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GEORGIA

Public Expenditure and Financial Accountability (PEFA) Assessment 2012

September 2013

THE WORLD BANK

GEORGIA - PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) ASSESSMENT 2012

CURRENCY AND EXCHANGE RATES

Currency unit = Lari (GEL)

US$1 = 1.63 GEL

(As of May 28, 2013)

Government Fiscal Year (FY): 1 January – 31 December

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AESID	Agency of Education and Scientific Infrastructure Development
AGAs	Autonomous Government Agencies
BDD	Basic Data and Directions Document
CHU	Central Harmonization Unit
CSPA	Competitiveness and State Procurement Agency
DMFAS	Debt Management Financial Accounting System
DRB	Dispute Resolution Board
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
IFMIS	Integrated Financial Management Information System
GDP	Gross Domestic Product
GEL	Georgian Lari
GFS	Government Financial Statistics
GIZ	German Society for International Cooperation
GOG	Government of Georgia
GPSAS	Georgian Public Sector Accounting Standards
RS	Revenue Service
IFC	International Financial Corporation
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IGF	Intergovernmental Fiscal Relations
ISSAI	International Standards of Supreme Audit Institutions
LCG	Local Self-Government
LEPL	Legal Entity of Public Law
MFA	Macro Financial Assistance
MDA	Ministries, Department and Agencies
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBG	National Bank of Georgia
PCF	Per Capita Financing
PEFA	Public Expenditure and Financial Accountability
PE	Public Enterprises
PER	Public Expenditure Review
PFM	Public Financial Management
PIFC	Public Internal Financial Control
TSA	Treasury Single Account

RTGS	Real-time Gross Settlement System	TIS	Treasury Information System
SBA	Stand-by Arrangements	UESPP	United Electronic System of Public Procurement
SAOG	State Audit Office of Georgia	UNICEF	United Nations Children's Fund
SNG	Sub-national Governments	VAT	Value Added Tax
SOE	State Owned Enterprise	WB	World Bank
SEMA	State Enterprise Management Agency		

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OVERVIEW OF THE INDICATOR SET

A.PFM-OUT-TURNS: Credibility of the budget		2012 Score	2008 Score
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PI-2	Composition of expenditure out-turn compared to original approved budget	B+	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B	A
PI-4	Stock and monitoring of expenditure payment arrears	A	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		2012 Score	2008 Score
PI-5	Classification of the budget	A	B
PI-6	Comprehensiveness of information included in budget documentation	A	A
PI-7	Extent of unreported government operations	A	B+
PI-8	Transparency of inter-governmental fiscal relations	A	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C+
PI-10	Public access to key fiscal information	A	B
C. BUDGET CYCLE		2012 Score	2008 Score
C(i) Policy Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	C+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	A	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A	B+
PI-17	Recording and management of cash balances, debt and guarantees	A	B+

PI-18	Effectiveness of payroll controls	D+	NA
PI-19	Competition, value for money and controls in procurement	A	D+
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	A	C+
PI-21	Effectiveness of internal audit	C+	D+
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B+	A
PI-23	Availability of information on resources received by service delivery units	B	D
PI-24	Quality and timeliness of in-year budget reports	A	B+
PI-25	Quality and timeliness of annual financial statements	C+	D+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	B+	D+
PI-27	Legislative scrutiny of the annual budget law	A	B+
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D. RELATIONS WITH DONORS		2012 Score	2008 Score
D-1	Predictability of direct budget support	C+	C+
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SUMMARY ASSESSMENT

Integrated Assessment of the Public Financial Management Performance

1. **Georgia has advanced significantly its budgetary and financial managements systems since the previous PEFA assessment Report of 2008.** The basic set of systems has been put in place for strategic budget planning, budget formulation and execution. The integrated public financial management system is being implemented and according to the Ministry of Finance (MoF), several key modules are already in place. These include Treasury Operations, Spending Institutions, Budget Preparation, Payroll and External/Internal Debt Management modules introduced by the MoF Financial Analytical Service in January 2012. The full launch of the system is expected by the end of 2013. The introduction of international good practice in the budget cycle of the Government is well advanced, including robust systems for budget preparation, adequate chart of accounts, reliable execution (including accounting and reporting,) and sufficient controls. Important progress has been achieved on the front of program-based budgeting, furthering the Government's objective of greater results-focus in fiscal planning. The concept of program-based budgeting was adopted in the 2009 Budget Code, and significant advances has been made since then - reaching all the way to the full presentation of the 2012 draft budget in program forms to the Parliament of Georgia. Legal framework governing public procurement was further amended, Electronic Government Procurement (E-GP) introduced in 2011, and linked to the Treasury's information system thus providing for full information sharing. All the above reform initiatives were implemented to address the weaknesses identified by 2008 PEFA assessment in such areas as external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements.

A. BUDGET CREDIBILITY

2. Three out of the four indicators assessing budget credibility have improved, and one has been downgraded (from A to B) due to the change in PEFA methodology.

3. **Georgia's recent reforms in developing treasury, accounting, and reporting systems provide strong tools for managing aggregate fiscal positions.** Well established controls over debt and guarantee issuance contribute to meeting fiscal targets. Notwithstanding world economic crisis and conflict with Russia during the period under review, Georgia was able to meet aggregate targets.

4. **The extended expenditure commitment registration, along with a number of the systems developed after the fiscal crisis, contributes to improved fiscal discipline.** These systems should serve the country well during fiscal stringency periods. The area of concern is oversight of state-owned enterprises and legal entities of public law. Insufficient monitoring and lack of consolidated reporting poses fiscal risks that may negatively affect macro fiscal stability going forward.

5. **The actual domestic revenue outturn improved from 123.5% in 2006 to 111.5 % in 2011.** The data on budgeted and actual domestic revenues has been consistently presented in the Annual Budget Law and is readily available on the website of the Ministry of Finance.

6. **The stock of expenditure payment arrears has been maintained below 2% of actual total expenditure.** Treasury Service has a robust system for monitoring expenditure arrears and generates reliable data on the stock of arrears quarterly as well as annually.

B. Comprehensiveness and Transparency

7. There are six related indicators of which four improved and two remain unchanged since the first PEFA assessment in 2008.

8. **Classification of the budget improved considerably.** This includes implementation of GFS 2001 compliant classification both for central and local budgets. Besides, as of 2012 program classification has been introduced for budget process planning, execution and reporting for the state budget.

9. **Georgia continues to score high on comprehensiveness of the annual budget documentation.** The new element added since previous PEFA assessment is explanation of budget implications of new policy initiatives. The information regarding total financial assets however remains missing.

10. **Extent of unreported extra-budgetary expenditures has been insignificant** following the consolidation of the information on revenues and expenditures of the legal entities of public law in budget execution report as of fiscal year 2011. Income and expenditure information for donor-funded projects continues to be complete.

11. **Advancements were made in terms of intergovernmental fiscal relations transparency.** In 2011 53% of central government transfers were allocated through rules based system, reflecting increased reliance on this system since its introduction in 2009. Implementation of the GFS 2001 compliant budget classification, noted above, along with introduction of E-Treasury system translated into significant improvements in terms of consolidating fiscal data for general government.

12. **Monitoring by the central government of public enterprises remains a challenge.** Most of the State Owned Enterprises (SOEs) are supervised by the State Enterprise Management Agency (SEMA) which receives audited annual financial statements from the major SOEs. However, annual consolidation of the reports remains fragmented, with focus on the SOE fiscal risk incurred by the state missing.

13. **Public access to main fiscal information improved** following introduction of e-Procurement system in 2010. Consolidated year-end financial statements remained the only type of information as assessed under the PEFA methodology, not made public.

C. Policy Based Budgeting

14. Georgia continued to score highest on the budget process orderliness and participation. The indicator assessing multi-year perspective in budgeting and its linkage with strategic perspective was upgraded.

15. **There are significant improvements in policy orientation of the budget and planning process in Georgia, with further improvements under implementation.** The 2009 Budget Code firmly established the Basic Data and Directions document (BDD) as the medium-term budget framework with allocating multi-year ministerial budget ceilings based on Government priorities formulated in the ministerial Medium Term Action Plans. The BDD 2011-2014 contains a section defining the government's program for the respective period[1] as well as priorities/strategic directions of all the ministries and primary spending units, including total priority funding[2] projections for the mid-term period and priority funding from the state budget. The aggregate cost of sector strategies, as reflected in the BDD 2011-2014 (including both recurrent and investment expenditures) represents about 91% of total 2011 expenditure approved. Continues efforts were made at the time of the assessment to further improve public investment management practices. The establishment of proper monitoring and evaluation mechanism remains a challenge including due to capacity constraints of spending agencies.

D. Budget Execution Predictability and Control

16. Eight out of nine respective indicators were upgraded, reflecting positive changes implemented in this area of public financial management.

17. **Improvements in revenue administration were impressive.** Approval of a new legislation, introduction of e-services and other safeguards (procedural manuals, tax ombudsmen, personal tax agent) for taxpayers decreased the discretionary powers of tax authorities. Another important factor was selection of all planned on-site tax audits through the risk-based selection system. The progress was reflected in the perception based surveys with Georgia named as a number one reformer in Doing Business 2012. At the same time, there is certainly significant room for improvement, especially in terms of strengthening the effectiveness of the tax dispute mechanisms. Also, tax payment collection effectiveness continues to score low, mostly due to unresolved tax arrears accumulated in the past.

18. **The improved Treasury service and procurement reform have supported greater operational efficiency in spending.** Introduction of E-Treasury system in 2010 has considerably improved ability of the Government to implement the budget in an efficient manner. The discretion of the Treasury in approving commitments was eliminated. Introduction of the personnel management and payroll systems in 2012 provided for a direct link between the payroll and personnel database which is updated and reconciled on a regular basis. The payroll audit function however remains underdeveloped posing risks of system abuse.

19. **Significant progress was made with regards to strengthening internal controls, but some key elements, such as internal audit are still missing.** The revision of the set of policies and procedures for internal controls, along with improvements of functionality and controls within the Treasury Information System had a positive impact on improved compliance. As for internal audit, whilst operational for the majority of central government entities and generally meeting professional standards, the internal audit cadre lacks capacity and expertise to perform the function.

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[1] BDD 2011-2014 "United Georgia Without Poverty"

[2] Total priority funding covered expected foreign loans, grants or co-financing, as well as state budget resources

E. ACCOUNTING, RECORDING AND REPORTING

20. In the above area of PEFA framework improvements are observed in three out of the four indicators, while one was downgraded.

21. **Overall performance of bank reconciliation of the Treasury managed accounts** has improved as a result of the introduction in December 2010 of a new Real-time Gross Settlement system (RTGS) since the latter led to robust and instantaneous transfers of banking data. Still, the rating for this indicator was downgraded owing to the fact that the previous PEFA assessment in 2008, incorrectly rated the dimension (i) because it did not take into account the timing taken for bank reconciliations of non-Treasury managed bank accounts (i.e. those managed by LEPLs).

22. **Information on resources received by public secondary schools** – important front-line service delivery units considered for the respective indictor, is presented in the regular reports produced by all public schools every six months, covering all revenues and expenses from the state budget as well their own sources. However, the consolidated bi-annual and annual reports still show only aggregate data.

23. **Improvements were made with respect to the scope of in-year budget reports in terms of coverage and compatibility with budget estimates.** In contrast to the findings reported in the 2008 PEFA, the in-year budget reports reviewed for this PEFA appear to have sufficient disaggregation to allow a comparison with the original budget.

24. **Quality and timeliness of annual financial statements improved as well,** as a result of **introduction** in 2008 of accounting guidelines and forms followed by the consolidated statements produced as of 2009. The financial statements now contain information on all receipts, payments and bank balances and financial assets and liabilities, though there is still room for further enhancements as this information is not complete and comprehensive.

F. EXTERNAL SCRUTINY AND AUDIT

25. Scores were upgraded for two out of the respective three indicators, but downgraded for the one that assesses the legislature's performance in excessing scrutiny over the budget execution.

26. **Significant progress is observed in terms of improving the scope and nature of external audit.** The State Audit Office of Georgia (SAOG) has implemented a much improved set of auditing standards and audit methodology that focus on significant and systemic issues. Institutional reforms undertaken along with strengthening the legislative framework, as well as continuous investments in building professional capacity of the auditing staff considerably improved the efficiency of the work performed by the institution. This has had a clear and positive impact on the quality of external audit.

27. **Legislative scrutiny continues to be very good regarding annual budget formulation** and has now also been strengthened regarding in-year budget amendments, following

introduction of limits to the overall increase in the state budget's expenditures and non-financial assets through the Budget Code endorsed in December, 2009.

28. **Legislative scrutiny of external audit reports however weakened over the past few years.** While timeliness of examination of the SAOG's opinion on budget execution reports remained good, the extent of hearings by the legislature has been inadequate. The lack of formal response to audit findings by the Parliament through issuance of recommendations also negatively impacted the overall performance.

G. DONOR PRACTICE

29. All of the related indicators assessing donors' practices remain unchanged.

30. **Significant financial support was pledged by donors for Georgia over the period covered by the repeat PEFA assessment.** This funding aimed at supporting the country's needs for post-conflict recovery and reconstruction. According to the authorities, data on annual forecast disbursements was received on time to be reflected in the annual budget, and quarterly amounts actually transferred during the assessment period mostly corresponded with the plans. However, direct budget support outturn fell short of the forecast by more than 15 percent in one year over this period.

31. **Project and program financial assistance accounted for around 56 percent of all donors' funding.** Information about commitment estimates is provided before the beginning of the budget year, however not in the format consistent with the Government's budget classification. Likewise, reports on disbursed amounts are received from both bilateral and multilateral donors on a regular, mostly quarterly basis. Even though information on actual transfers as presented is not aligned with the national budget classification, such format is considered by the MoF as sufficient.

32. **Less than 50 percent of aid funds are managed through national procedures.** National procedures were applied mostly to manage not earmarked budget support that represented approximately 44 percent of donor funding in 2009-2011. In the majority of cases donors' own procedures were applied in respect with procurement, registration, audit and reporting.

H. IMPACT OF PFM WEAKNESSES ON BUDGETARY OUTCOMES

33. Strengths and weaknesses in PFM have a direct impact on the budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. Georgia has succeeded since 2008 PEFA Assessment in terms of maintaining aggregate fiscal discipline. Through its centralized payment and control system and prudent approach to cash and debt management on one side and the introduction of multi-year budgeting on the other side, Georgia has been able to execute budgets as planned and dramatically improved compliance with control systems. At the same time, potential fiscal risks from LEPLs continue to pose an issue. The actions were initiated by the Government to address them by including LEPLs to fiscal

reports, at the time of the assessment the MoF did not have consolidated report to assess fiscal risk associated with the SOEs or other public entities into an annual report as highlighted by PI-9. This has the potential to undermine the achievement of aggregate fiscal discipline in the future.

34. With regards to strategic allocation of resources, Georgia has begun to make some progress in improving capital budgeting, and the new Government is committed to implementing deeper reforms in this area. Efforts were made both in the narrow sense of enhancing the information content of budget documentation in relation to capital expenditures, and also in the wider sense of initiating more systematic processes to raise the overall efficiency and effectiveness of public investment. Nevertheless, only tentative steps in the right direction have been taken so far and these need to be consolidated and extended if Georgia is to have a public investment management system that compares well with international good practice.

35. The incomplete external oversight by the legislature, as highlighted by PI-28 may undermine the efficient service delivery by the executive. The audit reports reflecting budget execution deficiencies and providing recommendations to address the latter are presented to and discussed by the Parliament. However, closer monitoring by the latter is needed to ensure the recommendations are indeed followed up eventually contributing to the improved service delivery.

INTRODUCTION

A. Objectives

36. **The 2012 PEFA assessment aimed at conducting a review of the public financial management (PFM) system in Georgia** to measure progress achieved since the first PEFA assessment in 2008 and to inform the Government's future reform program. This report presents an updated overview of PFM performance in accordance with the PEFA Performance Measurement Framework, and establishes and explains the level of improvement in performance based on the PEFA indicators scores by comparison to the results found during the previous evaluation. The results of the assessment seek to help building consensus within the Government on the PFM reform agenda going forward through extensive consultations and identification of remaining weaknesses of the system.

B. Methodology

37. **The 2012 PEFA assessment was conducted in close collaboration with the Ministry of Finance, which led the self-assessment of the indicators by the respective Government entities.** The 2012 PEFA self-assessment served as a means for taking stock of the reform efforts undertaken over the last five years and measure the success of introduction medium term expenditure framework (MTEF) and program budgeting, impact on the PFM performance of the Treasury servicing roll out and reform efforts in areas of procurement and external control. The Bank team[3] provided quality assurance for and validation of the self-assessed indicators, and prepared the complete assessment report.

38. **For the purpose of conducting the self-assessment, a Working Group was established by the MoF[4]** comprising of the representatives from the Budget, Debt Management and Internal Audit departments of the Ministry, the Treasury Service, the Revenue Service, the State Audit Office of Georgia (SAOG), the Budget and Finance Committee of the Parliament, the Budget Office under the Parliament, and the Competitiveness and State Procurement Agency (CSPA).

39. **The Bank team carried out the field work between October and December, 2012,** with fact finding missions by non-Georgia based team members in October, 2012. In the course of validation process, the team gathered and analyzed all the relevant primary information sources, including legislative acts, financial data, and reports. Information gathered during the fieldwork covers financial years 2009-2011. Therefore, any reference to the assessment period throughout the report implies the above financial years. Additional information and clarification was obtained through interviews with the government officials. Throughout the assessment process the team also consulted closely with the donors who have strong interest in PFM. These include the International Monetary Fund (IMF), which is supporting the country's economic program by a blend of a Stand-By Arrangement and Stand-By Credit Facility, the GIZ which is

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[3]The assessment team members were Elene Imnadze (Sr. Public Sector Specialist, World Bank), Mariam Dolidze, (Economist, World Bank), Oleksiy Balabushko (Sr. Public Sector Specilaist, World Bank), Ranjan Ganguli (Consultant, World Bank), and Sandro Nozadze (Procurement Specialist, World Bank)

[4] The MoF Decree #177 of May 28, 2012

advising the SAOG and the Internal Audit Department of the MoF, and the International Financial Corporation (IFC) which is helping to reform the country's tax system.

40. **The PEFA repeat assessment also** draws on the findings of the recently completed Public Expenditure Review (PER)[5], as well as other recent diagnostic work such as outputs of Public Financial Management Reform Support Project[6], and donor assessments[7]. However, most of these reports tend to analyze the progress made in key areas of public financial management as part of ongoing efforts and suggest a menu of policy reforms. In contrast, the PEFA assessment would add value to these analyses by applying a more comprehensive, standardized and indicator driven methodology that focuses less on describing reform steps undertaken by the Government than much more on measuring the aggregate outcomes of PFM systems performance.

41. **The findings of 2012 PEFA assessment were discussed** with the senior policy-makers in the MoF and the SAOG as well as the representatives of the Budget and Finance Committee of the Parliament and the CSPA. The Report was also presented to the PFM Council that is chaired by the MoF and comprises of the representatives from the Government, Parliament, the development partners and relevant civil society organizations.

42. **To ensure compliance with the good practices in the process of undertaking the repeat assessment, the criteria as per the PEFA Check were followed closely.** The concept note for the assessment was discussed and agreed upon with the MoF. The virtual concept review was completed in September, 2012 and the concept note revised in light of the suggestions provided by the peer reviewers[8]. The complete draft report was shared for peer reviewing with the MoF, PEFA Secretariat, and the EU Delegation colleagues, given the latter's substantive engagement in Georgia's PFM sector. Their respective comments were taken in consideration during the report finalization process. The revised final draft, including a table showing responses to all comments was also forwarded to the reviewers (the assessment milestones are presented in more detail in the Annex 2).

C. Scope

43. **The scope of the repeat assessment is confined primarily to the Central Government.** This comprises line ministries, services and agencies, namely the Ministry of Finance, the Revenue Service, the Treasury Service, the Competition and State Procurement Agency, the State Audit Office, the Budget and Finance Committee of the Parliament, and the National Bank of Georgia. Selected lines ministries were included along with several service delivery units (such as public schools, Civil and Public Registries, Tbilisi City Hall). The scoring of the indicators that involve processes of interaction between the Government and private sector was triangulated based on the interviews with business associations and civil society

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[5] Georgia Public Expenditure Review: Managing Expenditure Pressures for Sustainability and Growth; November, 2012; The World Bank

[6] Implementation Completion and Results Report; November, 2012

[7] Independent Assessment Report to European Union; October, 2012

[8] The peer reviewers were Arman Vatyan, Senior Financial Management Specialist (ECSO3); Cem Dener, Senior Public Sector Specialist (PRMPS); Philip Sinnett, Head of Secretariat (CDF); and Saiyed Shabih Ali Mohib Senior Economist (EASPR)

organizations. In addition, the data from Doing Business, BEEPs and other sources was used to support the scoring where available.

