] Interview with Deputy MoF (External Relations).

Indicator	Brief explanation	Rating
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, in neither of these cases is the Government's own budget classification system used.	C

D-3: Proportion of aid that is managed by use of national procedures *(Scoring Methodology M1)*

151. The official financial flows to Georgia were 10 percent of total public expenditures in 2006. The level is expected to increase over the next several years. No detailed information is readily available with which to calculate the share of financial support from donors to the Government that relies on national systems. However, interviews with all major donors, covering 90 percent of official financial flows, confirmed that in nearly all cases donors do not use national systems in procurement, accounting, audit, and reporting arrangements.

Indicator	Brief Explanation	Rating
D-3. Proportion of aid that is managed by use of national procedures	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, nearly all financial support from donors uses their own procurement, accounting, audits, and reporting arrangements.	D

4. GOVERNMENT REFORM PROCESS

4.1 Description of Recent and Ongoing Reforms

152. Strengthening the management of public finances and budget operations was identified as an important objective and priority of the new Government after it took office in 2004. The Ministry of Finance's Strategic Vision for Public Financial Management (PFM) Reform was endorsed in 2005 to provide a framework for the coordination of reform initiatives in this area and to serve as the basis for an integrated approach to the development of the PFM system as a whole.

153. The Strategic Vision identified the following goals of the PFM system: (i) to maintain fiscal discipline and thereby facilitate macroeconomic stability and predictability in the budget system; (ii) to promote a strategic approach by ensuring that resources are directed toward key policy and strategy priorities; (iii) to deliver value for money by ensuring that resources are used effectively and efficiently; and (iv) to ensure accountability in the use of public resources.

154. To date, a number of reform activities are well under way towards achieving the above goals. Recognizing the need to a more strategic multi-year approach to budget planning and management, the MoF introduced a medium-term expenditure framework (MTEF) during 2005. This established a strategic phase in the budget planning cycle that takes place during the first four

months of the year. The annual budget preparation process and procedures were upgraded and streamlined.

155. A TSA was implemented for the central government, and consistent rules and guidelines were adopted for all Treasury operations at the central level and the decentralized levels. The Government adopted and initiated an accounting reform strategy for producing annual consolidated financial statements in accordance with internationally accepted accounting and reporting standards, and began producing consolidated cash and commitment reports for the central government.

156. As a move towards budget classification compliance with GFS 2001, the new budget functional classification was achieved and formed the basis of the 2007 budget presentation. A GFS 2001 compliant economic classification is being introduced for the 2008 budget.

157. The Georgian authorities have initiated a major reform in revenue administration by unifying the Tax Department, the Customs Department, and the Financial Police into a single RS Department. This reform aims to improve revenue administration, improve services to taxpayers, and achieve a better balance between compliance and enforcement.

158. The legal framework governing public procurements was amended with the adoption of the new Law on Public Procurement. Procurement procedures have been largely simplified, and key indicators have been developed to monitor procurement performance. In 2005 the Government launched the State Procurement Agency website and has made some progress in providing broader dissemination of information about procurement practices by including forthcoming bidding opportunities, contract award announcements, and a registry of the providers of goods, works and services. However, the law however does not fully comply with international best practice in several key areas, and overall progress towards improving public procurement has been rather limited in the past few years.

159. To strengthen external audit, the CoC produced and adopted a Strategy for Corporate Development and Reorganization Implementation Plan outlining the plans for organizational and capacity building over the five years ending in 2010. A draft Law on the CoC, elevating its mandate and responsibilities to a supreme audit institution in line with INTOSAI standards, is currently being reviewed by the Parliament. As part of the strategy implementation, the CoC has reorganized its structure, optimized its staff and initiated a comprehensive training program to strengthen the professional capacity of its employees.

160. A number of reform programs in the PFM area are being implemented with financial and technical assistance provided by key donors, including the Embassy of the Netherlands, EU, the GTZ, the IMF, the UK Department for International Development, the UNDP, the USAID and the US Treasury.

4.2 INSTITUTIONAL FACTORS SUPPORTING REFORM PLANNING AND IMPLEMENTATION

161. While significant progress has been made over the short period of time, further development of the PFM Strategic Vision is needed to strengthen the management and coordination of the PFM reform process as well as to reinforce coordination of donor support.

162. The Government's leadership and ownership of the reform is demonstrated through its strategic documents (such as its Medium-Term Strategy for 2007-2010, Basic Data and Directions, and annually updated Anti-Corruption Strategy Implementation Plans) and also through legislative initiatives designed to provide for an appropriate legal framework. The MoF has been given the leadership role with the necessary political back-up provided through the Cabinet.