A. COUNTRY BACKGROUND

A. Economic Situation

44. **Georgia experienced rapid growth in excess of 9 percent per year between 2004 and mid-2008 as a result of implementing far-reaching reforms with impressive results.** However, the double shocks from the August 2008 conflict and the subsequent global economic crisis resulted in a sharp downturn in economic growth. The economy contracted by 3.8 percent in 2009, with foreign direct investment (FDI) inflows collapsing from 16.4 percent of GDP in 2007 to 6.1 percent in 2009 and exports falling from 31 percent of GDP in 2007 to 29.8 percent in 2009.

45. **Economic recovery took hold in 2010 -12 and growth rebounded to 6.3 percent in 2010, 7 percent in 2011 respectively in spite of a challenging external environment.** Weak world economic growth and a deepening Euro zone crisis notwithstanding, the country maintained high growth until the fourth quarter of 2012 at 7.5 percent. The real GDP growth slowed down in Q4 to 2.8 percent year-on-year. In the month of December alone, there was a decline of 0.8 percent in GDP (year-on-year), reflected in a 4.3 percent drop in VAT turnover. While there was a slight decline in agriculture, growth has been broad based, and was led by manufacturing (especially mineral products, food processing and alcohol beverages) and construction (driven mainly by sustained high levels of public investment). Growth in services was supported by expansion in transit (particularly to and from Armenia, Azerbaijan, and Central Asia), financial intermediation, hotels and restaurants, transport and communication. In addition, the government's efforts to promote Georgia as a tourist destination helped raise tourism revenues by 56 percent in 2012.

46. **The recovery has benefited from a pickup in exports, tourism, bank lending, and continued high levels of public investment.** At the same time, FDI inflows have remained weak at 5.5 percent of GDP in 2012, suggesting that the underlying drivers of growth are evolving in the post-crisis period, with a greater role for domestic private investment and the tradables sector. The rebound in both merchandise and services exports has played a major role in the economic recovery, with exports of goods and services up to 38 percent of GDP in 2012 from 36 percent in 2011 and 30 percent in 2009. Private investment rates have recovered strongly as well in 2012 to 29 percent, suggesting that the strong growth rebound has been facilitated in part by higher domestic savings. The economy is projected to grow by about 5 percent per year during 2013-15, which will require higher private domestic investment and productivity in the tradable sectors.

47. **Evidence on the impact of the crisis suggests that greater hardship resulted in particular from higher unemployment.** Unemployment is estimated to have increased from 13.3 percent in 2007 to 18.2 percent in 2010 and failing to drop back to pre-crisis levels. Unemployment remained at 15.1 percent in 2011 with estimated moderate improvement in 2012. Subjective measures of poverty also indicate increasing hardship, as revealed in a 2009 UNICEF

survey. In 2009, 50.9 percent of households reported that their economic situation had worsened during the past year, while only 2.3 percent said it had improved. Job loss was one of the most commonly cited reasons. The share of the population reporting that unemployment was the main problem they faced rose from 37.4 percent to 42.2 percent between 2007 and 2009. The Life in Transition Survey, conducted in 2010, also confirms that the crisis had a widespread impact, with 54 percent of respondents reporting that they were significantly affected. A greater impact was felt by the young and the lower socio-economic groups. Unlike most other transition countries, job losses (23 percent of households) were more prevalent than wage reductions (6 percent). A much higher proportion of households had to adjust their expenditures, including essential expenditures on staple foods (two-thirds of households and three quarters in the poorest third of households) and health. This was especially stark among the poorest third of households: more than half had to postpone or skip visits to the doctor after falling ill, and over a third had to stop buying regular medications during the past two years.

48. **Another important transmission channel for the crisis was household debt.** Increased borrowing during the rapid growth years left Georgian households vulnerable to the financial shock in 2008. Household loans—including mortgages, credit card debt, and other consumer credit—increased significantly as credit became more widely available. A large share of the new borrowing was denominated in foreign currencies and at higher interest rates. Households were thus exposed on three fronts when the financial crisis hit, facing higher interest rates, higher foreign exchange rates, and lower incomes. A large number of households assumed new debt during the crisis. The UNICEF survey shows that a total of 35 percent of households took out new loans during the June/July 2008 and June/July 2009 period. Assessing the poverty and distributional impacts of the shock to credit markets would require further analyses.

Table 1: Georgia Selected Economic Indicators, 2003-2012

	2003	2007	2008	2009	2010	2011	2012e
	(Annual percentage change, unless otherwise indicated)						
National Accounts							
Nominal GDP (in millions of Lari)	8,564	16,994	19,075	17,986	20,743	24,344	26,058
GDP Growth	11.1	12.3	2.3	-3.8	6.3	7.0	6.1
Agriculture	10.3	3.3	-4.4	-6.8	-4.8	8.0	-2.0
Industry	15.8	14.5	-3.9	-3.5	9.1	9.4	10.4
Manufacturing	7.9	15.9	-2.4	-6.6	12.7	13.9	14.1
Services	10.1	12.1	5.4	-4.8	10.1	6.6	5.4
CPI (in percent)	4.8	9.3	10.0	1.7	7.1	8.5	-0.9
GDP per capita (in U.S. dollars)	922	2,318	2,920	2,455	2,623	3,230	5,558
Unemployment Rate (in percent)	11.5	13.3	16.5	16.9	16.3	15.1	15.0
Gross Investment (in percent of GDP)	31.3	32.1	26.0	13.0	21.6	26.2	28.8
National Savings (in percent of GDP)	21.7	12.4	3.3	2.4	11.3	13.4	15.8
	(In percentage of GDP, unless otherwise indicated)						
General Government Operations							
Revenues and Grants	16.0	29.3	30.7	29.3	28.3	28.2	29.5
Tax Revenues	14.6	25.8	24.9	24.4	23.5	25.2	26.0
Expenditure and Net Lending	17.5	34.0	37.0	38.4	34.8	32.1	32.4

Current Expenditure	14.7	25.0	28.5	30.1	26.0	23.0	25.2
Capital Expenditure and Net Lending	2.8	9.0	8.6	8.4	8.8	8.9	7.3
Overall Fiscal Balance	-1.5	-4.7	-6.3	-9.2	-6.6	-3.6	-3.0
External Sector							
External Current Account Balance	-9.6	-19.7	-22.0	-10.5	-10.2	-12.8	-13.0
Exports of Goods and Services	32.3	31.3	28.8	29.8	34.9	36.3	38.2
Imports of Goods and Services	46.7	58.2	58.6	48.9	52.7	54.9	58.5
Workers' Remittances	5.3	6.1	5.3	6.3	6.4	7.3	7.5
FDI Inflows	8.3	17.2	12.2	6.1	7.0	7.7	5.1
Portfolio Investments	0.0	0.2	1.0	0.1	2.2	0.9	5.5
Official borrowings	0.6	0.8	5.4	4.2	5.4	2.2	3.5
Foreign exchange reserves							
(Months imports of goods and services)	1.2	2.8	2.4	4.8	4.4	4.1	3.9
(In millions of dollars)	191	1,361	1,480	2,111	2,265	2,819	2,924
External Public Debt 1/	44.9	17.5	20.9	31.4	33.6	28.8	28.1

Source*: Georgian authorities and World Bank staff estimates. 1/ Public and publicly guaranteed debt*

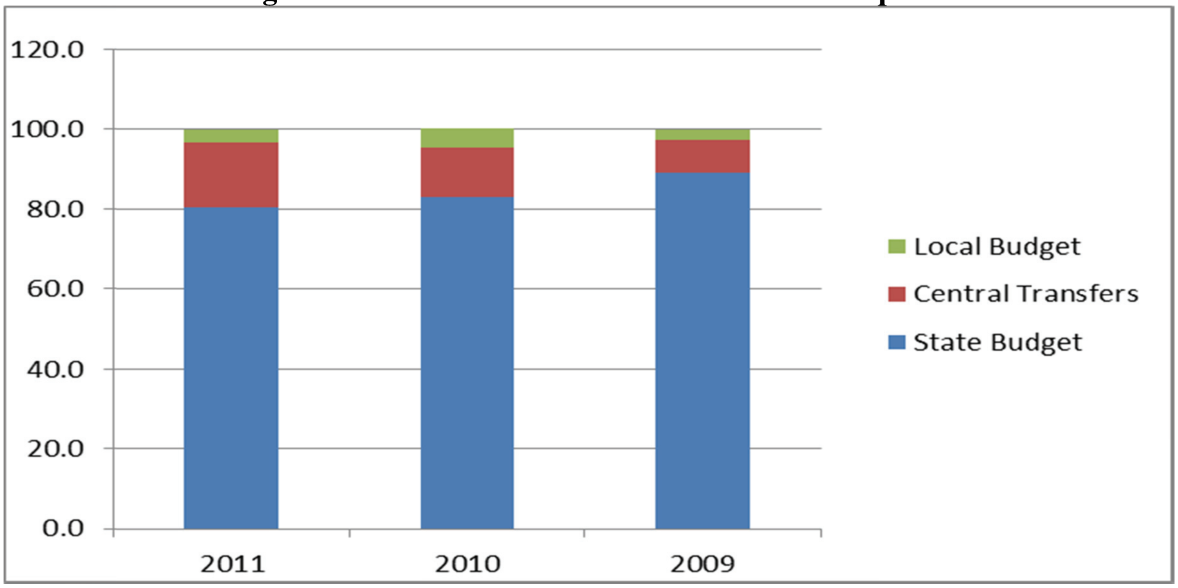
B. Structure of Government and the State Budget

49. **Georgia is a unitary state, with the** President **as the head of state.** The central government comprises executive, legislative and judicial branches. The executive branch of the central government is made up of the President's Administration and the Government of Georgia, headed by the Prime Minister and composed of 16 ministers and 3 state ministers. It also includes 157 legal entities of public law (LEPL) subordinated to the respective ministries and 3 special status legal entities of public law not subordinated to any ministry (National Statistics Office, Competition and State Procurement Agency, and Public Broadcasting). The State Audit Office is the country's supreme audit institution reporting to the Parliament. The Parliament consists of 150 members elected for a term of four years (of them 77 are elected by a proportional system and 73 by a majority system) and the staff. The judicial branch includes the Supreme Court, two appellate courts, 59 first instance courts, and the Constitutional Court. Local government comprises the two autonomous republics of Adjara and Abkhazia, 63 municipalities and 5 self-governing cities, including the capital of Tblisi. Tbilisi and other self-governing cities elect their mayors.

50. **The budgetary system of all levels of government in Georgia – state, autonomous republics, and local governments, is regulated by the Budget Code,** enacted on December 1, 2009. The Budget Code introduced a new program budget structure that was followed by all the central spending units as of FY 2012. Roll out of the program budget structure to local budgets happened in 2013 budget year.

51. **The Central Government spending represent almost three quarters of the General Government Budget.** About one quarter comes from the local budgets, of which the significant share is the state budget transfers (see Figure 1, below).

Figure 1: Structure of General Government Expenditures



52. **The Government share in the economy** is significant, as shown in the below table representing the central government budget fiscal performance:

Table 2: Central Government Budget (as % of GDP)

	2009	2010	2011	2012
Total revenue	27.3	26.1	26.2	27.5
Tax revenue	23.1	22.1	23.8	24.6
Non-tax revenue, capital revenue and grants	4.2	4.0	2.6	2.9
Total expenditure	34.9	31.3	28.2	28.3
Non-interest expenditure	34.0	30.3	27.0	27.3
Interest expenditure	0.9	1.0	1.2	1.0
Aggregate deficit (including grants)	-7.5	-5.1	-1.9	-0.8

Source: *Ministry of Finance*

53. **The changing composition of public expenditure over the last three years** reflects the Government's response to sever economic shock caused by August 2008 conflict and aggravated further by 2008-2009 global economic crises. As a result of 2009 fiscal stimulus, total expenditure increased by 11.4 percent in real terms (from GEL 6.7 million in 2007 to GEL 7.5 million in 2009). The GoG scaled up public investments in selected sectors aiming at supporting long term growth and employment, and also increase social benefit, health and education expenditures. Fiscal stimulus was followed by fiscal adjustment during 2010-2011 to augment priority infrastructure investments, hold the line on social expenditures in real terms, and continue with consolidating other expenditures[9]. Central government budget allocations are summarized in the Tables 3 and 4 below:

[9] Georgia Public Expenditure Review: Managing Expenditure Pressures for Sustainability and Growth, November 2012; pg. 13

Table 3: Actual Budget Allocation by Economic Classification (as % of total expenditure)

Expenditure Item	2009	2010	2011	2012
Current expenditure	85.5	84.3	84.9	90.0
Wages and salaries	15.0	15.3	14.8	14.5
Goods and services	14.0	13.6	14.4	14.6
Interest payments	2.7	3.1	4.1	3.4
Subsidies	7.1	3.0	2.9	3.4
Grants	13.7	17.0	16.3	16.7
Social security	22.6	22.8	22.5	23.6
Other	10.4	9.5	10.0	13.9
Capital expenditure	14.5	15.7	15.1	10.0

Source: *Ministry of Finance*

Table 4: Actual Budget Allocation by Sector (as % of total expenditure)

Expenditure item	2009	2010	2011	2012
General public services	25.1	27.8	26.5	25.5
Defense	13.8	10.3	10.4	9.8
Public order and safety	13.6	12.8	12.3	11.9
Economic affairs	12.2	12.0	13.0	12.9
Agriculture, forestry, fishery, hunting	1.1	0.4	0.5	2.9
Fuel and energy	0.4	0.5	0.8	1.1
Construction	0.0	0.0	0.1	0.0
Transport	8.0	8.4	8.6	5.3
Environmental protection	0.5	0.3	0.4	0.3
Housing and community amenities	0.0	0.4	0.5	0.7
Health	5.3	6.4	5.3	5.1
Recreation, culture and religion	2.2	2.6	2.3	2.7
Education	7.3	7.8	8.2	9.0
Social protection	19.9	19.7	21.1	22.1
Total	100	100	100	100

Source: *Ministry of Finance*

C. Legal and Institutional Framework for Public Financial Management

54. **Georgian legal and institutional framework for PFM is well defined and comprehensive** and reflects several major legislative changes that have been implemented since 2008 PEFA report. Currently PFM roles and responsibly are spelled under the following pieces of legislation:

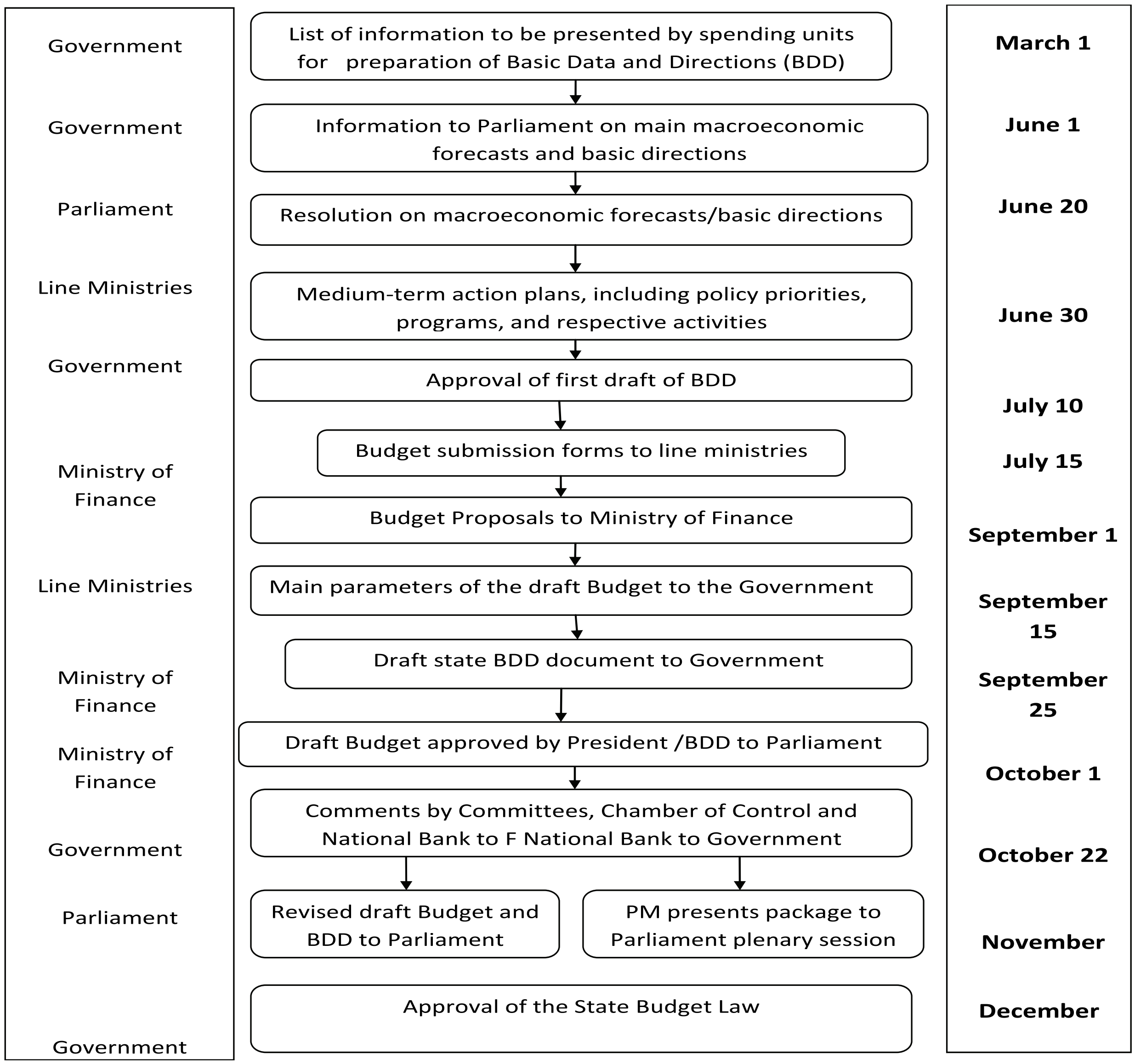
- Constitution of Georgia establishes respective rights and obligations of the legislative, executive and judicial branches of the government in budgeting process, also responsibilities of the state audit institution;

- The Budget Code approved in 2009 unifies the legal framework for budgeting at all levels, better integrates the Basic Data and Directions document, program budgets, and the public investment program into the annual budget cycle, making each of these a legal requirement, and harmonizes the calendar for each of these components;
- Tax Code approved in 2010 spells out the tax policy and the main principles of taxation system and its administration, and regulates the customs related issues;
- Law on Sate Procurement sets forth the general principles for legal, economic and organizational rules for conducting state procurements;
- Law of State Audit Office approved in 2008 and amended in 2011 defines the status and guarantees of independence for as well as the authority, operation and organization of the country's supreme audit institution;
- The Code of Ethics of the Auditors of the State Audit Office sets the general principles defining the rules of their conduct and aims at facilitating the full and efficient performance of functions of the SAOG;
- Law on State Internal Financial Audit approved in 2010 regulates the rules and principles for introducing internal financial audit and serves as basis for developing respective methodology, standards and institutional arrangements.

55. The above laws are further supplemented by a secondary legislation. The Annex 4 lists the full set of respective regulatory and normative acts.