163. Coordination across the Government still lags behind as compared to the concrete achievements in the key aspects of the PFM. The MoF has increasingly taken a proactive role to improving coordination and providing necessary guidance and assistance to the line ministries. In addition, the MoF is a major player in terms of coordinating donor assistance in this field.

164. The sustainability of the reform process would very much depend on the continuous political support and adequate institutional capacity of the respective government agencies. The far-reaching training programs that are underway for key staff in the MoF system as well as the CoC could be viewed as an important step towards such capacity building.

ANNEX 1: PERFORMANCE INDICATORS SUMMARY

Indicator	Brief Explanation	Rating
Budget Credibility		
1. Aggregate expenditure outturn compared to original approved budget	Deviation of actual expenditure from the approved expenditure as passed by Parliament in the State Budget Law has exceeded 15 percent in all of the three years studied.	D
2. Composition of expenditure outturn compared to original approved budget	The variance in expenditure composition at the spending agency level exceeded 10 percent in no more than one of the last three years studied.	C
3. Aggregate revenue outturn compared to original approved budget	Actual domestic revenue collection was not below 97 percent of budgeted domestic revenue collection in any of the three years studied.	A
4. Stock and monitoring of expenditure payment arrears	There are directions and systems for monitoring expenditure arrears enabling the Treasury Service to monitor and account an acceptable and nearly complete record on the total stock of arrears. However, a computerized commitment ageing module is still missing. Data are currently available for monitoring the stock of expenditure payment arrears.	B+
Transparency and Comprehensiveness		
5. Classification of the budget	The budget formulation and execution is based on administrative, economic, and functional classifications using GFS standards. Functional classification does cover 10 main functions in line with GFS classification.	B
6. Comprehensiveness of information included in budget documentation	The 2007 budget documentation fulfills 7 of the 9 information benchmarks required. Estimates of the budgetary impact of a number of revenue and expenditure policy changes/initiatives (part of the nineth benchmark) are also provided in the consolidated macro aggregates but there are no explanations provided.	A
7. Extent of unreported government operations	The level of unreported extrabudgetary expenditure has decreased significantly in recent years. There are two types of LEPLs. One set is fully incorporated into the budget and Treasury accounts. A second set receives transfers which are explicit in the budget and Treasury but their liabilities are not part of the government. Complete income and expenditure information is provided in the fiscal reports for the significant majority (more than 90 percent) of all donor- funded projects, with the possible exception of some small projects, mainly reflecting inputs in kind. Small projects, mainly reflecting inputs in kind.	B+
8. Transparency of Inter-governmental fiscal relations	The inter-governmental fiscal relations are organized. The LSG budget preparation and execution cycle is documented. Although depending on Parliament's approval, information on state transfers does not much delay the final LSG budget preparation. The MoF is provided in due time by the LSG with periodical fiscal information (ex ante and ex post) and consolidates it into annual reports. Accounting and procurement weaknesses have been reported by the CoC, but should be reduced with the systematization of audit guidelines and routine practices.	B

Indicator	Brief Explanation	Rating
9. Oversight of aggregate fiscal risk from other public sector entities	Audited annual financial statements are provided by major SOE to SEMA. The annual consolidation is rather delayed by SEMA without really focusing on the SOE fiscal risk incurred by the state. SOEs are dividend-oriented monitored and are not seen as a public service delivery. It is hoped that the current market competition distortion (1,518 SOEs) and the state fiscal risks are decreasing along with the privatization program. Aggregating the annual fiscal risk of SOEs + LEPLs is monitored by the MoF, but not consolidated into an annual report. Sub-national governments cannot generate any liabilities without the authorization of the MoF.	C+
10. Public access to key fiscal information	The government makes available 4 of 6 listed types of information.	B
Policy-based Budgeting		
11. Orderliness and participation in the annual budget process	A clear budget calendar exists and allows sufficient time for the budget formulation and MTEF process. Budget ceilings are approved prior to budget circular distribution to ministries, departments, and agencies (MDAs). Parliament approves the annual budget before the start of the fiscal year.	A
12. Multi year perspective in fiscal planning, expenditure policy and budgeting	Fiscal aggregates are forecasted on the basis of economic classification only. Annual budget ceilings, on the other hand, are based on functional classification. As such, it is difficult to trace the link between the two. DSA was undertaken twice in the last three years for both external and domestic debt. Sector strategy statements exist for most sectors, representing 54 percent primary expenditures, however, they are not fully costed and the links between investment decisions and sector strategies as well as respective recurrent cost implications remain weak.	C+
Predictability and Control in Budget Execution		
13. Transparency of taxpayer obligations and liabilities	Tax and customs legislation and procedures are relatively clear but ambiguities lead to discretionary powers. Taxpayers have access to some information and booklets which have started being published. Much of the information is available on the RS website. While an appeal system exists within the MoF, there is no tax-specific appeals and arbitration mechanism in line with modern international practices. There are weaknesses in the current mechanism which the MoF has begun to address in order to provide a reliable and credible appeal mechanism with independence from the MoF, improved transparency, and increased fairness. There are backlogs in appeals but the Parliament and the RS have been serious about addressing these issues.	C +