56. **The budgeting process in Georgia involves** the executive branch in charge of the State Budget preparation and execution, and the legislature that approves the State Budget and amendments thereto, and controls its execution through the State Audit Office. The latter is responsible for providing the Parliament with opinion on the previous year budget execution as well as on the draft budget for the coming year. The budget process is presented in the Diagram 1 below:

Diagram 1. **Budget Process in Georgia**



57. **The MoF plays the key role in public financial management in general as well as particularly in managing budgeting process.** The organization structure of the Ministry is presented in the Annex 6. The division of the key responsibilities within the Ministry is as following:

- The Budget Department (BoD) is in charge of budget planning and management, including preparation of an annual budget and MTEF as well as central, local and consolidated budget execution reports (BER). The BoD is also responsible for compiling the BDD based on the inputs provided by the line ministries. Besides, the BoD leads the introduction of program and capital budgeting through elaboration of respective methodology and guidelines, is closely involved in further refining the budget legislation and upgrading the e-budgeting system, maintains the data base of LEPLs for budgeting and reporting purposes, and is responsible for quality control of information presented by all spending units for budget planning and reporting purposes. Fiscal Forecasts Department (FFS) provides inputs to the BDD through macro-fiscal monitoring and projections and participates in preparation of the annual BERs;

- The responsibilities of the Treasury Service (TS) include management of the treasury single account (TSA), execution of budget expenditures, accounting the revenues to the central and local budgets, contributing to the preparation of the state budget execution report, tax and other repayments, accounting and operating deposits by budgetary organizations, managing government's deposits, managing and monitoring credits issued from the budget. The TS also leads the accounting and reporting reform, including elaboration of respective methodology;
- The Internal Audit Department (IAD) of the MoF monitors the activity of the Ministry to ensure adherence with the legislation, develops recommendations aimed at strengthening the effectiveness and efficiency of the MoF, identifies and assesses risks for the management's consideration, assesses the adequacy of information safety as well as protection of the Ministry's assets and other resources, monitors the MoF staff adherence with the legislation requirements and initiates disciplinary processing when appropriate. The IAD also coordinates internal audit related issues for the public sector;
- The Revenue Service (RS), a legal entity of public law under the MoF administers collection of taxes, customs fees and other levies, exercises tax and customs control, serves the tax payers, participates in reviewing tax complains, contributes to elaboration of the respective legal framework as well as by-laws related to tax reporting, licensing fees and permits;
- The Financial and Analytical Service (FAS), a legal entity of public law under the MoF is responsible for information and communication infrastructure needed for effective functioning of the Ministry. It develops and makes operational respective software solutions, conducts needs analysis, ensures information safety protection, provides operational and technical support as required.

B. ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

A. Budget Credibility

PI-1 Aggregate expenditure outturn compared to original approved budget (M1)

Indicator measures the government's ability to implement the budgeted expenditure as an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
PI-1: Aggregate expenditure outturn compared to original approved budget (completed FYs '09-'11)	A	D	Deviation between the actual budget expenditure and the originally budget expenditure as approve by the Parliament exceeded 5% only in 1 out of 3 completed FYs

2012 Assessment

58. In spite of the economic crisis and conflict with Russian Federation that affected country's development in 2009-2011, the expenditure outturn was close to approved budget figures. The aggregate expenditures (current and capital expenditures, excluding service of debts and donor-funded projects) of the state budget exceeded initially approved allocations by not more than 10%[10]. Cash execution of expenditures for 2009 exceeded the initially approved budget expenditures by only 1.4 %. In 2010 the difference was higher (4.4%), but still within the 5% range. In 2011 deviation between approved and executed budget expenditures was 7.5 %.

59. The Government of Georgia utilized conservative approach to budget planning and as a result, budget deficit was reduced faster than planned. Meanwhile, over the period of two years (2010 and 2011) both revenue and expenditure sides of the state budget expanded as reflected in in-year supplements to the budget, which led to the increasing expenditures in 2010 and 2011 [**Dimension (i) –A**].

Table 5: Georgian State Budget Indicators of 2009-2011

Thousand Laris

	2009	2010	2011
Plan of overall expenditures (a)[11]	6,248,648.1	6,473,355.1	6,611,590.4
Actual execution of total expenditures (b)	6,274,268.5	6,486,731.9	6,862,924.8
Approved plan of debt service (interest) (c)	182,796.9	229,856.1	314,295.3
Cash performance of debt service (interest) (d)	167,177.4	200,663.3	282,699.6
Plan of expenditures of projects funded by donors (e)	706,843.2	870,275.1	781,728.4
Actual execution of expenditures of projects funded by donors (f)	671,982.3	675,345.5	651,672.9
Plan of total expenditures excluding the interest and project funded by donors (g)=(a)-(c)-(e)	5,359,008.0	5,373,223.9	5,515,566.7
Actual execution of total expenditures excluding the interest and projects funded by donors (h)=(b)-(d)-(f)	5,435,108.8	5,610,723.1	5,928,552.3
Difference (i)=(h)-(g)	76,100.8	237,499.2	412,985.6
Overall variance (k)=(j)/(g)	**1.4%**	**4.4%**	**7.5%**

[10] Initially approved allocations as envisaged by the Law of Georgia on Annual Budget of the respective year approved by the Parliament of Georgia in December of the preceding budget year; the data of budget execution as per the annual reports of the budget of the respective year.
[11] Overall expenditure shown without donors' funding and debt service.

Source: *Laws of Georgia "On 2009 State Budget", "On 2010 State Budget" and "On 2011 State Budget" (the initial laws as approved before the start of the respective budget year, without amendments); annual reports of state budget execution for respective years*.

Performance Change / Other Factors

60. The major change is improved aggregate fiscal discipline leading to close to targets outturn of the budget in 2009-2011. The budget plans were based on improved macro-fiscal forecasts undertaken by the Ministry of Finance.

PI-2. Composition of expenditure outturn compared to original approved budget (M1)

This indicator assesses the structural variations in budget execution as compared to planned numbers to examine the extent to which budget is used as an instrument to implement government policies.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-2: Composition of expenditure outturn compared to original approved budget	B+	C	
(i) The expenditure composition outturn during the last three year, excluding contingency items (completed FYs'09-'11)	B	NA	Variance in expenditure composition (excluding contingency items) remained within 10% during the last three years
(ii) The average amount of expenditure actually charged to the contingency vote (completed FYs '09-'11)	A	NA	Actual expenditure charged to the contingency vote remained within 2% during the last three years

2012 Assessment

61. **The expenditure composition outturn during the last three year** continues to vary across the spending agencies, but has shown improvements when compared with the previous assessment period. In some cases the high variance could be explained by institutional reforms of the recent years which encompassed abolishment of government agencies and establishment of the new ones. New ministries were established, namely, the Ministry of Corrections, Probation and Legal Assistance, Ministry of Sport and Youth of Georgia, Ministry of Regional Development and Infrastructure of Georgia, existing ones were liquidated or reorganized with respective responsibilities re-distributed among other agencies. The difference between actual and approved expenditure was particularly high in some agencies (135.7% at the Ministry of Finance in 2009, 154.1% at the Ministry of Economy and Sustainable Development and 127.2% at the Ministry of Energy and Natural Resources in 2011). Still, the average annual variations across the largest heads did not exceed 10% in any of the reviewed years. The table below

summarized the variance in 2009-2011 according to PEFA methodology[12]. The detailed data supporting the scoring is presented in the Annex 5 [**Dimension (i) – B**].

	2009	2010	2011
Variance in expenditure composition	9.5%	9.8%	7.6%

62. **The average amount of expenditure actually charged to the contingency vote** over the last three years did not exceed 2%. This is also in line with the Budget Code[13] requirement that limits the allocations from the special reserve funds to 2% of the total annual budget allocation in the given year. As shown in the Table 6 below, the average expenditure charged to the reserve funds over the last three years amounts to 1.8 % [**Dimension (ii) – A**].

Table 6: State Budget of Georgia, 2009-2011

Thousand Laris

	2009	2010	2011
Total approved expenditures for 20 biggest spending units	5,359,008.0	5,373,223.9	5,515,566.7
Total expenditure less interest, donors and reserve funds	5,259,008.5	5,323,223.9	5,515,566.7
Actual expenditures from the reserve funds	93,853.1	104,003.3	98,619.8
Absolute difference between the amended plan and the fact	506,817.6	540,090.5	443,254.8
Execution in respect with the specified plan % (first dim.)	9.5%	9.8%	7.6%
Expenditures made from the means of reserve funds in respect with the initial approved plan (average of last three years) % (second dimension)	1.8%	1.9%	1.8%
		1.8%	

Source: *Laws of Georgia on 2009 State Budget of Georgia, on 2010 State Budget of Georgia and on 2011 State Budget of Georgia as originally (the original law approved before the start of the respective budget year, excluding chanages); annual reports of state budget execution of respective years).*

Performance Change / Other Factors

63. The above assessment reflects the revision to the respective indicator as approved by the PEFA Steering Committee in January 2011. Enactment of the Budget Code in 2009 and strengthening of the MTEF contributed to improved fiscal discipline across the spending units.

PI-3 Aggregate revenue outturn compared to original approved budget (M1)

[12] The steps in calculation for each year are as follows:
- For each budget head selected for composite variance analysis (i.e. excluding contingency items), calculate the "adjusted" budget (this is {the original budget for each head, multiplied by aggregate actual expenditure divided by aggregate budget}).
- For each budget head, calculate the deviation between actual expenditure and adjusted budget.
- Add up the absolute value of the deviations for all budget heads (absolute value = the positive difference between the actual and the budget figures). Do not use percentage deviations.
- Calculate this sum as a percentage of the total adjusted budget (i.e. total actual expenditure).

[13] The Budget Code of Georgia, Chapter IV, Article 28.

This indicator compares actual total domestic revenue to the originally budgeted domestic revenue for the past three fiscal years.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
PI-3: Aggregate revenue outturn compared to original approved budget (completed FYs '09-'11)	B	A	Actual domestic revenue collection was between 94% and 112 % of budget domestic revenue in two of the last three years

2012 Assessment

64. The data on budgeted and actual domestic revenues has been consistently presented in the Law on Annual Budget since 2007 and are readily available on the MoF website[14]. The data is desegregated by major revenue heads and further broken down by types of revenue.

65. The 2009 initial revenue forecast was based on the projected economic growth of 2.5 % and inflation of 7.0 %. However, due to 2008 conflict with Russia and world economic crisis, the economy contracted by 3.8% in 2009 and inflation was 3.0 %. The GDP deflator was reduced by 2.0 %. As a result, the revenue execution in 2009 was 91.2 % of the forecast, with tax revenue collection of 87.4 %. The 2009 Law on State Budget was amended respectively, with both macro-economic forecasts and budget revenues adjusted. Hence, revenue execution as compared with plans envisaged by these amendments was 101 %.

66. 2010 budget revenue execution was 103 % of the initial forecast. The economy was projected to grow by 2.0 % in 2010 with the average annual inflation projected at 3.0 %. This reflects the actual economic growth of 6.3 % in, the average annual inflation of 7.1% and the deflator of GDP of 8.5 %. Conservative projections for 2011 (economic growth of 4.5% and inflation of 7%) again contributed to over-performance of 111.5 % (109.5% for tax revenues), since economy grew by 7 %, average annual inflation was 8.5 %, and GDP deflator was 9.2 %.

67. For the purpose of revenue projections, in addition to the macro-economic indicators, the changes in tax policy and measures planned to improve tax administration were taken into consideration. These included the tax rate adjustment and changes in the tax base. It proved difficult to accurately predict the impact of tax policy and tax administration alterations on the budgetary revenues, as demonstrated by 2011 budget execution [**Dimension (i) –B**].

[14] http://www.mof.ge/4979

Table 7: Revenue of State Budget of Georgia, 2009-1011

Thousand Laris

		Domestic revenues[15]	Including		
			Tax revenues	Non-tax revenues	Capital revenues
2009	**Approved**	5,143,490.0	4,760,000.0	305,190.0	78,300.0
	Actual	4,689,624.2	4,161,738.0	367,543.9	160,342.3
	Actual as % of approved	91.2%	87.4%	120.4%	204.8%
2010	**Approved**	4,935,009.0	4,382,000.0	343,009.0	210,000.0
	Actual	5,096,826.9	4,592,367.6	357,683.4	146,775.9
	Actual as % of approved	103.3%	104.8%	104.3%	69.9%
2011	**Approved**	5,750,000.0	5,300,000.0	300,000.0	150,000.0
	Actual	6,409,031.3	5,801,989.3	417,221.7	189,820.3
	Actual as % of approved	111.5%	109.5%	139.1%	126.5%

Performance Change / Other Factors

68. Compared with the situation during the period covered under the previous PEFA assessment, the actual domestic revenue outturn improved from 123.5 % in 2006 to 111.5 % in 2011.

69. The downgrading of the score reflects the change in PEFA methodology as per revision of January, 2011(introducing the upper margin). The score would have remained A if the same methodology was applied as in 2008.

[15] Domestic revenues are defined as the total tax revenue, non-tax revenue and revenue from capital. Grants are not included.

PI-4 Stock and monitoring of expenditure payment arrears (M1)

This indicator considers to what extent the stock of expenditure arrears of General Government is known and represents a concern, as well as to what extent it is being monitored in order to be controlled.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-4: Stock and monitoring of expenditure payment arrears	A	B+	
(i) Stock of expenditure payment arrears (as percentage of actual total expenditure for the corresponding fiscal year) and any recent changes in the stock (end of FY'11)	A	A	The stock of arrears is below 2%. Treasury Service has a system for monitoring expenditure arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears (end of FYs '10-'11)	A	B	Treasury Service generates reliable data on stock of arrears quarterly and annually; age profile is monitored manually, though not on a regular basis.

2012 Assessment

70. **Stock of expenditure payment arrears (as percentage of actual total expenditure for the corresponding fiscal year) and any recent changes in the stock –** payment commitments and arrears are regulated by the Budget Code[16] and annual budget laws. Treasury Service keeps information on credit liabilities, including the cases when services and/or goods are delivered, but respective acceptance documentation/invoices are submitted towards the end of the reporting period allowing for no time for the payments to be made within the same reporting period. Treasury Service also records the pending payments for construction works, when works are finalized and acceptance documentation is prepared, but final payment is subject to expiration of probation period or period for remedying failures identified by the client. However, such liabilities are not considered as arrears and therefore are not taken into account as the stock of the payment arrears. The stock of arrears as registered in the Treasury Service by the end of 2011 amounted to 121.1 million GEL, constituting 1.8 % of the net expenditure. Significant share of these arrears (more than 95 million GEL) were generated before 2005 [**Dimension (i) –A]**.

71. **Availability of data for monitoring the stock of expenditure payment arrears –** Treasury Service maintains complete information on all stages of expenditure, including commitments, release of funds, verification, and payments for each spending agency. This information is updated quarterly and annually on the basis of balances submitted by the budgetary organizations. Legal entities of public law are required to submit their quarterly balance sheets to the Treasury Service as of 2009[17], with 12 pilots introduced in 2009 and rolled

[16] The Budget Code, Chapter V
[17] Law on Legal Entities of Public Law

to almost all LEPLs by 2011, covering around 90% of the respective budget allocations [**Dimension (ii) –A]**.

Performance Change / Other Factors

72. Improvements reflect introduction of computerized commitment module and increased capability to collect information on stock of arrears of legal entities of public law.

B. Comprehensiveness and Transparency

PI-5 Classification of the budget (M1)

The indicator is assessing the existence of robust budget classification system that would allow the tracking of spending by administrative unit, economic, functional and program.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-5: Classification of the Budget (last completed FY '11)	A	B	The budget formulation and execution is based on GFS/COGOG standards. Functional classification covers 10 main functions in line with GFS classification with sub-functional classification applied at five-digit level.

2012 Assessment

73. **Administrative**, functional and economic classifications exist for national government compliant with GFS 2001 standards since 2008. Government expenditures, both during budget formulation and execution, are classified according to the Classification of the Functions of Government (COFOG) at five-digit level. The legal entities of public law (LEPLs) are not appropriately categorized within GFS as some LEPLs report to line ministries, others to local governments. The share of LEPS covered by the budget has been growing overtime with considerable number of LEPLs covered in 2011 budget and 2012 budget covering all LEPLs that could be considered part of the central government [**Dimension (i) – A]**.

Performance Changes / Other Factors

74. There was a lot of progress in improving budget classification since the last PEFA assessment. This included implementation of the GFS 2001 compliant classification for central budget in 2008 and for local budgets in 2009, which includes economic classification of revenues and expenditures, functional classification of expenditures and non-financial assets as well as the classification of financial assets and liabilities and transactions on them. The classification was approved by the MoF decree on budget classification (excluding, organizational and program classification).[18] The GFS 1986 standard is also used for the purposes of macro-economic forecasting.

[18] Decree N 672 of August 25, 2010 of the Ministry of Finance of Georgia.

75. Besides, the organizational classification is used in the process of planning, execution and reporting which has been substituted by the program classification (programs and sub-programs under spending entities) for the state budget of 2012 due to moving to the program budget. A similar change was applied to local government units from 2013.

PI-6. Comprehensiveness of the information included in budgetary documentation (M1)
The indicator is assessing whether annual budget documentation represents complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-6: Comprehensiveness of the information included in budgetary documentation (2012 budget presented to the legislature)	A	A	The 2012 budget documentation fulfills 8 of the 9 information benchmarks required. Information on total financial assets was not represented.

2012 Assessment

76. **The budget documentation in Georgia meets 8 out of 9 criteria.** The details on the criteria fulfillment are below.

- **Macro-economic forecasts, small aggregated, inflation and exchange rate indicators** – macro-economic indicators are a constituent part of the budgetary documentation in which the information is presented not only about inflation and aggregated indicators of economic growth, but it also contains national reports/accounts, balance of aggregated indicators of revenues and expenditures and taxes and other macro-economic variables. Besides, the data are presented for the past 2 years as well as the current year, planned year and three year forecast;
- **Fiscal deficit envisaged in accordance with GFSM and other international standards -** fiscal deficit in the 2012 budget draft was presented according to GFS 2001 standard;
- **Sources and the structure of financing the deficit –** sources of funding the deficit were represented in the budgetary documentation as domestic and foreign;
- **Total volume of the debt for at least the beginning of the current year** – the information about the total forecasted volume of the debt represented in the draft of the budget for the end of the year to be planned in respect with both internal and external debt. The structure of both of them is represented according to creditors/types. Budget appendices also include forecasts of the overall volume of the debt (internal and external separately) for the past, current, to be planned and to be planned +4 years periods;
- **Financial assets, for at least the beginning of the current year –** the 2012 budget project included information regarding the changes of financial assets for the current and past years as well as the one to be planned. However, the information regarding total financial assets was not represented;
- **Indicators of the budget performance of the previous year in the same format as in the budget of the year to be planned -** the draft 2012 budget included information according to the budget classification;
- **The budget of the current year or indicators of its performance are represented in the same format as the draft of the year to be planned -** the draft 2012 budget

included the information in accordance with budget classification for the year to be planned as well as the past and current years in the same format;

- **Aggregated indicators according to main codes of budget classification for revenues and expenditures for past and current years as well as the one to be planned -** the information about revenues and expenditures was presented according to all main articles of budget classification for all three years (past, current and planned). Aggregate revenue and expenditure indicators are presented according to main categories of budget classification the medium term period (past, current, planned and 3 year forecast);
- **Explanations regarding new initiatives and according to main initiatives related with all revenues and expenditures on budgetary impact** – the draft budget, its appendices, explanatory note and related/attached documentation, including, the Basic Data and Directions document of the country include in-depth and comprehensive information about new initiatives of the government, priorities of state budget spending units and measures and activities implemented within their scope. Both description of activities and their expected outcomes are represented. Overview of macro-economic and fiscal parameters is also represented for past and current years as well as in respect with forecasts which will definitely include/reflect the information regarding new initiatives planned in respect with revenues. The Basic Data and Directions document together with the draft budget is also submitted to the parliament which includes the total program of the government and explanation of its all initiatives as well as expected outcomes. The explanatory note of the budget reflects the impact of new initiatives on the revenue part. The effect of new initiatives in respect with expenditures is given in the draft budget itself.

Performance Change/ Other Factors

77. There were no major changes since the last PEFA assessment, where Georgia also scored well on comprehensiveness of budget documentation fulfilling 7 of the 9 information benchmarks reburied. The explanation of budget implications of new policies represents the new element added.

PI-7. Extent of unreported government operations (M1)

The indicator assesses the extent to which annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public cover all budgetary and extra-budgetary activities of central government, including donor financed projects, to allow a complete picture of central government revenue, expenditures across all categories, and financing.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-7: Extent of unreported government operations	A	B+	
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports (last completed FY'11)	A	B	The level of unreported extra-budgetary expenditure is insignificant.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports (last completed FY'11)	A	A	Complete income/expenditure information is provided for donor-funded projects, with possible exception of some small projects, mostly reflecting in-kind inputs.

2012 Assessment

78. **The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports -** the principle of comprehensiveness defined by the Budget Code[19] implies full reflection of budget revenues, expenditures and other sections of the budget. Following introduction of the treasury single account (TSA), all revenues are registered at the TSA and all expenditures are included in the state budget report. As for the revenues generated by LEPLs, they are not included in the budget but are de facto part of the central government. The law on 2011[20] state budget required more than 98 % of LEPLs to submit to the MoF the information about their monetary flows. According to the BER for 2011, 65.1% of the revenues reported by these LEPLs came from the budget, 34.8 % was generated from other sources outside the budget and 0.1 % came from the grants. This information is consolidated by the Treasury bi-annually in the state budget execution report. The information is presented by each LEPL and in aggregated form. According to the BER for 2011, 65.1% of the revenues reported by these LEPLs came from the budget, 34.8 % was generated from other sources outside the budget and 0.1 % came from the grants. Revenues generated by LEPLs in 2011 represented 10% of the overall revenues to the state budget. As of 2012, the requirement has been rolled out to all legal entities of public law[21] [**Dimension (i) – A]**.