Indicator	Brief Explanation	Rating
14. Effectiveness of measures for taxpayer registration and tax assessment	Taxpayer registration procedures are simple and quick. There exists a relatively complete tax and customs database with some direct linkages to other agencies. Penalties are adequate and act as a deterrent. Audit selection is based on a continuous program, but risk assessment criteria are still in the process of being implemented.	B
15. Effectiveness in collection of tax payments	The average debt collection ratio for the last two fiscal years was 16.5 percent. Transfer of revenues to the Treasury is made daily on a real time basis. Reconciliations of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly.	D+
16. Predictability in the availability of funds for the commitment of expenditure	The Government is implementing cash planning procedures. Cash flows are well forecasted and monitored. Adjustments to the budget are made several times during the year and in line with cash plans and availability. However, management of budget ceiling commitments relies on the ability of the Treasury to refuse approval of these commitments.	B+
17. Recording and management of cash balances, debt and guarantees	Debt and cash management are operated under generally accepted international practices. In the absence of a Treasury account in the past and historical recording weaknesses, some information gaps remain on historical disaggregated domestic debt. There is also need for a more frequent (monthly) reconciliation of domestic debt reports	A
18. Effectiveness of payroll controls	The process is decentralized and personnel and payroll functions are carried out by the accounting and human resources departments of the spending units. This has allowed adjustments to the composition of staff and salary levels within the approved annual ceilings which results in lack of effective control. Unable to score owing to lack of overall information.	Could Not Score
19. Competition, value for money and controls in procurement	While the legislative framework is partially aligned with international practices, weaknesses remain in several areas. Current procurement practices show weaknesses in over-reliance on single source, and the complaint mechanism is poorly designed and operated.	D+
20. Effectiveness of internal controls for non-salary expenditure	Expenditure commitment controls exist and, while they are reasonably effective, could be improved. There are basic internal control procedures and compliance with rules is high. However, there are significant weaknesses in the current framework for internal control.	C+
21. Effectiveness of internal audit	Internal audit systems and procedures that are in accordance with international standards are not established (nor supported by any legal framework) for checking that the systems of internal control are countering the perceived risk, and are evaluating and improving the effectiveness of risk management, control, and governance processes.	D+
Accounting, Recording and Reporting		
22. Timeliness and regularity of	All below the line accounts of the Treasury are reconciled	A

Indicator	Brief Explanation	Rating
accounts reconciliation	regularly. While there may be some delay in the reconciliation process in the bank accounts of LEPLs which are part of the government, this is checked quarterly through the reporting process.	
23. Availability of information on resources received by service delivery units	No comprehensive data collection has been undertaken in the last three years. There are weaknesses in the capacity of the accounting systems to report financial resources transferred accurately and no comprehensive record of aid in kind is available.	D
24. Quality and timeliness of in-year budget reports .	In-year reports on budget execution are generated on a regular and timely basis. However, the reports do not include a breakdown of the expenditures and revenues of LEPLs whose liabilities are not part of the government. There are no material concerns regarding data accuracy.	B+
25. Quality and timeliness of annual financial statements	Financial statements of aggregated cash transactions measured against budget lines together with some unreconciled information on certain financial assets and liabilities are produced. However, consolidated financial statements reflecting the overall financial position as well as the financial assets and liabilities of the Government are not produced. The annual budget statement is submitted to the CoC within six months of the end of the fiscal year. Given the functioning of the TSA and information available on the financial assets and liabilities, the Government is well equipped to produce financial statements in line with cash basis international standards.	D+
External Scrutiny and Audit		
26. Scope, nature and follow-up of external audit	The external audit system applied does not follow recognized international standards and is characterized by capacity limitations due to weaknesses in its structure, skills of staff, and technical quality of reports.	D+
27. Legislative scrutiny of the annual budget law	The annual budget law review process is clear and has been adhered to; examination covers both the medium term framework as well as annual details; an adequate time frame is available for the legislative review. Clear rules exist for in-year amendments; however, no limits are set for the extent and nature thereof.	B+
28. Legislative scrutiny of external audit reports	Scrutiny of audit reports is completed on a timely basis by the legislature. The Parliament is holding in-depth hearings in the presence of responsible officers of the audited entities. Actions are recommended by the CoC according to the Law, but there is no information from current sources on any formal response to audit findings	C+
Donor Practices		
D-1. Predictability of direct budget support	Over the course of the year as a whole, the deviation between actual and forecast donor disbursements is generally small, although exceptional circumstances in one year did result in a significant deviation. Moreover, within the year, donor disbursements are largely made during the quarter planned, although it is rare for there to be disbursement planned in any	C+