[19] The Budget Code of Georgia, Article 4, part one, sub-point "a"
[20] Law of Georgia on State Budget of Georgia of 2011 (article 28); decree of the government of Georgia N 162 of April 1, 2011
[21] Law of Georgia on State Budget of Georgia of 2012 (article 30); decree of the government of Georgia N 111 of March 23, 2012

79. **Income/expenditure information on donor-funded projects which is included in fiscal reports** -while planning the state budget, revenues and expenditures reflect all funding from the donors. The draft budget may not cover only a small part of donor assistance which is received in kind or as a donor executed technical assistance. However, all information is presented in the annual budget execution report [**Dimension (ii) – A]**.

Performance Change / Other Factors

80. The consolidation of LEPLs revenue and expenditure information in budget execution report represents considerable step forward and resulted in improving of the overall score.

PI-8. Transparency of inter-governmental fiscal relations (M2)

The indicator is assessing whether the IGF relations ensure allocative transparency and medium-term predictability of funds available for planning and budgeting of expenditure programs by sub-national governments.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
PI-8: Transparency of intergovernmental fiscal relations	A	B	
(i) Transparent and rules-based systems in the horizontal allocation among SNG (last completed FY'11)	B	B	The 53% of central government transfers was allocated through transparent and rules based system.
(ii) Timeliness of reliable information to SNG on their allocations from central government (last completed FY'11)	A	A	The SNGs are provided with the reliable information on the appropriations before the start of their detailed budgeting process.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories (last completed FY'11)	A	C	Fiscal information, consistent with central government reporting is collected for all SNGs monthly and consolidated into annual report within 6 months of the end of the fiscal year.

2012 Assessment

81. **Transparency and objectivity in the horizontal allocation among sub-national governments (SNG) -** the Budget Code envisages three types of transfer, including, equalization transfer which is not earmarked and is distributed by the formula which is defined by the budgetary code and the MoF decree[22]. For the purposes of the formula of equalization transfer, the total volume of budgetary expenditures and growth of non-financial assets of local self-government units is linked to the volume of nominal GDP. According to the formula, the volume of equalization transfer for every municipality depends on the difference between the potential revenues and expenditures to be made.

[22] Decree N 904 of the Minister of Finance of Georgia of December 30, 2009 on Approving the Instruction on Calculating the Equalization Transfer.

82. The SNGs also receive earmarked transfers to finance implementation of responsibilities delegated to them. The third type of transfer is a special transfer mostly targeted towards investments in infrastructure or elimination of damage caused by natural disaster.

83. Equalization and purpose transfers are clearly rule-based. The special transfers are not distributed according to strict rules. The share of rule-based transfers was only 37% in 2009, but increased gradually to 53% in 2011as shown in the Table 8 below [**Dimension (i) – B]**.

Table 8: Share of Rule Based in Overall Transfers to Local Government, 2009-2011

Million Laris

	2009	2010	2011
Rule-based transfers	291	534	638
Non-rule based transfers	505	554	569
Rule-based transfers as share of total transfers	37%	50%	53%

Source: *Budget execution reports*

84. **Timeliness of reliable information to SNG on their allocations** – the Budget Code defines the procedures for allocating the state budget appropriations to the SNGs[23]. The MoF provides the local self-government units with the financial parameters by July 15 of every year. The local-governments then start preparation of their respective budget proposals. By October 5 of each year they are informed about the financial allocations envisaged by the draft state budget. The above provisions of the Budget Code have been routinely followed [**Dimension (ii) – A]**.

85. **Extent of consolidation of fiscal data for general government according to sectoral categories -** the consolidated budget indicators are updated monthly, covering consolidated indicators of state budget, as well as budgets of the SNG units and autonomous republics by main categories of the budget classification. The information is publicly available at the MoF web-site. The SNGs and autonomous republics approve their respective budget execution reports by no later than May 1 of each year and submit to the MoF for further consolidation.[24] [**Dimension (iii) – A]**.

Performance Change / Other Factors

86. The increasing reliance on rule-based transfers is a positive development since 2008 PEFA assessment. The third sub-dimension of the indicator has considerably improved following implementation of the GFS 2001 compliant budget classification and introduction of E-Treasury system.

[23] The Budget Code, Chapter XI
[24] The Budget Code, Chapter XIV, Article 88 and Chapter XVIII, Article 111

PI-9. Oversight of aggregate fiscal risk from other public sector entities (M1)

This indicator evaluates the capacity of the central government to consolidate and monitor fiscal information of public sector entities in order to access total fiscal risk, including debt service defaulting (with or without guarantees issued by central government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded core obligations.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
PI-9: Oversight of aggregate fiscal risk from other public sector entities	C+	C+	
(i) Extent of central government monitoring of AGAs and PEs (last completed FY'11)	C	C	Audited annual financial statements are provided by major SOEs to SEMA (as of 2011). The annual consolidation is rather fragmented by SEMA without focusing on the SOE fiscal risk incurred by the state. Aggregating annual fiscal risk of SOEs + LEPLs is monitored by the MoF, but not consolidated into an annual report.
(ii) Extent of central government monitoring of SN governments' fiscal position (last completed FY'11)	A	A	SN Governments cannot generate any liabilities without the authorization of the MoF. The MoF produces monthly, quarterly and annual consolidated budgets reflecting the fiscal position of the SNs

2012 Assessment

87. **Extent of central government monitoring of autonomous government agencies (AGAs) and public enterprises (PEs)** - the Georgian public sector comprises the central Government units, the local self-governments (LSGs), the LEPLs and the state-owned enterprises (SOEs). The LEPLs are generally subordinated to line ministries and report to sector ministers or in certain cases to the MoF. Most of the SOEs are monitored by the State Enterprise Management Agency (SEMA), which reports to the Minister of Economy and Sustainable Development (MoESD).

88. There are up to 2,330 LEPLs, of which 2,130 are public schools. According to the 2011 legal act[25] all public schools (consolidated at resource centers' level) and 160 other LEPLs are requested to submit reports to the MoF, while since 2012[26] all LEPLs except National Bank of Georgia, religious entities and regulators are requested to report to the MoF as defined by the decree (respective reporting forms are provided). Consolidated report is not yet available.

89. There were 1,030 registered SOEs under SEMA, 51 SOEs under liquidation regime, 111 SOEs under the local self-governments and 15 SOEs under respective ministries by 2011. All SOEs under SEMA were required to submit fiscal reports including included total liabilities and

[25] Government Decree #163, April 2011
[26] Government Decree #111, March 2012

profits and losses by enterprises to SEMAs annually[27]. SEMA was responsible to consolidate these reports however consolidation effort was fragmented and demand-based. In 2012 the government issued a decree that requires 18 major SOEs to submit financial reports including cash flow and information on profits and losses to the ministry of finance. The total revenue of 18 SOEs is around GEL1,200 million, while the rest of the SOEs only report GEL160 million to SEMA. Therefore, the coverage is around 88 percent. By 2012 there were only 416 SOEs under SEMA and 31 are under liquidation regime. The drastic reduction is a result of liquidation, consolidation, privatization and transfers to local self-governments. As of 2011 however the MoF does not have consolidated report to assess fiscal risk associated with the SOEs or other public entities into an annual report, as required by PEFA [**Dimension (i) – C**].

90. **Extent of central government monitoring of sub-national (SN) governments' fiscal position** - there are 69 local self-governments and 2 autonomous republics. They submit budget execution reports to the MoF as required by the ministerial decree.[28] The consolidated budget [29] produced by the MoF monthly, quarterly and annually reflects the budget position of autonomous republics and local self-government units. Local self-governments cannot issue debt or undertake any other financial liability without the authorization of the MoF[30] [**Dimension (ii) – A**].

Performance Change / Other Factors

91. There has been no major change since the previous PEFA assessment.

PI-10. Public access to main fiscal information

This indicator evaluates whether the general public or, at least, the relevant interest groups have access to key information about fiscal plans, position and performance of Central Government in an opportune and simple manner.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
P1-10: Publicity of key fiscal information (last completed FY'11 and current FY'12)	A	B	The government makes available 5 out of 6 listed types of information

2012 Assessment

92. Fiscal information is accessible on a number of websites maintained by the respective Government bodies, among them the Ministry of Finance[31], the State Audit Office of Georgia[32],

[27] The MoESD Decree # 1-1/1563, September 2010
[28] The MoF Decree #241, April 2009
[29] http://www.mof.ge/ConsBudget
[30] Budget Code of Georgia, Chapter II, Article 20
[31] The website of the MoF is at http://www.mof.ge
[32] The website of SAOG is www.sao.ge

the Competition and State Procurement Agency[33], and the Parliament[34]. The National Bank of Georgia[35] publishes comprehensive fiscal information, including monthly updated statistics on public external debt, net claims on central and local governments, and treasury securities. Several line ministries and central government bodies[36] also publish their annual budgets on the respective web sites.

93. In addition, the citizen's guides to 2009, 2010 and 2011 state budgets, with updated data of the country's financial and economic indicators, were produced by the MoF, with the hard copies disseminated to the key stakeholders and digital versions placed on the MoF. Also, the Summary Version of the Government's Basic Data and Directions[37] for 2009-2012 was made available both in hard copies and electronically.

94. Five out of listed six types of information that are assessed under the PEFA methodology are publicly accessible although with varying degree of comprehensiveness, namely:

- **Annual budget documentation** – since 2008 the originally approved versions of the annual state budget are published on the MoF website along with the in-year amendments thereto; the 2012 budget draft with its appendices was published on the MoF web-site immediately upon submission to the Parliament of Georgia on November 30, 2011. The 2013 budget draft is also placed on the web-site envisaging all the submissions. The Basic Data and Directions (BDD) for 2012-2015, approved in 2011[38], is published on the MoF website along with the earlier versions (with the first one covering 2006-2009 period) (the first dimension is **yes**).
- **In-year budget execution reports** – within one month after the end of the quarter, 2011 state budget 3, 6 and 9-months execution reports were prepared, submitted to the Parliament of Georgia and made public on the web site immediately upon submission to the Parliament. 2011 state budget execution report was completed within three months after end of last quarter and placed on the MoF web site immediately. Previous years' budget execution reports are also posted on the web site, starting from 2004 (second dimension is **yes**).
- **Year-end financial statements** – consolidated financial statements were produced by the Treasury for 2011 fiscal year, reflecting the overall financial position as well as financial assets and liabilities of the Government. However, these statements were not made public. Only 2011 state budget execution report prepared within the period of three months after the end of the year became public through the MoF web site immediately upon its submission to the Parliament. (third dimension is **no**).
- **External audit reports** – the State Audit Office of Georgia submitted the conclusion on the Government's 2011 state budget execution report within the period of 4 months after

[33] The website of the CSPA is www.procurement.gov.ge
[34] The website of the Parliament is www.parliament.ge
[35] The website of the NBG in English is at http://www.nbg.ge/index.php?m=305
[36] Ministry of Defense, Ministry of Justice (2012 annual budgets); Supreme Court, SAOG (2009-2012 budgets); CSPA (2011 and 2012 budgets).
[37] BDD is the annually updated document establishing the country's medium-term budget framework with allocating multi-year ministerial budget ceilings based on Government priorities as formulated in the ministerial Medium Term Action Plans.
[38] Minutes of the Government Meeting #25 of July 5, 2012

the end of the reporting period. The SAOG reports on 2011, 2010 and 2009 state budget execution are available on the SAOG website (fourth dimension is **yes**).

- **Contract awards** –the Competition and State Procurement Agency systematically places all public procurement related information, namely public tender announcements, bidding documents, selection committee minutes, contract awards (with actual contracts uploaded), contract amendments, contract implementation reports, complaints and respective conclusions by the Dispute Resolution Board. There is no minimum threshold established for a contract to be made public (fifth dimension is **yes**).
- **Resources available to primary service units** –secondary schools are funded through per pupil allocation formula. Respective 2011 budget allocations, 2011 quarterly execution reports and 2012 budget allocations were published on the MoF web site. The state budget also envisages separate additional funding for capital expenditures such as equipment purchase and rehabilitation for public schools. Budgets of schools are managed by the boards of trustees; the information on school budgets is made available upon request to interested parties, though not published. Public financing of healthcare is mostly carried out through the state insurance system. Public expenditures for investments in the health sector as well as centralized government programs[39] are fully reflected in the publicly available 2011 budget documents. 2011 budget allocations to other public service providers[40] and execution thereof are fully reflected under the respective programs (sixth dimension is yes).

Performance Change / Other Factors

95. Improvement in performance is mostly attributed to introduction of e-Procurement system as of December 1, 2010[41]. Improved performance is also validated by the Open Budget Index. The latest 2012 index, which is based on 2011 budget, scores Georgia above average at 55 out 100, even though not all the recent improvements are acknowledged.

[39] Special health programs include vaccination, prevention and treatment of tuberculosis, oncologic diseases, etc.
[40] These include legal public entities such as Public Service Hall, National Agency of Public Registry and Civil Registry under the MoJ, Revenue Service under the MoF; National Examinations Center, national Center for Teachers' Professional Development under the MoES.
[41] Amendments to the Law of Georgia on State Procurement , Article 2.2; June 28, 2010

C. Budget Cycle

PI-11 Orderliness and participation in the budget process (M2)

This indicator aims to assess whether the formulation process for the State Budget Law is organized in such a way as to allow for an effective participation of the budget organisations, including their political leadership represented by the Cabinet of Ministers.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
P1-11: Orderliness and participation in the budget process	A	A	
(i) Existence of and adherence to a fixed budget calendar (last budget approved by legislature for FY '12)	A	A	A clear budget calendar exists, allowing sufficient time (6 weeks) for budget formulation process.
(ii) Guidance on preparation of budget submission (last budget approved by legislature for FY '12)	A	A	Budget ceilings are approved prior to the date established in the Budget Code. Budget preparation forms are available to the MDAs within 5 days upon endorsement of the expenditure ceilings.
(iii) Timely budget approval by the legislature or similarly mandated body (last three FY budgets)	A	A	The Parliament approved the budgets for FY2009, FY 2010 and FY 2011 prior to the beginning of the fiscal year.

2012 Assessment

96. **Existence of and adherence to a fixed budget calendar** - budget management was sound back in 2007 and further improved in the recent years. Budget calendar is clearly defined by the Budget Code[42] of Georgia. The budget calendar, reflecting the Budget Code provisions and indicating relevant dates, is available on the MoF website[43]. The rights and responsibilities of the respective government bodies are described in detail for every stage of the budget process. Terms envisaged by the budget calendar were firmly followed by all participants during the last three budget cycles.

97. 2012 budget formulation started on March 1, 2011 with preparation of the BDD document 2012-2015 (including revenue and expenditure projections for the respective period) which was endorsed by the Government in July, 2011. The BDD was developed under the leadership from the MoF and in close consultations with all sectoral ministries, state ministries and central government spending units. The process ended on the executive side by submission of the draft Annual State Budget by the Government (in agreement with the President) to the Parliament on November 1, 2011.

98. The line ministries continue to provide substantive inputs to the annual budget preparation through submission of mid-term plans and expenditure estimates for their respective

[42] The Budget Code, Chapter V
[43] http://www.mof.ge/4835

sectors. The latter, along with the MoF fiscal forecasts, serves as basis for the Government's deliberation and eventual endorsement the annual budget ceilings[44]. The MDAs had about 6 weeks between the issuance of the budget ceilings and September 1 deadline for submission of their budget proposals [**Dimension (i) – A**].

99. **Guidance on preparation of budget submission** – The MoF promptly issued the budget forms and guidelines[45] after the endorsement of the expenditure ceilings by the Government. The Budget Code defines[46] the set of information to be included in the budget submission by the spending unites. Introduction of e-Budget Management software in 2010 allowed for consolidation 2011 budget plans through the system. The e-Budget software functionality was upgraded further to allow for budget preparation/submission in the programmatic format. The Program Budget Methodology was developed and endorsed by the MoF[47]. Training on the new methodology and program budget preparation was delivered by the MoF also delivered training to the majority of the spending units [**Dimension (ii) – A**].

100. **Timely budget approval by the legislature –**the Parliament of Georgia approved the state budgets for 2009, 2010 and 2011 before the start of the budget year within the terms defined by respective legislation[48] [**Dimension (iii) – A**].

Performance Change / Other Factors

101. There has been to major changes since the previous PEFA assessment.

[44] Minutes of the Government Meeting #25 of July 5, 2012endorsing the BDD 2012-2015
[45] Minister of Finance Decree#385of July 8, 2011 on Program Budget Methodology and Detailed Instruction on Preparation Process
[46] The Budget Code of Georgia, Chapter V, Article 36
[47] Decree of the Minister of Finance of Georgia N 385 (07.08.2011)
[48] Laws of Georgia on Approving the State Budget of 2009 (December 30, 2008); Approving the State Budget of 2010 (December 4, 2009); and Approving the State Budget of 2011 (December 17, 2010)

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)

The indicator is assessing the extent to which budgeting has multiyear perspective and linkage between strategic planning and budgeting decisions.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
P1-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	C+	
(i) Preparation of multi-year fiscal forecasts and functional allocation (last two completed FY'10 and '11)	A	C	Forecasts of fiscal aggregates are prepared on economic and functional classifications for four years on a rolling basis.
(ii) Scope and frequency of debt sustainability analysis (last three years before assessment FY'09-'11)	A	B	DSA for external and domestic debt was undertaken annually.
(iii) Existence of costed sector strategies (FY'11completed budget)	C	C	Strategies exist for all sectors, representing 91% of primary expenditure, however full costing of recurrent and investment expenditures is missing.
(iv) Linkages between investment budgets and forward expenditure estimates (FY'11completed budget)	B	C	The majority of investments derive from the sector strategies, and recurrent cost implications are included in budget estimates.

2012 Assessment

102. **Preparation of multi-year fiscal forecasts and functional allocation** - the Basic Data and Directions (BDD) document is prepared for a 4-year period and is subject to renewal every year. Fiscal forecasts are represented in it according to main articles of economic classification for the past, current, to be planned and to be planned +3 years. It also contains budget ceilings by spending units, priorities and programs of spending units for the year to be planned and the year to be planned +3 envisaging budgetary means as well as the funding of donors and other revenues allowed by the legislation.

103. The 2009-2012 BDD document included forecasts of macro-economic and fiscal parameters for the 4-year period as well as priority directions of every ministry. In 2009 a new Budget Code provided for full integration of the BDD, results-oriented budgets, and the public investment program into the annual budget cycle, making each of these a legal requirement. The calendar for each of these components was harmonized accordingly[49]. The BDD documents for 2010-2013 and 2011-2014 were prepared in accordance with the requirements of the Budget Code. According to the Code, the BDD was endorsed by the Government before July 10 of every

[49] The Budget Code, Chapter V, Article 34

year[50]. Following this endorsement, the spending units start preparation of their budget applications within their respective provisional thresholds set forth in the BDD. There was no difference between the multi-year estimates and subsequent settings of annual budget ceilings [**Dimension (i) – A]**.

104. **Scope and frequency of debt sustainability analysis** - monitoring of debt sustainability is carried out regularly by the MoF. Debt sustainability analysis was made by the International Monetary Fund within the scope of SBA program in 2009, 2010 and 2011 [**Dimension (ii) –A**].

105. **Existence of costed sectoral strategies** – as of 2010, the new Budget Code firmly established the BDD as the medium-term budget framework with allocating multi-year ministerial budget ceilings based on Government priorities formulated in the ministerial Medium Term Action Plans. The BDD 2011-2014 contains a section defining the government's program for the respective period[51] as well as priorities/strategic directions of all the ministries and primary spending units, including total priority funding[52] projections for the mid-term period and priority funding from the state budget. The aggregate cost of sector strategies, as reflected in the BDD 2011-2014 represents about 91% of total 2011 expenditure approved. The cost estimates were mostly aligned with the fiscal forecasts (with the deviation of about 3.8%). At the same time, the costing is done at the aggregate level, but is not broken down by such economic categories as recurrent and investment expenditures. The 2011 Annual Budget Law was in full conformity with the mid-term funding projections envisaged by the respective BDD document [**Dimension (iii) – C]**.

106. **Linkages between investment budgets and forward expenditure estimates** – the public investment program accounted to about 15% of 2011 State Budget as approved. The priorities defined in the BDD document provide for both capital and recurrent estimates. Capital expenditures represent a constituent part of the budget and are included in the volume of appropriations of the total budget.