Indicator	Brief Explanation	Rating
	period other than quarter four.	
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, in neither of these cases is the Government's own budget classification system used.	C
D-3. Proportion of aid that is managed by use of national procedures	The majority of donors provide information on budget estimates well in advance of the coming fiscal year. Reports on disbursements are received on at least a quarterly basis by the large majority of donors. However, nearly all financial support from donors uses their own procurement, accounting, audits, and reporting arrangements.	D

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ANNEX 3: SELECTED DATA ATTACHMENTS

Table A. 1: Government of Georgia Budget Information, 2004

All data in GEL thousands

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of approved expenditures
01 00	Georgian Parliament and related organizations	14,678.80	14,603.40	-75.40	75.40	-0.51%
02 00	Administration of President of Georgia	8,418.00	8,449.10	31.10	31.10	0.37%
03 00	Office of the Security Council of Georgia	987.30	1,098.20	110.90	110.90	11.23%
04 00	Chancellery of the Georgian Government	3,120.90	3,805.50	684.60	684.60	21.94%
05 00	Chamber of Control	3,605.40	2,783.10	-822.30	822.30	-22.81%
06 00	Central Elections Commission of Georgia	7,420.80	6,481.80	-939.00	939.00	-12.65%
07 00	Constitutional Court of Georgia	1,766.80	1,558.80	-208.00	208.00	-11.77%
08 00	Supreme Court of Georgia	2,111.50	2,394.50	283.00	283.00	13.40%
09 00	Common courts	15,954.00	15,185.00	-769.00	769.00	-4.82%
10 00	Supreme Council of Justice of Georgia	610.00	623.50	13.50	13.50	2.21%
11 00	Prosecutor's Office of Georgia	10,388.70	12,882.80	2,494.10	2,494.10	24.01%
12 00	Office of President's Government Representative in Samegrelo and Upper Svaneti	54.90	56.30	1.40	1.40	2.55%
13 00	Office of President's Government Representative in Gori	51.90	57.60	5.70	5.70	10.98%
14 00	Office of President's Government Representative in Imereti	64.70	68.20	3.50	3.50	5.41%
15 00	Office of President's Government Representative in Kakheti	62.30	60.00	-2.30	2.30	-3.69%
16 00	Office of President's Government Representative in Mtskheta- Mtianeti	47.30	62.50	15.20	15.20	32.14%
17 00	Office of President's Government Representative in Racha-Lechkhumi	58.90	72.50	13.60	13.60	23.09%
18 00	Office of President's Government Representative in Samtskhe-Djavakheti	58.20	54.40	-3.80	3.80	-6.53%
19 00	Office of President's Government Representative in Kvemo Kartli	65.30	68.50	3.20	3.20	4.90%
20 00	Office of President's Government Representative in Shida Kartli	50.50	48.00	-2.50	2.50	-4.95%
	Office of President's Government Representative in Kodori gorje	50.60	535.90	485.30	485.30	959.09%
21 00	Office of State Minister in Charge of Conflict Settlement			0.00	0.00	
22 00	Office of State Minister in Charge of European and Euro-Atlantic Integration Issues Settlement			0.00	0.00	
23 00	Office of State Minister in Charge of Civil Integration Issues			0.00	0.00	
24 00	Office of State Minister in Charge of Reform Coordination Issues			0.00	0.00	
25 00	Ministry of Finance of Georgia (less payment of interest)	317,240.40	349,344.80	32,104.40	-32,104.40	10.12%
26 00	Ministry of Economic Development	104,453.30	112,027.90	7,574.60	7,574.60	7.25%
27 00	Ministry of Justice	21,076.60	21,935.60	859.00	859.00	4.08%
28 00	Ministry of Foreign Affairs	28,389.00	36,959.40	8,570.40	8,570.40	30.19%
29 00	Ministry of Defense	67,000.00	172,009.00	105,009.00	105,009.00	156.73%
30 00	Ministry of Interior	79,510.40	150,182.50	70,672.10	70,672.10	88.88%
31 00	Special Service of Foreign Intelligence			0.00	0.00	
32 00	Ministry of Education and Sciences	58,916.90	67,676.70	8,759.80	8,759.80	14.87%

Table A.1 Continued/

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of approved expenditures
33 00	Ministry of Culture and Sports	22,166.10	28,906.70	6,740.60	6,740.60	30.41%
34 00	Ministry of Refugees and IDPs	57,232.00	65,354.60	8,122.60	8,122.60	14.19%
35 00	Ministry of Labor and Health	408,713.30	413,151.90	4,438.60	4,438.60	1.09%
36 00	Ministry of Energy	145,167.10	136,473.30	-8,693.80	8,693.80	-5.99%
37 00	Ministry of Agriculture	52,863.70	50,071.30	-2,792.40	2,792.40	-5.28%
38 00	Ministry of Environment	42,772.10	23,747.50	-19,024.60	19,024.60	-44.48%
39 00	Special Service of Government Security	13,600.00	17,087.00	3,487.00	3,487.00	25.64%
40 00	Ombudsman Service	343.20	354.70	11.50	11.50	3.35%
41 00	National Securities Commission LEPL	511.50	340.90	-170.60	170.60	-33.35%
42 00	Fuel and Oil Regulating Agency	519.10	511.70	-7.40	7.40	-1.43%
43 00	Public Broadcaster	13,500.00	16,495.30	2,995.30	2,995.30	22.19%
44 00	Other organizations	895.70	2,586.50	1,690.80	1,690.80	188.77%
	Other non-classified expenditure	0.00	228.50	228.50	228.50	
	State Security	13,592.00	19,944.60	6352.6	6,352.60	46.74%
	Agricultural Science Academy	1,652.00	2,887.40	1235.4	1,235.40	74.78%
	Georgian Science Academy	13,415.00	20,924.00	7509	7,509.00	55.97%
	Bureau of Assets Declaration	226.00	217.90	-8.1	8.10	-3.58%
	Department of Standardization, Meteorology and Certification	424.80	447.60	22.8	22.80	5.37%
	Technical inspection	140.00	146.60	6.6	6.60	4.71%
		1,533,947.00	**1,780,963.50**	**247,016.50**	**249,846.10**	

Source: Ministry of Finance, Budget Department.