107. Since 2011 capital projects were part of the annual budget law with the associated costs, both recurrent and capital included under the respective budget code. Capital projects as well as other programs and activities were submitted to the MoF by the respective ministry or other spending unit as part of the budget proposal. In case of donors funded projects, the costs are calculated in agreement with the respective donor. While most capital projects are selected based on sector strategies included into the BDD document, those are not fully costed undermining consistency of selection. [**Dimension (iv) –B].**

Performance Change / Other Factors

108. The major progress on this indicator is related to introduction of the program budgeting and better linkage between the BDD and annual budget. This has allowed for linking budget

[50] Minute of the Government Meeting #27 of July 9, 2012 endorsing the BDD 2011-2014
[51] BDD 2011-2014 "United Georgia Without Poverty"
[52] Total priority funding covered expected foreign loans, grants or co-financing, as well as state budget resources

allocation with strategic objectives and ensuring inclusion of recurrent cost implications to the capital budgeting process to a reasonable extent.

109. Starting from FY 2012, the State Budget Law includes a separate annex on investment projects, presenting the capital projects in the medium-term perspective. At the same time, investment projects comprise the integral part of the program and, therefore all projects are included as programs or sub-programs of the budget, and aligned with the state budget priorities.

PI-13 Transparency of taxpayer obligations and liabilities (M2)

This indicator considers the degree of transparency of tax liabilities including clarity of legislation and administrative procedures, access to information and ability to contest administrative rulings on tax liability.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-13: Transparency of taxpayer obligations and liabilities	A	C+	
(i) Clarity and comprehensiveness of tax liabilities (as at a time of assessment)	A	C	The Tax Code unifies tax and customs legislation and is aligned with EU standards. The Code is clear, comprehensive and covers all major taxes. Enhancement of IT platform for tax compliance and introduction of other safeguards (procedural manuals, tax ombudsmen, personal tax agent) for taxpayers significantly reduced the discretionary power of tax authorities.
(ii) Taxpayers access to information on tax liabilities and administrative procedures (as at a time of assessment)	A	B	Revenue Service web-site is the main tool to keep the taxpayers informed and instantly updated on tax liabilities and administrative procedures. For small and less advanced taxpayers there are local tax officers units available in Tbilisi and easily accessible service centers in the big cities and districts.
(iii) Existence and functioning of a tax appeals mechanism (as at a time of assessment)	B	C	Tax appeal system is set up and functional; administrative procedures are clear and transparent. However, the efficiency and fairness of the system remains an issue due to insufficient independence of the existing mechanism within the MoF.

2012 Assessment

110. **Clarity and comprehensiveness of tax liabilities** - the Tax Code of Georgia is the country's principal tax law administering all taxes in the country. It was enforced as of January 1, 2011 and unified tax and customs codes. In order to improve the quality of taxpayer services and standardize procedures for service delivery, the Revenue Service (RS) developed, approved and issued procedural manuals covering a wide range of topics for use by tax officers. The manuals cover topics ranging from control purchases, VAT, profit reinvestment, partnerships, liquidation and tax accounting. In addition, new services, including improvements in IT platform and public outreach activities, have been implemented successfully. As a result, in 2011 over 90 percent of tax declarations were submitted through electronic filing system; electronic tax invoices have

been introduced; an institute of tax ombudsmen was established and made operational. The taxpayer has access to personal tax agent, taxpayer has option to sign preliminary tax decision, the risk-based tax audit system is enhanced so that all planned on-site tax audits are selected based on defined risk criteria. Procedural manuals for tax audits were also issued. With these reforms discretionary powers of tax authorities were limited [**Dimension (i) –A]**.

111. **Taxpayers' access to information on tax liabilities and administrative procedures** – the RS developed a new comprehensive bilingual (Georgian and English) website[53] 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. The web-site is regularly updated and user-friendly. Also every registered taxpayer is assigned a personal mailbox in the RS system that provides access to the most recent information on novelties and changes of tax legislation. As the number of e-filers has reached almost full coverage, the number of registered taxpayers is large. The RS actively disseminates information on taxes and customs through the printed media and television programs as well. Total of 16 tax service centers are designed to provide immediate assistance/advise in all big cities and districts [**Dimension (ii) –A]**.

112. **Existence and functioning of a tax appeals mechanism –** the legislation[54] guarantees the possibility of the tax payer to appeal against the decisions and actions of the tax body in the court or the MoF system according to his/her views. The claimant can apply to the court at any stage of the tax dispute at the system of the MoF.

113. Within the MoF system the tax disputes are reviewed by the RS and the Council of Tax Appeals[55]. The processes of reviewing the appeals as well as the rules for interacting with the claimant are governed by the standing order approved by the Government of Georgia[56].

114. At the RS, the appeals are reviewed by the body comprised of the RS management, the Mediation Council, and the apparatus. The composition of the Mediation Council is defined by the order of the RS head[57]. The members of the Mediation Council are the management of the RS and the heads of its structural units. The complaint could be submitted in writing or electronically. The complaint submitted to the RS is discussed and the decision is made by the Mediation Council in a collegiate manner at the closed meeting. The claimant is informed about the time and venue of review. The claimant has the right to protect his/her interests in person or through an authorized representative as well as the right to attend the review session in person or remotely using technical means.

115. If the compliant is not satisfied with the RS, the appeal can be taken up to the Council of Tax Appeals or the court within the period of 20 days after the first decision is made. The Council of Tax Appeals is the body at the MoF chaired by the MoF and regulated by the decree[58]

[53] http://www.rs.ge/
[54] Tax Code of Georgia, Chapter XLII, Article 305; Government Decree #473, Dec 14, 2011; Government Decree #402, December 28, 2010.
[55] http://www.taxdisputes.gov.ge
[56] Government Decree #473, Dec 14, 2011
[57] Order #766 of January 25, 2012 and amendments thereto by the Order #2413 of February 22, 2012
[58] Government Decree #473, Dec 14, 2011

of the Government of Georgia. The members of the Council are representatives from the MoF, Ministry of Justice and the Parliament. This composition does not provide fully independent view. In December 2012 the MoF expressed formal readiness to invite to the council two representatives of civil society.[59]

116. Both, the RS, and later the Council of Tax Appeals, each have 20 working days to consider the appeal. They may extend the period by up to 45 calendar days, in which case the taxpayer will receive written notification of the extension. The decision once enforced, is obligatory [**Dimension (iii) –B]**.

Table 9: Tax Appeals Resolution Dynamics in 2009-2011

<table>
<tr><th>Decision by the RS</th><th>2009</th><th>2010</th><th>2011</th></tr>
<tr><td>Complaint satisfied fully or partially</td><td>335</td><td>420</td><td>1300</td></tr>
<tr><td>Complaint not satisfied</td><td rowspan="2">445</td><td>666</td><td>368</td></tr>
<tr><td>Complaint not considered</td><td>177</td><td>261</td></tr>
<tr><td>Complaint not yet discussed</td><td>130</td><td>99</td><td>329</td></tr>
<tr><td>Total</td><td>910</td><td>1362</td><td>2258</td></tr>
</table>

Performance Change / Other Factors

117. Improvements reflect introduction of advanced IT platforms in tax administration and increased access to taxpayers through electronic systems. Introduction of other safeguards (procedural manuals, tax ombudsmen, personal tax agent) for taxpayers decrease the discretionary powers of tax authorities. The positive outcome of these reforms is also captured by substantial improvements in Doing Business ranking with paying taxes rank going up to 33 in 2013 from 102 in 2008.

[59] http://www.mof.ge/News/5039

PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)

This indicator considers the effectiveness of control mechanisms, such as reliable taxpayers' database based on unique taxpayers ID, information exchange capacity with other government registration systems. The indicator also assesses the effectiveness of penalty framework and ability to detect fraud through tax audit system.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-14: Effectiveness of measures for taxpayer registration and tax assessment	A	B	
(i) Controls in the taxpayer registration system (as at time of assessment)	A	B	Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems. Maintenance of a taxpayer database is based on unique taxpayer identification.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration (as at time of assessment)	A	A	Penalties for non-compliance are set sufficiently high to act as deterrence and are consistently administered.
(iii) Planning and monitoring of tax audit programs (as at time of assessment)	A	C	Tax audits are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all state taxes. Fraud investigations are conducted directly by the Investigations Department.

2012 Assessment

118. **Effectiveness of measures for taxpayer registration and tax assessment** - significant improvement has been achieved in business registration which is now carried out by the RS in a single day (as compared to 19 days at the time of the first PEFA assessment). The procedure is simple and clear. 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 relevant government registration systems [**Dimension (i) – A]**

119. **Controls in the taxpayer registration system** - 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. 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].**

120. **Planning and monitoring of tax audit programs** - 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. Audit selection programs based on risk assessment criteria are being developed the risk-based tax audit system is enhanced so that all planned on-site tax audits are selected based on defined risk criteria. Procedural manuals for tax

audits were also issued. Since January 2011 all planned on-site tax audits have been selected through the risk-based selection system. **[Dimension (iii) – A].**

Performance Change / Other Factors

121. The improvements were triggered by significantly streamlining the registration process, as the Revenue Service's IT platform was strengthened. The opportunities for information exchange with other government agencies have been potently utilized. Another important factor is selecting of all planned on-site tax audits through the risk-based selection system since January 2011. The RS is also working with IFC to further improve risk-based selection system.

PI-15 Effectiveness in collection of tax payments (M1)

This indicator considers the effectiveness of tax collection mechanisms, including resolution of tax debt disputes and ability of tax authorities to collect arrears to ensure equal treatment of all taxpayers. Indicator also assesses system of transfers of the collections to the Treasury in order to ensure timely availability of the collections for spending. The reporting and monitoring on tax assessments, collections, arrears and transfers to the Treasury is also assessed.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-15: Effectiveness in collection of tax payments	D+	D+	
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (last two completed FY'10-'11)	D	D	The average debt collection ratio to the stock of arrears for the last two fiscal years remains low - on average 26.2 percent for 2010 and 2011. However, tax arrears accumulated in the past remain unresolved.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration (as at time of assessment)	A	A	Transfer of revenues to the Treasury is made daily on a real time basis.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury (as at time of assessment)	A	A	Reconciliations of tax assessment, collection, arrears and transfers to the Treasury are effected at least monthly.

2012 Assessment

122. **Collection ratio for gross tax arrears -** tax policy and tax administration reforms carried out over the past eight years, together with a significant reduction in corruption, resulted in increased current tax collection to 25 percent of GDP by 2011. Against this remarkable progress in tax collection there has been insignificant accumulation of the new tax arrears in

recent years. However, tax arrears accumulated in the past remain unresolved. They do not appear to be collectible while interest and penalties continue to accumulate contributing to the higher stock of tax arrears **[Dimension (i) – D].**

123. **Effectiveness of transfer of tax collections to the Treasury by the revenue administration -** all tax revenues are transferred to the Treasury daily on a real time basis **[Dimension (ii) – A].**

124. **Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury -** complete reconciliations of tax assessment, collection, arrears and transfers to the Treasury are carried out in real time. 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.

125. 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 **[Dimension (iii) – A].**

Performance Change / Other Factors

126. There has been no major change since the previous PEFA assessment.

PI-16 Predictability in the availability of funds for commitment of expenditure (M1)

This indicator assesses the extent to which the MoF provides reliable information on the availability of funds to the Budget institutions (BI) that manage the general government budget, and therefore are the primary recipients of such information from the MoF. This indicator is intended to measure performance over the last completed fiscal year before assessment.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
P1-16: Predictability in the availability of funds for commitment of expenditure	A	B+	
(i) Extent to which cash flows are forecast and monitored (last completed FY '11)	A	A	Cash planning procedures are implemented. Treasury Service forecasts and monitors cash flows on a monthly basis.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment (last completed FY '11)	A	B	The MDAs receive reliable information on commitments in real time.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDA (last completed FY '11)	A	A	In-year budget adjustments were done three times in a transparent way.

2012 Assessment

127. **Extent to which cash flows are forecast and monitored –** Treasury Service forecasts and monitors cash flows in line with the cash planning procedures introduced in 2005 and updated in 2010 through the respective ministerial decrees[60]. Treasury Service prepares financial plans for cash disbursements monthly, based on the quarterly budget appropriations as approved by the MoF Decree[61], as well as the cash inflow forecasts that are updated by the Treasury monthly, based on available the state budget balance and budget revenue monthly projections. The Treasury Service defines the cash outflow thresholds taking into consideration the trend in previous months' payments and the limits of the budget quarterly allocations. Commitments and expenditure control against budget appropriations is supported by the Treasury Information System (TIS) [**Dimension (i) – A]**.

128. **Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment** – The quarterly appropriations of the annual budget are prepared by the MoF following the approval of the annual State Budget Law, as per the data furnished by the MDAs. The spending units are authorized to undertake commitments within these allocations. The E-Treasury system introduced in 2010[62] automated contract registration, commitments, payment authorization requests (after verification against commitments), and authorization of payments. The MDAs are linked to the system and receive reliable information in real time [**Dimension (ii) – A]**.

129. **Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDA –** The Budget Code[63] provides that appropriations as approved by the annual State Budget Law can only be changed through amending the Law. The Code also provides that appropriations can only be transferred from one spending entity to another through an amendment to the Budget Law. Such amendments are subject to approval by the Parliament. Budget supplements were prepared three times during the last completed FY. These changes were driven by the need to allocate additional revenue resources generated due to higher than expected recovery. Cash availability has not been reported as a problem by the spending units in the last years **[Dimension (iii) – A]**.

Performance Change / Other Factors

130. Improvement in performance is attributed to introduction of E-Treasury system in 2010. This limited the ability of Treasury to refuse approval of budget ceiling commitments.

[60] MoF Decrees No 1307, 2005 and No738, 2010
[61] MoF Decree #1, January 3, 2011 on Quarter Distribution of the State Budget Annual Plan
[62] MoF Decree #578, July 14, 2010
[63] The Budget Code, Article 31

PI-17 Registration and management of cash balances, debts and guarantees (M2)

Indicator measures debt management performance and robustness of the debt management system as important elements of overall fiscal management.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-17: Registration and management of cash balances, debts and guarantees	A	B+	
(i) Quality of debt data recording and reporting (as at time of assessment)	A	B	Management of the state debt is carried out in accordance with the internationally accepted practice. The data about the state debt is comprehensive and is being updated on a daily basis. The state debt reports are produced monthly.
(ii) Extent of consolidation of the government's cash balances (as at time of assessment)	A	A	All cash balances are calculated daily and consolidated.
(iii) System of contracting loans and issuance of guarantees (last completed FY '11)	A	A	Transparent criteria apply for central government's contracting of loans and issuance of guarantees; fiscal targets are always approved by the MoF and ratified by the Parliament.

2012 Assessment

131. **Quality of debt data recording and reporting -** debt management is centralized by the MoF and regulated by the Budget Code[64]. State borrowing from the foreign governments and international financial institutions is an exclusive right of the MoF. Sub-national governments may borrow from the central government as well as other sources with the MoF permission.

132. The data related to both internal and external debts is fully recorded, consolidated and updated on daily basis. Reports on the state debt are prepared on monthly basis.[65]

133. The state debt burden fell significantly starting from 2003. However, it increased temporarily during 2008-2010 at the backdrop of global financial which negatively affected the rates of economic growth and inflow of private investments. The reduction tendency renewed staring from 2011 as the economic growth rebound, also as a result of prudent state debt management that aims at retaining the state debt within the set limits.

134. In 2011 the state debt went down by 7.5%, amounting to 36.7% of GDP, the state external debt was 29% of GDP. The share of the external debt in the total state debt is 79%. The share of multilateral creditors is large, and includes concessions. Such a structure of the state external allows for a very low weighted percentage rate of only 2 % annually. 67 % of the state external debt portfolio consists of credits with fixed interest rate. This promotes protection of

[64] The Budget Code, Chapter II, Article 21
[65] http://www.mof.ge/DebtFinance

parameters of state foreign debt service of Georgia from exogenic fluctuations and provides retaining of the expenditure of servicing this debt at the low and easily accessible level.

135. Domestic debt consists of T-Bills, T-Notes and T-Bonds, the loans of the National Bank of Georgia (NBG), and other liabilities inherited from the time of Soviet Union collapse (the so-called historical debts). Issuance of treasury bills mainly aims at developing the securities market. The reports by the Treasury Service include information about domestic debt, including auctions of securities, covering both collateral and servicing fees on government bonds.

136. The MoF cooperated closely with UNCTAD, applying their debt management and financial accounting system (DMFAS). UNCTAD DMFAS system was upgraded regularly between 1998 through 2010. The most recent version was implemented in 2011, further enhancing the capability for recoding and monitoring both foreign and domestic debts [**Dimension (i) –A]**.

137. **Extent of consolidation of the government's cash balances -** all monetary resources are deposited on the Treasury Single Account (TSA). According to the cash management regulations in Georgia, the Treasury Service prepares monthly cash flow. It also monitors cash balances on a daily basis and prepares monthly reports of budget execution (ex ante and ex post) [**Dimension (ii) –A]**.

138. **System of contracting loans and issuance of guarantees –** state borrowing regulated by the Law of Georgia on State Debt and is defined annually within the annual budget law. The MoF serves as the only authorized body, taking of the debt is carried out according to transparent criteria and with the fiscal targets approved by the MoF and ratified by the Parliament. Issuing state guarantees is regulated by the same law. It should be noted that such guarantees were not issued for the last two decades [**Dimension (iii) –A]**.

Performance Change /Other Factors

139. The improvements are attributed to the introduction of the TSA and strengthened ability to reconcile debt reports on a regular basis.

PI-18 Effectiveness of payroll controls (M1)

Indicator measures the maturity of the public servants payroll system as an important factor in supporting the government's ability to manage the public sector wage bill - usually a significant item of the government's expenditure and susceptible to weak control and corruption.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-18: Effectiveness of payroll controls	D+	NA	
(i) Decree of integration and reconciliation between personnel records and payroll data (as at time of 2012 assessment)	A	NA	MDAs maintain their respective personnel databases that are monthly reconciled with the centralized personnel management and payroll module managed by the Treasury Service.
(ii) Timeliness and changes to personnel records and payroll (as at time of 2012 assessment)	A	NA	Personnel records are updated monthly and in time for the following month payment.
(iii) Internal controls of changes to personnel records and the payroll (as at time of 2012 assessment)	A	NA	Changes in records and payroll are regulated by the legislation and are subject to the Government's approval as well as audit, both internal and external.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers (FY 2009-2011)	D	NA	No payroll audits have been undertaken over the last three years.

2012 Assessment

140. **Decree of integration and reconciliation between personnel records and payroll data -** the annual budget law[66] defines the number of the civil service positions and respective wage bill for each spending unit at the central government level. The MDAs subsequently approve their respective position lists within the parameters approved by the annual law, following the provisions of the relevant ministerial regulation.

141. The Treasury Service is in charge of central government payroll. The payroll data is centralized through the integrated financial management information system (IFMIS) that was introduced in early January, 2012[67]. The scope of IFMIS includes the human resource

[66] The Law on the State Budget of Georgia for 2012; December, 2011
[67] The software application for the system was developed in-house by the Financial Analytical Service of the MoF

management (HRM) function comprising payroll, personnel management, benefits administration and manpower analysis modules. The personnel management module provides for maintaining personnel records and database for each budgetary organization. The MDAs manage their respective personnel databases and records, covering the number of positions, the list appointed staff, including appointment/dismissal dates, ID number, residency, salary scale, amounts to be paid/deducted, and bank requisites. The staffing lists are monthly reconciled with the payroll module under the E-Treasury system. Payroll is operated centrally by the Treasury Service with monthly salary payments made directly to the individual bank accounts. The payments are made on the basis of payment requests submitted by each MDA. The validation mechanism built in the payroll module will automatically block the payment for a person not reflected in personnel database under the E-Treasury. The latter is connected to the database of the Civil Register. This allows for automatic generation of staff personal information and provides for strengthening the internal control system [**Dimension (i) – A]**.

142. **Timeliness and changes to personnel records and payroll -** the MDAs are responsible for updating their respective personnel records on a regular basis. The information about staff movement is reflected in the electronic treasury system in real time mode. The changes are made in time for the following month payment. Retroactive adjustments are not practiced [**Dimension (ii) – A]**.

143. **Internal controls of changes to personnel records and the payroll –** the position lists prepared by the MDAs within the parameters defined by the state annual budget are subject to approval by the Government. Violation of these rules triggers internal audit trial[68], within the scope of rights and responsibilities defined by the law or audit by the State Audit Office. As mentioned in the paragraph 137 above, the Treasury managed payroll system would capture any unauthorized changes as well as any inconsistences between the latter and the individual HR information as submitted by the MDAs [**Dimension (iii) –A]**.

1.