Table A. 2: Government of Georgia Budget Information, 2005

All data in GEL thousands

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of original
01 00	Georgian Parliament and related organizations	20,939.80	22,618.40	1,678.60	1,678.60	8.02%
02 00	Administration of President of Georgia	9,948.20	10,349.60	401.40	401.40	4.03%
03 00	Office of the Security Council of Georgia	1,220.00	1,249.50	29.50	29.50	2.42%
04 00	Chancellery of the Georgian Government	3,769.30	7,202.70	3,433.40	3,433.40	91.09%
05 00	Chamber of Control	3,710.00	4,293.50	583.50	583.50	15.73%
06 00	Central Elections Commission of Georgia	577.30	2,422.90	1,845.60	1,845.60	319.70%
07 00	Constitutional Court of Georgia	1,715.60	1,701.50	-14.10	14.1	-0.82%
08 00	Supreme Court of Georgia	2,486.50	2,934.40	447.90	447.90	18.01%
09 00	Common courts	13,238.00	11,507.10	-1,730.90	1730.9	-13.08%
10 00	Supreme Council of Justice of Georgia	610.00	599.10	-10.90	10.9	-1.79%
11 00	Prosecutor's Office of Georgia	15,897.00	14,748.60	-1,148.40	1148.4	-7.22%
12 00	Office of President's Government Representative in Samegrelo and Upper Svaneti	80.50	124.60	44.10	44.10	54.78%
13 00	Office of President's Government Representative in Gori	77.50	117.60	40.10	40.10	51.74%
14 00	Office of President's Government Representative in Imereti	94.30	140.80	46.50	46.50	49.31%
15 00	Office of President's Government Representative in Kakheti	105.00	244.80	139.80	139.80	133.14%
16 00	Office of President's Government Representative in Mtskheta- Mtianeti	71.90	226.60	154.70	154.70	215.16%
17 00	Office of President's Government Representative in Racha-Lechkhumi	87.50	132.30	44.80	44.80	51.20%
18 00	Office of President's Government Representative in Samtskhe-Djavakheti	83.80	227.60	143.80	143.80	171.60%
19 00	Office of President's Government Representative in Kvemo Kartli	93.90	159.70	65.80	65.80	70.07%
20 00	Office of President's Government Representative in Shida Kartli	76.10	135.50	59.40	59.40	78.06%
21 00	Office of State Minister in Charge of Conflict Settlement	229.60	382.70	153.10	153.10	66.68%
22 00	Office of State Minister in Charge of European and Euro-Atlantic Integration Issues Settlement	420.00	672.20	252.20	252.20	60.05%
23 00	Office of State Minister in Charge of Civil Integration Issues	200.00	271.50	71.50	71.50	35.75%
24 00	Office of State Minister in Charge of Reform Coordination Issues	380.00	375.80	-4.20	-4.20	-1.11%
25 00	Ministry of Finance of Georgia (less payment of interest)	638,755.80	454,073.20	-184,682.60	184,682.60	-28.91%
26 00	Ministry of Economic Development	86,890.50	167,470.00	80,579.50	80,579.50	92.74%
27 00	Ministry of Justice	40,554.60	49,883.70	9,329.10	9,329.10	23.00%
28 00	Ministry of Foreign Affairs	31,800.00	33,115.30	1,315.30	1,315.30	4.14%
29 00	Ministry of Defense	138,885.00	366,765.00	227,880.00	227,880.00	164.08%
30 00	Ministry of Interior	151,646.20	182,161.70	30,515.50	30,515.50	20.12%

Table A.2 Continued/

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of original
31 00	Special Service of Foreign Intelligence	3,000.00	3,018.60	18.60	18.60	0.62%
32 00	Ministry of Education and Sciences	69,339.20	80,946.80	11,607.60	11,607.60	16.74%
33 00	Ministry of Culture and Sports	26,319.40	34,433.20	8,113.80	8,113.80	30.83%
34 00	Ministry of Refugees and IDPs	60,282.00	61,866.60	1,584.60	1,584.60	2.63%
35 00	Ministry of Labor and Health	558,425.00	631,807.80	73,382.80	73,382.80	13.14%
36 00	Ministry of Energy	119,542.10	230,349.10	110,807.00	110,807.00	92.69%
37 00	Ministry of Agriculture	51,636.00	41,356.20	-10,279.80	10279.8	-19.91%
38 00	Ministry of Environment	34,301.60	24,478.20	-9,823.40	9823.4	-28.64%
39 00	Special Service of Government Security	30,931.00	33,419.20	2,488.20	2,488.20	8.04%
40 00	Ombudsman Service	1,499.50	1,392.00	-107.50	107.5	-7.17%
41 00	National Securities Commission LEPL	395.50	347.40	-48.10	48.1	-12.16%
42 00	Fuel and Oil Regulating Agency	486.10	486.10	0.00	0.00	0.00%
43 00	Public Broadcaster	16,500.00	16,499.40	-0.60	-0.60	0.00%
44 00	Other organizations	1,930.90	1,718.20	-212.70	212.7	-11.02%
	Technical inspection	152.00	0.00	-152.00	152.00	-100.00%
		2,139,384.20	**2,498,426.70**	**359,042.50**	**775,463.30**	

Source: Ministry of Finance, Budget Department.