144. **Existence of payroll audits to identify control weaknesses and/or ghost workers** – the robust control mechanism built into the automated payroll module prevents existence of "ghost" workers since personnel records are linked and reconciled with the Civil Registry database. Therefore, no payments can be made to a person who is not included in the staff lists and whose personal data do not coincide with the information in the Civil Registry database. Payroll audits are the competence of the internal audit that has been introduced in 2010. Internal Audit departments' annual plans are risk-based and cover high risk process or structural units. Payroll has not been considered as such for the past two years and therefor none have been conducted as yet. However, several ministries have included payroll audits in the internal audit plans for 2013 [**Dimension (iv) – D**].

Performance Change / Other Factors

145. Introduction in January, 2012 of the integrated financial management information system, comprising the personnel management and payroll modules, provides for a direct link between the payroll and personnel database which is updated and reconciled on a regular basis.

[68] The Law on State Internal Financial Audit

PI-19 Transparency, competition and complaints mechanism in procurement (M2)

The indicator evaluates public procurement system and its core components - transparency, competitions and complaints mechanism and is concerned with the existence and scope of legal and regulatory framework and focuses of the operation of the system.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
P1-19: Transparency, competition and complaints mechanism in procurement	A	D+	
(i) Transparency, comprehensiveness and competition in the legal regulatory framework (last completed FY 2011)	A	NA	The legal framework meets all six of the listed requirements.
(ii) Use of competitive procurement methods (as at time of assessment)	A	NA	All awards, based on non-competitive procurement method are justified with the legal requirements in all cases.
(iii) Public access to complete, reliable and timely procurement information (as at time of assessment)	A	NA	All key procurement information is made publicly available.
(iv) Existence of an independent administrative procurement compliance system (as a time of assessment)	A	NA	The procurement complaints system meets all seven criteria.

2012 Assessment

146. **Transparency, comprehensiveness and competition in the legal and regulatory framework -** in 2009 the Law of Georgia on Public Procurement was amended along with other related normative acts regulating public and local procurement and defining the rules to be followed by the government entities, legal entities of public law, state enterprises and so forth while disposing of state funds. The entire system of public procurement is regulated at the legislative level: procurement methods, procedures of their implementation (including selection/evaluation, contract signing and black listing), as well as system of planning and reporting.[69]

147. The unified electronic system of public procurement was launched in 2010 and for the purpose of its effective functioning user manual was developed which can be obtained on the official website of the agency in English and Georgian languages. The manual assists the supplier or the procuring organization to fully comply with procurement procedures.

[69] These include (i) Order on the Rule of Identifying the Object of Procurements and Defining their Homogeneity; September 20, 2010. Implementation of CPV codes was implemented in the Georgian space on the basis of the law on state procurement and the present order with the view of defining homogeneity of the sites to be purchased; (ii) Temporary Regulation on Implementing Public Procurement Electronically, October 22, 2010; (iii) Regulation on Activities of the Council of Discussing the Disputes Related with Procurement at the Agency of Public Procurement, November 30, 2010; (iv) Regulation on Holding Simplified Procurement, Simplified Electronic Tender and Electronic Tender, April 7, 2011; (v) Conditions and Rule of Public Procurement of the Project Service by Means of the Competition, February 10, 2011; Regulation of Accountability of the Procuring Organization, February 10, 2011

148. The following procurement methods have been defined as a result of the reform at the legislative level: two types of tender – simplified electronic tender and the electronic tender which serve as the default methods of procurement to be used under electronic system. All procurements above 5 000 laris (about $ 3 000) should be announced by means of the electronic system. The law also defines the possibility of conducting procurement by method of direct contracting/single source, called - simplified procurement and it is carried out below the monetary threshold (5 000 laris, approximately $ 3000) as well as in such cases as urgent necessity, existence of one exclusive supplier, deterioration of the quality, legal act of President of Georgia and/or the Government of Georgia and so forth. In all cases it is necessary to submit respective documentation.

149. Consolidated tender (framework agreement) and the design contest have been defined as procurement methods, by means of which procurement takes place without using the e-system. Under design contest 254 competitions were announced in 2011 out of which 128 contracts were signed. It has to be noted that definition of Design Contest does not fully reflect idea of applied procurement method. Under design contest intellectual services are procured i.e. feasibility studies, detailed designs, supervision of civil works etc.

150. The law and all regulating legislative acts are published on the web-site[70] of the agency in Georgian and English languages and are available to civil society free of charge.

151. It is worth noting that all the documents reflecting the process of public procurement are uploaded into the system electronically, which makes them automatically accessible for all the interested parties. The law also regulates the mechanism of dispute review. The complainant is able to appeal in respective procuring entity, the court or the dispute review board. In all cases the procurement procedure is terminated until the resolution of complaint[71].

152. The sub-indicator envisages that legal and regulatory framework for procurement should:

- be organized hierarchically and precedence clearly established - the law and legislative acts define all procedures and issues in relation with procurement, including, the use of procurement methods and procedural issues;
- be freely and easily accessible for the public, through appropriate means - the user manual of Unified Electronic System of Public Procurement is available in Georgian and English, and is placed on the web-site thus allowing local as well as international suppliers to participate in tenders; also entire system has an interface in two languages – English and Russian, in addition to Georgian, thus facilitating easy access for international suppliers. The CSPA is planning to launch fully operational interface in Turkish and Armenian languages as well in 2013;

[70] http://procurement.gov.ge/index.php?sec_id=37&lang_id=GEO/ ENG

[71] The EBRD assessment of the legislative base regulating public procurement in Georgia is worth noting: "Legislation regulating public procurement of Georgia has been improved taking into consideration all basic principles of public procurement. Public procurement in Georgia are regulated by the Law on Public Procurement." According to EBRD assessment, Georgia gained the 4th place among 29 countries which is determined by the high quality of relevance of the legislation regulating public procurement.

- apply to all procurement undertaken using government funds[72] – the legislation regulating public procurement applies to all procurements carried out by the ministries, legal entities of public law, state enterprises, as well as specific cases envisaged by the legislation;
- make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified[73] - the competitive method is a default method used in case of all procurements. However, in the event of respective justification, exceptions are allowed, such as emergency needs, existence of one exclusive supplier, and deterioration of the quality, legal act of President of Georgia and/or the Government of Georgia and so forth. Also, while procuring intellectual services, such as, design, supervision of civil works etc., an alternative means of procurement is applicable – the contest, which is not held by means of the electronic procurement, nevertheless advertisements, bidding document, proposals, minutes of tender commission and contracts are uploaded into the system manually by the implementing agency;
- provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints – all types of information including but not limited to procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints are publicly available in the e-system;
- provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature[74] - submission of procurement appeals is possible in the respective procuring entity, dispute review board and the court. The procurement procedure is suspended during the period following submission of the appeal until the final resolution. Resolution is to be made within 10 business days.

153. In view of the above, the legal and regulatory framework meets all six of the requirements listed [**Dimension (i) –A**].

154. **Use of competitive procurement methods** – the electronic system gives the opportunity to obtain the data not only from simplified electronic and electronic tenders but also in respect with the procurement implemented by means of the simplified procurement (direct contracting/single source). The mentioned data and figures are available in the CSPA report of 2011[75] which is officially published on the website of the agency in accordance with the requirement of the law. It is worth noting that contracts procured through simplified procurement are uploaded into the system, but are available, only to procuring entities of subject contract and agency. Nevertheless any such contract can be obtained free of charge, through official request addressed to competition and state procurement agency.

155. As for the process of the simplified procurement, in all cases this is justified by the requirements of the law. For example, in all cases of simplified procurement based on the urgent

[72] The CSPA Chairman , Chapter 1, Article 3.1.a
[73] The CSPA Chairman , Chapter II, Article 10
[74] The CSPA Chairman , Chapter VI, Article 23
[75] http://procuremnet.giv.ge/files/data/geo/about_agency/cspa_report_2011.pdf

necessity, the respective justification and the agreement of the superior body should be submitted to the CSPA before signing the contract. If simplified procurement is carried out from the "exclusive" supplier defined by the law or in order to avoid the deterioration of the quality of procured object, in such cases the procuring organization should have a justification to what extent the specific supplier is "exclusive", on the one hand, and, on the other hand, what signs of the deterioration of quality can be identified and what kind of preventive nature is applied by the use of simplified procurement. Justification has to bear the contract values as well.

156. Simplified procurement is also applicable within the limits of the monetary margin – GEL5,000 (approximately USD3,000), which is calculated based on the cost of the homogeneous objects to be procured throughout the whole year. Overall cost of the contracts signed under simplified procurement in 2011 amounted to 910,797,179 GEL. Public procurement statistics for 2011 are presented in the Table 10 below [**Dimension (ii) – A**].

Table 10: Georgia Public Procurement Statistics for 2011

Type of tender	Percent of procurements conducted
E-tenders	66%
Simplified procurement methods (direct contracting/single source),	34%
o/w following government/presidential decree	23%
cases of emergency	4%
below the monetary threshold	3%
Other	4%

157. **Public access to complete, reliable and timely procurement information** – the law requires all procuring organizations to upload all critical documents (government procurement plans, bidding opportunities, contract awards and data on resolution of procurement complaints) in the electronic system, which becomes available for the registered as well as for non-registered user of the e-system.

158. The procuring organization: a) is obliged to upload procurement plans and changes made to them before the start of procurement procedures; b) carry out reporting by means of the system, namely, publishing of the report indicating detailed information on the process of compliance with every agreement despite the amount given in it and uploading the contract itself. As for the tenders, their announcement is made fully public and available. The interested party may obtain the tender announcement, the content of the tender, documentation, how many applications have been made, prices, full procedure of electronic auction, protocols and minutes, and the contracts themselves, later on, reports of compliance with these contracts. It is worth noting that minimum three days are determined for signing the contract and after this the contract is uploaded in the electronic system during the period of 10 days.

159. Out of the above listed four items, three - bidding opportunities, contract awards and data on resolution of procurement complaints, are available to both registered and non-registered users (guests), while procurement plan is only available to registered users, but as registration is free for any physical/legal entity, respective procurement plans could be easily obtained [**Dimension (iii) – A**].

160. **Existence of an independent administrative procurement complaints system –** according to the law of Georgia on State Procurement, the complainant may appeal to procuring entity, the CSPA[76] or the court. No official data is available on number of appeals addressed directly to procuring entities or the court. According to the CSPA, vast majority of complaints are sent directly to them.

161. Complaint addressed to the CSPA is reviewed by the Dispute Resolution Board (DRB)[77] which has been operating since December, 2010. The DRB membership envisages parity principles and consists of the representatives from the state (CSPA – 3 members) and the civil society (elected 3 members). Elections are held annually, with the possibility for a member to be re–elected. Non-governmental organizations, business association and other members of the civil society take part in elections. Decisions, as well as action of the DRB members with regard to dispute resolution are independent. It needs to be underlined that none of the member of dispute resolution board is involved in any capacity in procurement transactions or in the process leading to contract award. The DRB is a quasi-court type agency which is authorized to review the public procurement disputes; their activities are not remunerated. At any stage bidder or supplier may appeal actions of the procuring entity or agency in court.

162. Complaint is submitted through the unified electronic system. Indication of legislative basis for appeal is mandatory, as well as filling out respective application. Besides, any documentation, which in the opinion of the complainant justifies the basis of the complaint, should be uploaded into the system.

163. All cases reviewed by the DRB are uploaded on the website, which may also facilitate to other users designing of own complaints, as the case may be. When the application is submitted, the board organizes the hearing of the case and informs the parties respectively.

164. The DRB makes a decision with the majority of votes. In the event of equal distribution, chairman's vote prevails. However, in practice this right has not yet been used. As of October 30, 2012, the DRB reviewed 170 complaints. Only three out of them went to the court, though in none of these cases the DRB decision was changed by the court. According to the 2011 Annual Report, 67 complaints were reviewed by the DRB – out of them 34 decisions were reached in favor of complainant, 27 were against and 6 cases got rejected.

165. This sub-indicator envisages the following prerequisites for the complaint reviewing body:

- is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government[78] – the DRB consists of six members, of them three are the CSPA representatives and three are elected from the civil society side[79];

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[76] State Procurement Agency was merged with the Agency of Free Trade and Competition in 2012

[77] Approved by the CSPA Chairman Decree N 11 of November 30, 2010

[78] The Law of Georgia of State Procurement, Chapter VI, Article 23, and The CSPA Chairman Order #11 of November 30, 2010 on Operation of Dispute Review Board, Article 3

[79] Currently representing Transparency International, Association of Oil Product Importers and Distributors, and Georgia Business Association

- is not involved in any capacity in procurement transactions or in the process leading to contract award decisions – none of the DRB members is involved in the procurement decision making;
- does not charge fees that prohibit access by concerned parties – the appeal is submitted electronically through a simple procedure free of charge;
- follows processes for submission and resolution of complaints that are clearly defined and publicly available - review of all appeals is regulated under the law and respective acts and are available on the web-site[80];
- exercises the authority to suspend the procurement process – procurement process is suspended immediately upon receiving information on appealing[81].
- issues decisions within the timeframe specified in the rules/regulations – the written decision is made within 10 working days in accordance with the defined rule[82];
- issues decisions that are binding to all parties (without precluding subsequent access to an external higher authority - appealing against the decision is possible in the court[83].

Performance Change / Other Factors

166. 2012 assessment is not comparable with the 2008 one in view of the new framework introduced for this indicator now envisaging four sub-dimensions different from the former three. New methodology is more comprehensive. Introduction of the E-Procurement system in 2010 is the major reform that contributed to the significant improvements in this area.

[80] The CSPA Chairman Order #11 of November 30, 2010 on Operation of Dispute Review Board
[81] The Law of Georgia of State Procurement, Chapter 1, Article 7d(2)
[82] The Law of Georgia of State Procurement, Chapter VI, Article 23, paragraph 5
[83] The Law of Georgia of State Procurement, Chapter VI, Article 23, paragraph 2 and 11

PI-20 Effectiveness of internal controls for non-salary expenditure (M1)

This indicator assesses the effectiveness of internal controls for non-salary expenditure and is part of the set of performance indicators that cover controls in debt management, payroll management and management of advances. The evaluation is based on the situation as at the time of the assessment.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-20: Effectiveness of internal controls for non-salary expenditure	A	C+	
(i) Effectiveness of expenditure commitment controls (as at the time of assessment)	A	C	Commitments are limited to the approved budget allocation. Cash availability has not been an issue since 2005.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures (as at the time of assessment)	A	C	Internal control rules and procedures appear relevant, comprehensive and cost effective.
(iii) Degree of compliance with rules for processing and recording transactions (as at the time of assessment)	A	B	Compliance with rules is very high.

2012 Assessment

167. **Effectiveness of expenditure commitment controls** - commitment control procedures were introduced in 2005 and have been further strengthened over the past few years[84]. The commitments are limited to the approved budget allocation. Central government non-salary expenditures are processed through Treasury's so-called Treasury Information System (TIS) and paid from the Treasury Single Account (TSA). Expenditures of the LEPLs funded from the budget are also processed through the Treasury.

168. In respect of transactions processed through the TIS, there are clear documented rules for such processing. Payments are made from the TSA through the TIS only upon submission of a properly authorized and documented payment request from the relevant budget unit, being a ministry, department or agency, against a commitment already recorded in the TIS. Commitments are recorded in the TIS upon the properly authorized request of a budget unit only if there are sufficient uncommitted resources in the relevant program budget and there is a valid contract[85] registered in the TIS. The total resources of a program's budget as recorded in the TIS reflect the approved Annual Budget as revised from time-to-time in accordance budget revision procedures. Contracts are downloaded into the TIS from procurement contracts that have been entered into the so-called Unified Electronic System of Public Procurement as described for PI-19, transparency, competition and complaints mechanism in procurement. Alternatively,

[84] The MoF Decree #1318 of December 28, 2007 on Approval of the Instructions for Payments of Obligations by Organizations Serviced through the State Treasury Service

[85] Valid contracts are not required for certain specific types of expenditure such as utilities.

contracts falling outside the scope of public procurement are entered directly into the TIS upon the properly authorized request of a budget unit after confirmation by the Treasury Service that the contracts do indeed fall outside the scope of public procurement. Thus, expenditure transactions are processed and authorized by the relevant budget unit and at the contracting stage may be reviewed by the CSPA (see PI-19) and at the payment stage are reviewed by the Treasury Service. Discussions with and reports from the nascent internal audit units as well as the SAOG confirm that these procedures as well as the controls over them appear to be effective.

169. In respect of transactions processed through the financial management systems of the LEPLs, they are free to devise their own financial management systems to exercise commitment controls [**Dimension (i) –A]**.

170. **Comprehensiveness, relevance and understanding of other internal control rules/ procedures** – the Treasury Service is working on aligning other instruments of internal control with international standards. The three-level mechanism was introduced for the spending units to submit the payment documents through the electronic treasury system. The new electronic system substituted the old paper based one and is more effective and reliable. The three steps include (i) filling in the respective form by the employee of the requesting organization, (ii) verifying the filled in document by the respective superior person in command, and (iii) submission of the verified form by the manager. The system architecture envisages an interim layer between the interface and the back-office. This includes a safe mechanism of authorization and authentication, thus preventing an unauthorized access to the database. The internal audit conducts periodic reviews of the system to assess the conformity the transactions with the legislation of Georgia as well as correctness of their registration and processing. The internal control rules and procedures appear relevant and incorporate a comprehensive and generally cost effective set of controls, which are widely understood [**Dimension (ii) – A]**.

171. **Degree of compliance with rules for processing and recording transactions** - transactions are implemented in accordance with the acting normative acts[86] and apply to all payments implemented by budgetary means. During inspection of internal audit detection of control mechanisms of incorrectly carried out and/or registered tsransactions and insufficient control mechanisms takes place in the event such exist and respective recommendations are issued with the view of improving control mechanisms and wiping out material damage (in the event such exists).

172. With the view of imposing effective control over the registration of the liability a three-stage procedure has been defined in accordance with the above referred Decree# 1318: (i) first, the agreement is registered; (ii) after that the liability is taken (registration); and (iii) finally the payment is made. Respectively, in cases when the ground for the liability is the agreement, the organization cannot be liable for payment according to the validations included in the system unless the agreement registered in the information system of the treasury exists.

173. Following from the above, compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant [**Dimension (iii) – A]**.

[86] "Instruction on the Rule of Implementing Payments by the organizations under the Service of the State Treasury" approved by Decree N 1318 of December 28, 2007 of the Minister of Finance of Georgia.

Performance change / Other Factors

174. In 2008, it was noted that payments could be made and commitments registered prior to validation of contracts. Accordingly, commitment controls were incomplete. This is no longer the case. In addition, there is now a revised set of policies and procedures for non-salary expenditures including processing transactions through the Treasury Service. Finally, the revised set of policies and procedures together with the significant improvements in the functionality of and controls incorporated within the TIS have significantly improved compliance.

PI-21 Effectiveness of internal audit (M1)

This indicator assesses the effectiveness of internal audit recognizing that regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). The evaluation is based on the latest available financial and operational information as at the time of the assessment.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-21: Effectiveness of internal audit	C+	D+	
(i) Coverage and quality of the internal audit function (latest available financial and operational information)	C	D	Whilst internal audit is operational for the majority of central government entities and generally meets professional standards, the internal audit cadre is inexperienced and in need of professionalization.
(ii) Frequency and distribution of reports (latest available financial and operational information)	A	C	Internal audit reports adhere to a fixed schedule and are distributed to the audited entity, MoF and SAOG.
(iii) Extent of management response to internal audit findings (latest available financial and operational information)	C	C	Internal audit units monitor implementation of previous findings and recommendations. However, there are insufficient quantifiable data to be able to assess this properly.

2012 Assessment

175. **Coverage and quality of the internal audit function** – following the enactment of the respective legislation[87] 29 internal audit units were established in 12 ministries accounting for 54% of total state budget expenditures, thus being the majority of central government entities. According to October 2012 independent assessment report to the European Union[88], the legal framework for internal audit is aligned with *Guidelines for internal control standards for the public sector* as issued by the International Organization of Supreme Audit Institutions (INTOSAI) and the internal audit methodology, standards and code of ethics used by all internal audit units are consistent with both INTOSAI's International Standards of Supreme Audit Institutions as well as the standards and guidance of the Institute of Internal Auditors (IIA).

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[87] The Law on State Internal Audit and Inspection dates March 26, 2010

[88] Independent Assessment to EU by IDC Consortium, October, 2012

Thus, the internal audit framework generally meets professional standards and focuses on systemic issues.

176. However, the professional capacity of the internal audit units is still of concern. According to the above mentioned October 2012 report, the units are not staffed with experienced internal auditors, it is difficult to attract experienced internal auditors from commercial companies because public sector salaries are less attractive, and the internal audit Action Plan 2012-2013 recognizes that raising the professional skills of internal auditors is one of the most important issues [**Dimension (i) – C]**.