Table A. 3: Government of Georgia Budget Information, 2006

All data in GEL thousands

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of approved expenditures
01 00	Georgian Parliament and related organizations	28,758.90	28,818.90	60.00	60.00	0.21%
02 00	Administration of President of Georgia	8,407.60	19,468.20	11,060.60	11,060.60	131.55%
03 00	Office of the Security Council of Georgia	541.00	547.90	6.90	6.90	1.28%
04 00	Chancellery of the Georgian Government	8,300.70	9,217.10	916.40	916.40	11.04%
05 00	Chamber of Control	6,957.40	7,376.40	419.00	419.00	6.02%
06 00	Central Elections Commission of Georgia	15,450.00	22,079.40	6,629.40	6,629.40	42.91%
07 00	Constitutional Court of Georgia	1,832.70	2,365.70	533.00	533.00	29.08%
08 00	Supreme Court of Georgia	3,739.20	3,734.50	-4.70	4.70	-0.13%
09 00	Common courts	29,424.70	28,064.60	-1,360.10	1,360.10	-4.62%
10 00	Supreme Council of Justice of Georgia	917.40	983.30	65.90	65.90	7.18%
11 00	Prosecutor's Office of Georgia	19,489.90	19,226.60	-263.30	263.30	-1.35%
12 00	Office of President's Government Representative in Samegrelo and Upper Svaneti	247.30	429.70	182.40	182.40	73.76%
13 00	Office of President's Government Representative in Gori	192.80	351.10	158.30	158.30	82.11%
14 00	Office of President's Government Representative in Imereti	235.20	401.00	165.80	165.80	70.49%
15 00	Office of President's Government Representative in Kakheti	212.00	577.50	365.50	365.50	172.41%
16 00	Office of President's Government Representative in Mtskheta- Mtianeti	281.00	406.10	125.10	125.10	44.52%
17 00	Office of President's Government Representative in Racha-Lechkhumi	198.00	262.70	64.70	64.70	32.68%
18 00	Office of President's Government Representative in Samtskhe-Djavakheti	248.80	367.50	118.70	118.70	47.71%
19 00	Office of President's Government Representative in Kvemo Kartli	250.80	403.40	152.60	152.60	60.85%
20 00	Office of President's Government Representative in Shida Kartli	231.90	329.90	98.00	98.00	42.26%
21 00	Office of State Minister in Charge of Conflict Settlement	469.50	517.30	47.80	47.80	10.18%
22 00	Office of State Minister in Charge of European and Euro-Atlantic Integration Issues Settlement	587.20	923.30	336.10	336.10	57.24%
23 00	Office of State Minister in Charge of Civil Integration Issues	199.00	211.70	12.70	12.70	6.38%
24 00	Office of State Minister in Charge of Reform Coordination Issues	438.80	405.40	-33.40	33.40	-7.61%
25 00	Ministry of Finance of Georgia (less payment of interest)	593,660.70	643,947.50	50,286.80	50,286.80	8.47%
26 00	Ministry of Economic Development	203,448.80	222,566.90	19,118.10	19,118.10	9.40%
27 00	Ministry of Justice	53,538.90	77,640.20	24,101.30	24,101.30	45.02%
28 00	Ministry of Foreign Affairs	40,572.10	43,858.90	3,286.80	3,286.80	8.10%
29 00	Ministry of Defense	392,570.00	684,039.60	291,469.60	291,469.60	74.25%

Table A.3 Continued/

Code	Ministry	Approved expenditure	Actual expenditure	Difference	Absolute difference	Difference as a percentage of approved expenditures
30 00	Ministry of Interior	225,500.00	277,702.10	52,202.10	52,202.10	23.15%
31 00	Special Service of Foreign Intelligence	3,018.60	3,024.00	5.40	5.40	0.18%
32 00	Ministry of Education and Sciences	340,504.00	358,165.10	17,661.10	17,661.10	5.19%
33 00	Ministry of Culture and Sports	41,979.90	53,757.30	11,777.40	11,777.40	28.05%
34 00	Ministry of Refugees and IDPs	29,094.40	59,239.30	30,144.90	30,144.90	103.61%
35 00	Ministry of Labor and Health	740,788.60	766,418.20	25,629.60	25,629.60	3.46%
36 00	Ministry of Energy	229,749.90	242,712.30	12,962.40	12,962.40	5.64%
37 00	Ministry of Agriculture	60,451.20	63,166.00	2,714.80	2,714.80	4.49%
38 00	Ministry of Environment	34,184.70	29,157.60	-5,027.10	5,027.10	-14.71%
39 00	Special Service of Government Security	25,200.00	25,109.10	-90.90	90.90	-0.36%
40 00	Ombudsman Service	1,810.40	1,885.30	74.90	74.90	4.14%
41 00	National Securities Commission LEPL	444.90	372.50	-72.40	72.40	-16.27%
42 00	Fuel and Oil Regulating Agency	486.10	483.40	-2.70	2.70	-0.56%
43 00	Public Broadcaster	16,500.00	16,499.90	-0.10	-0.10	0.00%
44 00	Other organizations	1,895.00	4,794.40	2,899.40	2,899.40	153.00%
		3,163,010.00	**3,722,008.80**	**558,998.80**	**572,708.00**	

Source: Ministry of Finance, Budget Department.

Table A.4: Revenues and Expenditures of Legal Entities of Public Law (LEPLS), 2006

	GEL thousands
Opening balance	39,222.5
Current revenue	136,891.7
Current expenditure	157,102.1
Closing balance	19,012.1

Revenues and Expenditures of LEPLS, as percent of Total Budget, 2006

(GEL thousand)

Current revenue of LEPLs 2006	Total actual revenue of State of Georgia 2006	LEPL revenue as a percentage of total actual revenue
136,891.7	3,579,231.00	3.82%

Current expenditure of LEPLs in 2006	Total actual expenditure of State of Georgia in 2006	LEPL expenditure from own revenue as a percentage of total actual expenditure
157,102.1	3,822,512.80	4.11%

Source: Ministry of Finance, Treasury Service

Table A.5: Budget support grants and credits provided to the Government of Georgia, 2004-2006

2004

(GEL thousands)

	Planned (a)	Actual (b)	Delay in quarter (c) = (a) - (b)	Delay as a percentage of total actual for year (d) = (c) / (i)	Cumulative delay
Q1	0.0	0.0	0.0	0.0%	0.0% (e) = (d)
Q2	0.0	0.0	0.0	0.0%	0.0% (f) = (e) + (d Q2)
Q3	47,643.8	49,137.3	-1,493.5	-1.3%	-1.3% (g) = (f) + (d Q3)
Q4	66,236.2	63,711.3	2,524.9	2.2%	**0.9%** (h) = (g) + (d Q4)
	Total actual (i):	112,848.6			

Source: PEFA team calculations using data provided by the External Relations Department of the Ministry of Finance.

2005

GEL thousands

	Planned (a)	Actual (b)	Delay in quarter (c) = (a) - (b)	Delay as a percentage of total actual for year (d) = (c) / (i)	Cumulative delay
Q1	0.0	0.0	0.0	0.0%	0.0% (e) = (d)
Q2	0.0	0.0	0.0	0.0%	0.0% (f) = (e) + (d Q2)
Q3	0.0	0.0	0.0	0.0%	0.0% (g) = (f) + (d Q3)
Q4	120,620.0	71,095.5	49,524.5	43.9%	**43.9%** (h) = (g) + (d Q4)
	Total actual (i):	71,095.5			

Sourc:e PEFA team calculations using data provided by the External Relations Department of the Ministry of Finance.

2006

(GEL thousands)

	Planned (a)	Actual (b)	Delay in quarter (c) = (a) - (b)	Delay as a percentage of total actual for year (d) = (c) / (i)	Cumulative delay
Q1	0.0	4,436.4	-4,436.4	-3.9%	-3.9% (e) = (d)
Q2	19,910.0	0.0	19,910.0	17.6%	13.7% (f) = (e) + (d Q2)
Q3	63,349.9	48,866.2	14,483.7	12.8%	26.5% (g) = (f) + (d Q3)
Q4	55,458.0	83,695.3	-28,237.3	-25.0%	**1.5%** (h) = (g) + (d Q4)
	Total actual (i):	136,997.9			

Source: PEFA team calculations using data provided by the External Relations Department of the Ministry of Finance.

Table A. 6: Coverage of State Bonds

Coverage of State Bonds (Million Gel)

Year	State Bonds	Principal	Coverage	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
2006	48	784,85		20	20	8																					
2007	48	736,85	20		10	15	18	5																			
2008	48	688,85	30			12	17	12	7																		
2009	48	640,85	35					18	17	8	5																
2010	40	600,85	35						11	13	11	5															
2011	40	560,85	35							14	10	10	6														
2012	40	520,85	35								9	12	12	7													
2013	40	480,85	35									8	17	10	5												
2014	40	440,85	35											18	12	10											
2015	40	400,85	35												18	12	10										
2016	40	360,85	35													18	12	10									
2017	40	320,85	35														18	12	10								
2018	40	280,85	35															18	12	10							
2019	40	240,85	40																18	12	10						
2020	40	200,85	40																	18	12	10					
2021	40	160,85	40																		18	12	10				
2022	40	120,85	40																			18	12	10			
2023	40	80,85	40																				18	12	10		
2024	40	40,85	40																					18	12	10	
2025	40,85	0	40																						18	12	10,85
2026			40																								
2027			40																								
2028			40																								
2029			22																								
2030			10,85																								
	832,85		832,85																								

Source: Ministry of Finance, Domestic Debt Department.