177. **Frequency and distribution of reports** - all internal audit units prepare strategic three-year plans outlining amongst other things their priorities and resource requirements as well as annual plans describing planned specific internal audit engagements. Internal audit units prepare audit reports on each internal audit engagement as well as an annual report on all internal audit activities and engagements for the year. Annual audit reports are distributed to the audited entity, the MoF through its CHU, and the SAOG and thus enable the MOF and SAOG to monitor how the public financial management systems are functioning. In addition, the individual audit engagement reports are distributed to the audited entity." [**Dimension (ii) – A]**.

178. **Extent of management response to internal audit findings** - according to the October 2012 independent assessment report, there is now a section in the Audit Manual concerning the inclusion of management responses to audit findings. It is understood that internal audit units as a matter of course follow-up on previous audit findings and recommendations and that action by management on internal audit findings is prompt although quantifiable data in terms of the number of material weaknesses found per year and the remediation rates to enable an objective assessment of this are not available. All internal audit reports reviewed for the purpose of this PEFA assessment appeared to contain follow-up by internal audit units on their previous recommendations which seemed to suggest that action by management to those recommendations were prompt and comprehensive [**Dimension (iii) – C]**.

Performance change/ Other Factors

179. The inspector general offices or inspectorate departments have been replaced by internal audit units equipped with professional internal audit standards. Reports were not previously, as a rule, distributed to the MoF and supreme audit institution, whereas the newly instated annual reports are now always distributed to the same and the individual internal audit reports are distributed upon request. Previously, management responses to internal audit findings were subject to the minister's decision whereas this is no longer the case.

PI-22 Timeliness and regularity of accounts reconciliation (M2)

This indicator assesses the regularity of bank reconciliations as well as the regularity of reconciliation and clearance of suspense accounts and advances recognizing that timely and frequent reconciliation of data from different sources is fundamental for data reliability and is an important part of internal control and a foundation for good quality information for management and for external reports.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-22: Timeliness and regularity of accounts reconciliation	B+	A	
(i) Regularity of bank reconciliations (as at the time of the assessment)	B	A	Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances (as at the time of the assessment)	A	A	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.

2012 Assessment

180. **Regularity of bank reconciliations** - Treasury Service operates the TSA and the balances on this account are reconciled daily. The introduction in December 2010 of a new Real-time Gross Settlement System (RTGS) led to robust and instantaneous transfers of data and a concomitant reduction in reconciling items in bank reconciliations. LEPLs reconcile their bank accounts at least quarterly to coincide with the submission of their quarterly financial statements but there are no specific rules requiring any greater regularity [**Dimension (i) – B]**.

181. **Regularity of reconciliation and clearance of suspense accounts and advances** – Treasury Service performs monthly reconciliations and clearance of both its suspense account and advances account. This process has been made considerably easier since the introduction of the RTGS system. On the other hand, LEPLs reconcile and clear their suspense and advances accounts at least quarterly to coincide with the submission of their quarterly financial statements but there are no specific rules requiring any greater regularity [**Dimension (ii) – A]**.

Performance change / Other Factors

182. Although there would appear to have been a decrease in the performance of government on this performance indicator since the last PEFA assessment in 2008, this is an unfortunate result of an incorrect 2008 rating of A for dimension (i) because it did not take into account that bank reconciliations of non-Treasury managed bank accounts (i.e. those managed by LEPLs) sometimes take place at intervals of up to one quarter. Otherwise, overall performance has actually improved because of the introduction in December 2010 of a new RTGS as it led to robust and instantaneous transfers of banking data.

PI-23 Availability of information on resources received by service delivery units (M1)

This indicator assesses the availability of information on resources received by service delivery units recognizing that problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind (e.g. drugs and school books) or provision of centrally recruited and paid personnel.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-23: Availability of information on resources received by service delivery units	B	D	
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units (last three years before the assessment)	B	D	Primary healthcare facilities are substantially privatized and thus not within the scope of this performance indicator. Public schools produced six months and annual financial reports that purport to include information about all central government resources received by the schools whether in cash or in-kind. However, the consolidated bi-annual and annual reports s were produced by the MoF in 2011 only showing just aggregate data.

2012 Assessment

183. **Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units** - primary healthcare is substantially privatized with less than 5% of primary healthcare providers remaining state-owned. Government through the Ministry of Health, Labor, and Social Protection contracts with primary healthcare providers comprising ambulatories, polyclinics, medical centers and sole providers in one of two ways: (i) either directly with over 2,000 rural and village nurses and doctors who each serve one or many villages and who each receive a fixed fee per period; or (ii) directly with the 300-400 municipal primary healthcare facilities which each receive a per capita payment, currently GEL 2 per person, based on the number of people served. Insurance companies have acquired and thus own a substantial number of primary healthcare providers. As government is not directly responsible for the operation and funding of primary healthcare providers, primary healthcare is not within the scope of this performance indicator.

184. Public schools are established as LEPLs by the Ministry of Education and Science (MoES) with the latter exercising the state control over the schools. The property of the public

schools is owned by the State. Public schools receive various resources including: a per capita scheme financing from the MoES. The per capita financing (PCF) mechanism introduced at the general education level in 2005 has been refined gradually to address issues that became evident upon implementation, such as the under-funding of the small schools. In 2010 the following substantial changes were introduced the PCF formula: (i) differentiating vouchers for basic, compulsory and upper secondary education, (ii) adding a fixed component (base funding) on top of the per capita allocation, (iii) introducing different financing mechanism for small size schools (less than 160 students) and schools with special needs students, and (iv) instituting supplementary financing for consolidated schools with more than one school building and minority schools[89]. Recalculation of number of pupils happens twice a year so the schools have reliable information on money to be received. Funds are received directly into a school's bank account and used primarily to cover operating costs. Savings, if any, could be used to finance other expenditures entirely at the discretion of the school. Schools receive other resources including: in-kind works such works having been financed by the Agency of Education & Scientific Infrastructure Development (AESID) or exceptionally by local government; cash payments from the AESID or exceptionally from local government directly into a school's bank account to finance school-procured works; and various in-kind goods such as furniture, equipment and computers such goods having been financed by the AESID or exceptionally local government. In addition, schools may generate their own revenues for example from hiring out school premises.

185. Schools being LEPLs are required to submit to the Treasury Service their quarterly balance sheets that are produced in accordance with the standardized six-part set of financial statements following Georgian Public Sector Accounting Standards (GPSAS) as described further below in relation to PI-25. Following the 2011 legal act[90] all public schools submit financial reports that purport to include information about all resources received by the school whether in cash or in-kind. These six months and annual reports are being submitted by all the public schools, consolidated at resource centers' level, to the MoES and MoF. The information is further consolidated by the MoF and included in the six months and annual budget execution report[91] [**Dimension (i) – B**].

Performance Change / Other Factors

186. The changes since 2008 reflect enactment of the regulations that now provide for regular collection of reliable information on the resources received by the public schools. However, the consolidated bi-annual and annual reports still show only aggregate data. Also, primary healthcare is now completely excluded from this indicator.

[89] The principles of the per capita financing are spelled out in the Law on General Education, Chapter III. The Government Decree #395 of December 23, 2010 defines the per capita funding norms and respective formula to calculate standard voucher.
[90] Government Decree #163, April 2011
[91] 2011 Annual Budget Execution Report, chapter V; 2011 Six Months Budget Execution Report, chapter V (www.mof.ge)

PI-24 Quality and timeliness of in-year budget reports (M1)

This indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget (i.e. flash reports on release of funds to MDAs are not sufficient) so that the ministry of finance and cabinet may "bring in" the budget. Coverage of expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilization of funds released.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-24: Quality and timeliness of in-year budget reports	A	B+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates (last completed FY'11)	A	B	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.
(ii) Timeliness of the issue of reports (last completed FY'11)	A	A	Consolidated reports are prepared quarterly and issued within 4 weeks of end of reporting period.
(iii) Quality of information	A	A	There are no material concerns regarding data accuracy.

2012 Assessment

187. **Scope of reports in terms of coverage and compatibility with budget estimates** - The systems and procedures for producing in year budget reports is similar to that used to produce annual financial statements (refer to PI-25). More specifically, in year budget reports are produced quarterly by the Budget Department of the MoF which shows consolidated central government budget execution data in respect of those central government entities that use the Treasury Service, consolidated central government budget execution data in respect of those central government entities that do not use Treasury being LEPLs whose data is consolidated from returns provided by LEPLs, and local government budget execution data. In addition, the Treasury Service produces monthly reports on budget execution in respect of those central government entities that use the Treasury Service. All reports include information on commitment and payments as well as comparatives with both the original approved budget and current revised budget [**Dimension (i) – A]**.

188. **Timeliness of the issue of reports** - the monthly Treasury reports in respect of those central government entities that use the Treasury Service are generally produced by the 20th of the following month. The consolidated quarterly reports are produced within one month of the quarter-end. The Treasury Service produces budget execution preliminary report, 4th quarter including within one month of year end[92] [**Dimension (ii) – A**].

189. **Quality of information** - users as well as the nascent internal audit units and the SAOG do not appear to have material concerns regarding data accuracy of the in-year budget reports [**Dimension (iii) – A]**.

[92] The preliminary budget execution report for 2011 fiscal year was disseminated within the Government by end-January, 2012.

Performance Change / Other Factors

190. With respect to the scope of reports in terms of coverage and compatibility with budget estimates, in contrast to the findings reported in the 2008 PEFA, the in-year budget reports reviewed for this PEFA appear to have sufficient disaggregation to allow a comparison with the original budget. This has resulted in the improved rating for the first dimension.

PI-25 Quality and timeliness of annual financial statements (M1)

This indicator assesses the completeness, timeliness and accounting standards used in the preparation of annual consolidated government financial statements recognizing that all three are required if the financial statements are to be useful and contribute to fiscal transparency.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-25: Quality and timeliness of annual financial statements	C+	D+	
(i) Completeness of the financial statements (last annual financial statement prepared)	C	D	Financial statements contain information on all receipts, payments and bank balances and financial assets and liabilities, but this information is not complete and comprehensive.
(ii) Timeliness of submission of the financial statements (last annual financial statement submitted for audit)	A	A	Financial statements submitted within three months of the end of the fiscal year.
(iii) Accounting standards used (last three years' financial statements)	C	B	Financial statements are presented in a consistent format and accounting standards are disclosed.

2012 Assessment

191. **Completeness of the financial statements -** the financial statements are prepared annually. The 2011 consolidated financial statement, as produced by the Treasury Service, includes information about revenues, expenditures and financial assets and liabilities by the budgetary organizations. Though the latter data is not comprehensive, the omissions are insignificant. The consolidated financial statement is based on the financial reports submitted by all spending units to the Treasury Service. The Treasury submits the consolidated financial statement, as described above, to the MoF and the SAOG [**Dimension (i) – C**].

192. **Timeliness of submission of the financial statements -** the Treasury Service prepares its annual financial statement and submits it to the SAOG within the period of three months after the end of the fiscal year. The individual spending units present to the Treasury Service their respective financial statements within 2 months after the end of the fiscal year. While producing the consolidated financial statement, the Treasury Service also analyses the data presented in the individual statements comparing it with the cash performance data of the budget as well as the Treasury's records about deposits and other monetary means. The Treasury is authorized to request from the organization additional primary documents for the accounting purposes. For the

fiscal year 2011, the Government transmitted the consolidated financial statement to the SAOG by April 1, 2012 [**Dimension (ii) – A**].

193. **Accounting standards used** - financial statements are prepared by the spending units (state as well as of autonomous republics and the local governing units) following the instruction of the MoF[93] which mainly is based on 2001 GFSM methodology and the budget classification of Georgia. The requirements of international public sector accounting standards (IPSAS) while being taken into consideration are not yet fully complied with. The above instruction defines the rules and principles of registering financial assets, non-financial assets/liabilities, capital, revenues and expenditures, and uses both the accrual as well as cash (modified cash-basis) methods. The financial statements are presented in the consistent format provided for by the respective decree of the MoF[94]. Both, instructions and forms are publicly available through the MoF web-site.

194. To enhance credibility and transparency, the country has been pursuing introduction of international standards (such as GFSM 2001 and IPSAS). As of 2008, the state budget organizations have been following the 2001 GFS Manual both in terms of budget classification as well as financial accounting and reporting. Local budget units have been applying the Manual starting from 2009. The action plan for implementing the IPSAS envisages phased implementation with full transition to IPSAS by 2020. Temporary regulation on financial reporting aligned with modified cash based IPSAS was piloted in 2011 with cconsolidated cash statement and reports for the pilot entities prepared. The Regulations has been rolled out to all central budget organizations for accounting period starting January 1, 2012 [**Dimension (iii) – C**].

Performance Change / Other Factors

195. The change in the score is attributed to the introduction in 2008 of accounting guidelines and forms followed by the consolidated statements produced as 2009. Also, the downgraded score for dimension (iii) reflects corrected 2008 assertion that cash base IPSAS standards are applied.

[93] Approved by the MoF Decree N 1321 of December 28, 2007 On Accounting by Budget Funded Organizations and Amendment thereof through the MoF Decree #357, dated August 24, 2012
[94] The MoF Decree N 364 of April 16, 2008 "On Approving the Forms of Accounting Reporting of Organizations under Budget Funding."

PI-26 Scope, nature and follow-up of external audit (M1)

This indicator assesses the scope, nature and follow-up of external audit recognizing that all three are required to for create transparency in the use of public funds.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-26: Scope, nature and follow-up of external audit	B+	D+	
(i) Scope/nature of audit performed (last FY audited)	B	D	The SAOG audited entities representing 79% of total central government expenditures in accordance with auditing standards that focus on significant and systemic issues.
(ii) Timeliness of submission of audit reports to legislature (last annual audit report submitted to the legislature)	A	A	The SAOG issued an audit report on the BER to the Parliament within four months of the end of the period covered being within one month of receipt of the BER.
(iii) Evidence of follow up on audit recommendations (last FY audited)	A	B	There is clear evidence of effective and timely follow-up.

2012 Assessment

196. **Scope/nature of audit performed** – external audit is regulated by the Law on State Audit Office[95] and the Constitution[96]. Throughout the year the country's supreme audit institution (SAI), the State Audit Office of Georgia submits to the Parliament the following reports: (i) the opinion on the state budget execution report (BER); (ii) the opinion on the draft budget, and (iii) the annual report of the activities of the SAOG. The SAOG's audit activities cover all Government entities, including local and autonomous government agencies (AGA) and public enterprise where the State's participation is 50% or more. In 2010 the SAOG adopted and implemented auditing standards and an audit methodology that approximate International Standards of Supreme Audit Institutions (ISSAI) as issued by the INTOSAI and are both risk- and systems- based. In 2011 the SAOG developed and approved Performance Audit Manual, which is based on international standards of Public Audit (ISSAIs 3000 - 3100).

197. The SAOG audited central government entities representing 79 percent of total central government expenditures in order to inform its audit opinion on the 2011 BER [**Dimension (i)–B**].

198. **Timeliness of submission of audit reports to legislature** – the Article 55 of the Budget Code requires the Government to submit the annual BER to the Parliament within three months of the end of the fiscal year. The Budget Code is silent on the timeframe within which Parliament should onward transmit the BER for audit to the SAOG. Article 57 of the Budget Code requires the SAOG to submit to the Parliament an audit report on the BER no later than one month after its submission to the Parliament by the Government. For the fiscal year 2011, the Government transmitted the BER to the Parliament on March 30, 2012 who in turn transmitted the BER to the

[95] The Law was adopted on December 26, 2008 and amended twice on November 24, 2011 and June 22, 2012
[96] Constitution of Georgia, Article 97 amended on May 22, 2012 to reflect the change in the institution's title

SAOG on April 2, 2012. The 2011 consolidated financial statements were submitted by the Treasury Service to the SAOG by April 1, 2012. The SAOG submitted its audit report on the 2011 BER to the Parliament on April 30, 2012, i.e. within four months of the end of the period covered. The SAOG's opinion on the 2011 consolidated financial statements was included in the annual audit report on BER[97]. Besides, the SAOG produces opinions on the individual financial statements within the frames of audits performed for the respective MDAs [**Dimension (ii) – A]**.

199. **Evidence of follow up on audit recommendations** - the SAOG maintains a database[98] of all recommendations issued by the SAOG noting amongst other things for each recommendation, the date and nature of the recommendation as well as the date and nature of management response and implementation. Of the audit recommendations issued in 2011 which proposed systemic improvements, it would appear that 71% had already been implemented by end-October 2012. This would seem to be clear evidence of effective and timely follow-up [**Dimension (iii) – A]**.

Performance Change / Other Factors

200. Overall rating has improved as a result of the SAOG implementing an improved set of auditing standards and audit methodology that focus on significant and systemic issues and audit recommendations are now being followed up on a systematic basis.

PI-27 Legislative scrutiny of annual budget law (M1)

This indicator assesses the legislature's performance in terms of a meaningful, thorough and timely review of the annual budget proposed by the executive.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-27: Legislative scrutiny of annual budget law	A	B+	
(i) Scope of the legislature's scrutiny (last completed FY '12)	A	A	The process for the annual budget law review by the legislature is clear and closely followed. The review covers the medium term fiscal framework and priorities as well as annual details.
(ii) Extent to which the legislature's procedures are well-established and respected (last completed FY '12)	A	A	The procedures for budget review by the legislature are clear and have been closely adhered to.
(iii) Adequacy of time for the legislature to provide response (last completed FY '12)	A	A	The legislature has more than two months to review the budget proposal.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature (last completed FY '12)	A	B	The rules for in-year budget amendments are clearly established and respected; the limits are set for the extent and nature thereof.

[97] 2012 Audit Report on 2011 Budget Execution Report, Section 4, pg. 36
[98] Currently this database is in Excel format and there are plans to transfer this data to a formal electronic database.

2012 Assessment

201. **Scope of the legislature's scrutiny** - the scope and the procedures for the legislative scrutiny of the annual budget law are set forth by the Constitution of Georgia, the Budget Code and the Regulation of the Parliament[99]. By June 1 of each year the Government of Georgia submits to the Parliament committees the information about main macro-economic forecasts and key strategic directions of the ministries for review and endorsement. The Parliament's Finance and Budget Committee organizes discussion and review of the given information and is authorized to request additional information, if necessary, from the Government, individual ministries, or other agencies and bodies. The committees' comments, if any, are provided to the Government by no later than June 20.

202. The draft of the Law of Georgia on State Budget is submitted by the GoG to the Parliament for review along with the BDD document. The package becomes publicly available immediately upon its submission to the Parliament. The detailed discussion of the medium-term key development directions of the country, macro-economic forecasts, fiscal indicators, budget revenue projections and expenditure priorities occurs in the respective sectoral Committees, and their conclusions are sent to the Finance and Budget Committee. The latter sends the consolidated conclusion to the Government. This document is to be taken in account by the Government when finalizing the medium term action plans of the ministries and, subsequently the BDD document. The Finance and Budget Committee relies on its Budget Office to provide the analysis of the annual budget package throughout the legislative discussions [**Dimension (i) - A**].

203. **Extent to which the legislature's procedures are well-established and respected** – the legislature's procedures are defined by several legal acts[100]. During the committee discussions the draft annual budget law and the BDD document are presented by the minister of finance or the deputy together with the respective line minister; the Auditor General or representative also participate in the discussions. The schedule for the draft budget law review by the committee, fractions, and majority and minority parties is available. The Budget Code also sets the deadline (October 22 of each year) for the Parliament's conclusion to be sent to the Government. The Government has two weeks to revise draft that is presented to the Parliament's plenary session by the prime-minister or another member of the government as authorized by the prime-minister. During the plenary session, the conclusions on the draft budget law are also presented by the SAOG and the NBG about main parameters of the draft. The clear time-frame exists for the plenary session comments to be sent to the Government, for the resubmission of the revised draft to budget law, and its hearings by the Parliament. The Parliament adopts the draft of the budget law of Georgia with the majority of the list composition. The procedures of legislative review and approval have been closely followed in accordance with the legislation [**Dimension (ii) – A**].

204. **Adequacy of time for the legislature to provide response to budget proposals** – the legislation provides for the draft annual budget law to be submitted to the Parliament by the

[99] Constitution of Georgia, Article 93; Budget Code, Article 34; Regulation of the Parliament of Georgia, Articles 177 and 259[1]

[100] Constitution of Georgia, Articles 92-93; Budget Code, Article 39; Regulation of the Parliament, Articles 178, 179, 180, 181, 182

Government not later than three months after the end of the previous fiscal year[101]. The draft budget law is voted for by the Parliament not later than the third Friday of December. This time-frame allows the Parliament almost three months for review, debates, and interim communication with the executive authorities, as necessary. The established time frame has been followed closely over the past years [**Dimension (iii)-A**].

205. **Rules for in-year amendments to the budget without ex-ante approval by the legislature** – the rules for in-year budget amendments are define by the Budget Code[102]. Legislature's approval is required for any changes in budget expenditure/revenues as well as reallocation among the spending units. Retroactive approvals are not allowed. Procedures for reviewing the draft amendments are similar to those for the initial draft law, but the review period is relatively shorter. The law on in-year amendments to the state budget law is made publicly available upon approval. Reallocations between the spending units' budget classification and codes are allowed with the consent of the MoF, but shall not exceed 5 percent[103]. The Budget Code also defines the limits to which expenditures could be extended setting it within 25% of the planned parameters of the nominal gross domestic product for the corresponding year[104] [**Dimension (iv) – A**].

Performance Change / Other Factors

206. The Budget Code endorsed in December, 2009 introduced limits to the overall increase in the state budget's expenditures and non-financial assets, thus addressing the shortcoming observed during 2008 PEFA assessment.

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[101] Constitution of Georgia, Article 93; Budget Code, Articles 38, 39; Regulation of the Parliament, Articles 178, 179, 181, 182

[102] Budget Code, Article 40; Regulation the Parliament of Georgia. Chapter XXXI, Article 187, 188

[103] Budget Code, Article 31

[104] Budget Code, Article 37

PI-28 Review of the external audit report at the legislative level (M1)

This indicator focuses on the central government and assesses the legislature's performance in exercising scrutiny over the execution of the approved budget.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
PI-28: Review of the external audit report at the legislative level	D+	C+	
(i) Timeliness of examination of audit reports by the legislature (audit reports submitted within last 3 years)	A	A	The Parliament completes the scrutiny of the audit opinion on budget execution report within 3 months upon its submission.
(ii) Extent of hearings on key findings undertaken by the legislature (last 12 months)	C	A	The Parliament conducted occasional hearings of audit findings, though no minutes documenting the scope and participants of the hearings are available.
(iii) Issuance of recommended actions by the legislature and implementation by the executive (last 12 months)	D	C	There is no evidence of practical application of the legislature's authority to control legitimacy of budget sepnding. No recommendations were issued by the Parliament on the latest audit report.

2012 Assessment

207. **Timeliness of examination of audit reports by the legislature** – the Parliament has a legal power to approve the budget and oversee its implementation[105]. In exercising this power, the Parliament relies on its Finance and Budget Committee and the SAOG. The SAOG submits to the Parliament the following reports: (i) opinion on state budget execution report by the Government, (ii) opinion on the Government's in-year budget execution report, and (iii) report on SAOG's annual activities. All reports are publicly available through the SAOG's web site[106].

208. The Government submits to the Parliament the budget execution report within three months after the end of the fiscal year, with the copy forwarded to the SAOG. The SAOG submits to the Parliament its opinion on the report within the one month after the latter was received by the Parliament. The Finance and Budget Committee organizes distribution and discussions of the SAOG audit opinion and the budget execution report by the Parliament committees, fractions, and majority and minority parties. The opinions, conclusions and reports submitted by the SAOG are also discussed in plenary sessions. Upon these discussions, an no later than June 15 of each year, the Parliament adopts the decree on approval or disapproval of the budget execution report. Respective procedures as defined by the legislation have been followed throughout the recent years. Once in two years, the SAOG also submits to the Parliament the report related to the audits carried out in respect with the execution of budgets of local government units [**Dimension (i) – A**].

209. **Extent of hearings on key findings undertaken by the legislature** - the Parliament committees, within their respective competencies, have the authority to exercise control over the

[105] Constitution of Georgia, Article 97; the Budget Code, Articles 7, 57; Regulation of the Parliament
[106] www.sao.ge

state bodies accountable to the Parliament as well as the overall activities of the government[107]. Officials of the bodies accountable to the Parliament and the members of the Government are obliged to submit documents, conclusions and other necessary materials as request by and within the timeframe defined by the committees. The member of the Georgian government, the official elected, appointed and approved by the Parliament as well as the official whose appointment was agreed with the Parliament is authorized and in case of the request, obliged to attend the committee sessions, respond to the questions asked during the sessions and submit the report of activities carried out. The Audit General and the deputies are also authorized and, in case of request, obliged to attend the session of the Parliament, parliament committee, as well as investigation and any other temporary committee of the Parliament. Immediately upon request, the Audit General should be listened to by the Parliament, parliament committee, the faction and/or the investigation or other temporary committee[108].

210. While the Parliament has held discussions with and hearings of the key officials of the audited entities, only few appear to have been put formally on the agenda, though respective minutes are not available [**Dimension (ii) –C**].

211. **Issuance of recommended actions by the legislature and implementation by the executive -** the Parliament is authorized to control legitimacy of spending the state budgetary means by the government. Upon submission by the SAOG the results of the audit reports and conclusions, the committees may hold the discussion and take the decision. However, there is no evidence of practical application of the above authority. No recommendations were issued by the Parliament on the latest audit report. [**Dimension (iii) – D**]

Performance Change / Other Factors

212. Deterioration of the overall rating has been largely triggered by lack of formal response to audit findings by the Parliament through issuance of recommendations.

[107] Regulation of the Parliament, Articles 42, 43, 44
[108] Law of Georgia on the State Audit, Articles 10, 12

D. Relations with Donors

D-1 Predictability of direct budget support (M1)

This indicator assesses the predictability of all aid provided by donors to the government treasury in support of the government's budget at large (general budget support) or for specific sectors.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
D-1: Predictability of direct budget support	C+	C+	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies (last three FY '09-'11)	C	C	Over the course of the past three years direct budget support outturn fall short of forecast by more than 15% only in one year.
(ii) In year timeliness of donor disbursements (last three FY'09-'11)	A	A	Quarterly writing out transfers, agreement with donors at the beginning of the fiscal year and the weighted delay of actual transfers has not exceeded 25 % in any of the last three years.

2012 Assessment

213. **Annual deviation of actual budget support from the forecast provided by the donor agencies** – significant budget support (estimated at USD 930 million over 2008-2009) was pledged during the donor conference that took place in Brussels in October 2008 to support Georgia's financing needs for post-conflict recovery and reconstruction. Data on annual forecast disbursements was received on time and reflected in the annual budget.

214. In 2009-2011 the main sources of budget support to Georgia included the World Bank's development policy operations, the ADB's growth recovery support and social service development programs, the IMF's Stand-by-Arrangement (SBA) program, and EU's general and sector budget support programs. During this, period direct budget support accounted to around 44% of the total donor financing. As shown in the table below, over the three years under the review budget support outturn deviated from the forecast by more than 15 % only in one year. Significant deviation occurred in 2011 mostly due to canceled negotiations with EU on macro-financial assistance (MFA) in amount of GEL 110,400 [**Dimension (i) – C**].

Table 11: Planned and Actual Budget Support 2009-2011

Thousand Laris

	2009	2010	2011
Total budget support budgeted	640,918.8	908,885.5	255,200
Budgeted grants	188,416.1	121,250	126,000
Budgeted program loans	452,502.7	787,635.5	129,200
Total budget support disbursed	594,402.7	945,752.4	87,796.3
Disbursed grants	141,900	154,000	23,592.5
Disbursed program loans	452,502.7	791,752.4	64,203.8
Performance	92.7%	104%	34%

215. **In year timeliness of donor disbursements (compliance with aggregate quarterly estimates) -** quarterly amounts actually transferred during the last three years mostly corresponded with plans. Transfers were usually planned for the last two quarters, with 2011 being an exception as disbursements were anticipated every quarter. However, the actual disbursement still happened in the fourth quarter. Calculations of the delay coefficient do not include EU MFA amounts since negotiations have been terminated and the plan was removed from the law of the annual budget. Disbursement schedule was agreed with donors at the beginning of the fiscal year and during three years the coefficient of weighted delays of actual transfers did not exceed 25 % [**Dimension (ii) – A].**

D-2 Financial information for budgeting and reporting provided by the donors about projects and program assistance (M1)

This indicator aims at evaluating how predictable donor financing is for programs and projects in relation to the provision of accurate and timely estimates of available funds for inclusion in the budget proposal and the presentation of reports on actual donor flows.

Indicator	*2012 Score*	*2008 Score*	*Brief Explanation*
D-2: Financial information for budgeting and reporting provided by the donors about projects and program assistance	C	C	
(i) Completeness and timeless of budget estimates by donors for project support (last completed FY'11)	C	C	Disbursement estimates are provided by the major donors in a format not consistent with the government's budget classification.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support (last completed FY'11)	C	C	Donors' quarterly report on the disbursement made; reports are not aligned with the government's budget classification.

2012 Assessment

216. **Completeness and timeless of budget estimates by donors for project support –** donors provide the MoF with the information about commitment estimates before the beginning of the budget year. Information is presented by donors in accordance with the classification that they use, not according to the one of the Georgian budget. However, format of the information provided does not create any practical difficulties in terms of the budget planning. Disbursement estimates by donors as well as actual disbursements are reflected in the annual budget law and budget execution reports in accordance with the provisions of the Budget Code [**Dimension (i) – C**].

217. **Frequency and coverage of reporting by donors on actual donor flows for project support –** the majority of the donors, including international financial institutions, bilateral donors and multilateral banks report on disbursed amounts on a regular, mostly quarterly basis. The government has access to the electronic system of the largest donors where detailed information about each project is published and updated daily. Funds disbursed against specific projects and programs included in the state budget are regularly reported by the large donors. At least once a quarter disbursed amounts are reflected in the state budget execution report. While the information about actual transfers as presented is not aligned with the budget classification of Georgia, such format is considered by the MoF as sufficient and no further harmonization is deemed necessary. The above information is presented in the budget execution reports in accordance with the budget classification of Georgia [**Dimension (i) –C]**.

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

This indicator assesses the extent to which the national systems and procedures such as banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements apply to donor funds.

Indicator	***2012 Score***	***2008 Score***	***Brief Explanation***
D-3: Proportion of aid that is managed by use of national procedures (last completed FY'11)	D	D	Less than 50% of aid funds are managed through national procedures

2012 Assessment

218. Approximately 44 % of donor funding in 2009-2011 was provided as not earmarked budget support assistance and was managed through national procedures. The rest of funding was largely for infrastructure projects. Since there is no detailed information available to define what part of the mentioned projects is managed by national procedures, it can be stated that in the majority of cases donors' own procedures are applied in respect with procurement, registration, audit and reporting [**Dimension (i) – D**].

C. PUBLIC FINANCIAL MANAGEMENT REFORMS

219. **The Government's PFM reform strategy was first articulated in the Strategic Vision for Public Financial Management Reform endorsed by the Ministry of Finance**[109] and has served as the general framework for PFM reform activities in Georgia since its inception in September, 2005. In 2009 the MoF updated the document taking a stock of results achieved and identifying concrete reform actions for the years 2009-2013[110]. The updated Public Sector Financial Management Reform Strategy reconfirmed the overall objectives of the reform as follows: (i) maintaining fiscal discipline, macroeconomic system stability and forecasting; (ii) supporting a strategic approach to the management of public finance; (iii) ensuring that resources are used efficiently and effectively; and (iv) ensuring accountability and oversight on the use of public resources.

220. **The Strategy also underscored a number of critical factors for reform implementation,** such as (i) effective coordination of the reform plan, (ii) comprehensive and integrated approach to the reform implementation, (iii) logical and technical sequencing of the proposed reform interventions, and (iv) monitoring proper implementation. For the purpose of adhering to these principles, the MoF has been leading the preparation of annual action plans[111] and conducting regular PFM Coordination Council meetings (bi-annual) to discuss the implementation progress and identify pending issues, if any. The Council meetings are attended by the representatives of the multi-lateral and bi-lateral donor organizations providing financial and technical assistance to the PFM reform. This mechanism has allowed for harmonization of the donors' support, with the MoF being in the driving seat.

221. **The State Audit Office Development Strategy 2010-2012**112 **is also an important framework document** spelling out the key strategic directions for further strengthening the oversight function, namely: (i) professional capacity building, (ii) institutional development, and (iii) strengthening the corporate image and external communication. The SAOG is currently developing the Strategic Plan for the period of 2013-2017. The process envisages close cooperation with international partners and expects to build on the findings of this PEFA assessment.

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[109] Public Sector Financial Management Reform: Strategic Vision; Ministry of Finance; September 2005
[110] Public Sector Financial Management Reform Strategy 2009-2013; Ministry of Finance; 2009; http://www.mof.ge/4791
[111] Action Plans for 2009, 2010, 2011, and 2012 as published on http://www.mof.ge/4791
[112] http://sao.ge/res/files/uploads/ccg-strategia-2010-2012.pdf

ANNEXES

Annex 1: Summary of 2008 and 2012 Assessments by Performance Indicator

	Indicator	2012	2008	Explanation of scores and changes in scores
A.PFM-OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	**A**	**D**	Deviation between actual budget expenditure and the originally budget expenditure as approve by the Parliament was below 5% in 2009 and 2010. Only in 2011 the deviation went up to 7.5 %. During the period assessed under 2008 PEFA, the deviation exceeded 15% in all of the three years.
PI-2	Composition of expenditure out-turn compared to original approved budget	**B+**	**C**	The variance in expenditure composition (excluding contingency items) remained within 10% during the last three years. Actual expenditure charged to the contingency vote remained within 2% during the last three years. The variance was above 10% in one of the three years covered under the previous assessment.
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**	**A**	Actual domestic revenue collection was between 94% and 112 % of budget domestic revenue in two of the last three years. If compared with the situation during the period covered under the previous PEFA assessment, the actual domestic revenue outturn improved from 123.5 % in 2006 to 111.5 % in 2011. The downgrading of the score reflects the change in PEFA methodology as per revision of January, 2011(introducing the upper margin). The score would have remained A if the same methodology was applied as in 2008.
PI-4	Stock and monitoring of expenditure payment arrears	**A**	**B+**	The stock of arrears remained below 2%. The Treasury Service has a system for monitoring expenditure arrears. Introduction of computerized commitment module and increased capability to collect information on stock of arrears of LEPLs now allows the Treasury Service to generate reliable data on stock of arrears quarterly and annually; age profile is monitored manually, though not on a regular basis.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	**A**	**B**	The budget formulation and execution is based on GFS/COGOG standards. The improvements since the last PEFA assessment relate to implementation of the GFS 2001 compliant classification for central budget in 2008 and for local budgets in 2009, which includes economic classification of revenues and expenditures,

				functional classification of expenditures and non-financial assets as well as the classification of financial assets and liabilities and transactions on them.
PI-6	Comprehensiveness of information included in budget documentation	**A**	**A**	The 2012 budget documentation fulfilled 8 of the 9 information benchmarks required. Information on total financial assets continues to not be represented. The total program of the government and explanation of its all initiatives as well as expected outcomes is now included (this was not a case during the 2008 PEFA period). The explanatory note of the budget reflects the impact of new initiatives on the revenue part. The effect of new initiatives in respect with expenditures is given in the draft budget itself.
PI-7	Extent of unreported government operations	**A**	**B+**	The level of unreported extra-budgetary expenditure was insignificant. Complete income/expenditure information is provided for donor-funded projects, with possible exception of some small projects, mostly reflecting in-kind inputs. The consolidation of LEPLs revenue and expenditure information in budget execution report represents considerable step forward since 2008 PEFA assessment.
PI-8	Transparency of inter-governmental fiscal relations	**A**	**B**	The 53% of central government transfers was allocated through transparent and rules based system. The SNGs are provided with the reliable information on the appropriations before the start of their detailed budgeting process. Fiscal information, consistent with central government reporting is collected for all SNGs monthly and consolidated into annual report within 6 months of the end of the fiscal year. The increasing reliance on rule-based transfers, along with the implementation of the GFS 2001 compliant budget classification and introduction of E-Treasury system represent positive developments since 2008 PEFA Assessment.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**C+**	**C+**	Audited annual financial statements are provided by major SOEs to SEMA. The annual consolidation is rather fragmented by SEMA without focusing on the SOE fiscal risk incurred by the state. Aggregating annual fiscal risk of SOEs and LEPLs is monitored by the MoF, but not consolidated into an annual report. SNGs cannot generate any liabilities without the authorization of the MoF.
PI-10	Public access to key fiscal information	**A**	**B**	The government makes available 5 out of 6 listed types of information. Improvement since 2008

				assessment is attributed to introduction of e-Procurement system through which the CSPA systematically places all public procurement related information.
C. BUDGET CYCLE				
C(i) Policy Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	**A**	**A**	A clear budget calendar exists, allowing sufficient time (6 weeks) for budget formulation process. Budget ceilings are approved prior to the date established in the Budget Code. Budget preparation forms are available to the MDAs within 5 days upon endorsement of the expenditure ceilings. The Parliament approved the budgets for FY2009, FY 2010 and FY 2011 prior to the beginning of the fiscal year.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B+**	**C+**	Forecasts of fiscal aggregates are prepared on economic and functional classifications for four years on a rolling basis. DSA for external and domestic debt was undertaken annually. Strategies exist for all sectors, representing 91% of primary expenditure, however full costing of recurrent and investment expenditures is missing. The majority of investments derive from the sector strategies, and recurrent cost implications are included in budget estimates. The major progress on this indicator is related to introduction of the program budgeting and better linkage between the BDD and annual budget.
C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	**A**	**C+**	The new Tax Code unified tax and customs legislation and was aligned with EU standards. The Code is clear, comprehensive and covers all major taxes. Revenue Service web-site is the main tool to keep the taxpayers informed and instantly updated on tax liabilities and administrative procedures. For small and less advanced taxpayers there are local tax officers units available in Tbilisi and easily accessible service centers in the big cities and districts. Tax appeal system is set up and functional. However, the efficiency and fairness of the system remains an issue due to insufficient independence of the existing mechanism within the MoF. Improvements since 2008 PEFA reflect introduction of advanced IT platforms in tax administration and increased access to taxpayers through electronic systems, also decreased discretionary powers of tax authorities following the introduction of several safeguards for the taxpayers.

PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**A**	**B**	Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems. Maintenance of the taxpayer database is based on unique taxpayer identification. Penalties for non-compliance are set sufficiently high to act as deterrence and are consistently administered. Tax audits are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all state taxes. Fraud investigations are conducted directly by the Investigations Department. Significant streamlining of the registration process as well as selecting of all planned on-site tax audits through the risk-based selection system have been important positive changes since 2008 PEFA.
PI-15	Effectiveness in collection of tax payments	**D+**	**D+**	The average debt collection ratio to the stock of arrears for the last two fiscal years remained low - on average 26.2 percent for 2010 and 2011. 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. However, tax arrears accumulated in the past remain unresolved.
PI-16	Predictability in the availability of funds for commitment of expenditures	**A**	**B+**	Cash planning procedures are implemented. The Treasury Service forecasts and monitors cash flows on a monthly basis. The MDAs now receive reliable information on commitments in real time. In-year budget adjustments were done three times in a transparent way. Improvements as compared to 2008 PEFA are attributed to introduction of E-Treasury system, thus limiting the latter' ability to refuse approval of budget ceiling commitments.
PI-17	Recording and management of cash balances, debt and guarantees	**A**	**B+**	Management of the state debt is carried out in accordance with the internationally accepted practice. The data about the state debt is comprehensive and is being updated on a daily basis. The state debt reports are produced monthly. All cash balances are calculated daily and consolidated. Transparent criteria apply for central government's contracting of loans and issuance of guarantees; fiscal targets are always approved by the MoF and ratified by the Parliament. Introduction of the TSA is the key improvement since 2008 PEFA assessment.
PI-18	Effectiveness of payroll controls	**B+**	**NA**	The MDAs maintain their respective personnel

				databases that are monthly reconciled with the centralized personnel management and payroll module managed by the Treasury Service. Personnel records are updated monthly and in time for the following month payment. Changes in records and payroll are regulated by the legislation and are subject to the Government's approval as well as audit, both internal and external. However, no payroll audits have been undertaken over the last three years. Significant change since 2008 PEFA is introduction of an integrated financial management information system that comprises the personnel management and payroll modules, and provides for a direct link between the payroll and personnel database, which is updated and reconciled on a regular basis.
PI-19	Competition, value for money and controls in procurement	**A**	**D+**	The legal framework meets all six of the listed requirements. All awards, based on non-competitive procurement method are justified with the legal requirements in all cases. All key procurement information is made publicly available. The procurement complaints system meets all seven criteria. 2012 assessment is not comparable with the 2008 one in view of the new framework introduced for this indicator.
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	**A**	**C+**	Commitments are limited to the approved budget allocation. Cash availability has not been an issue since 2005. Internal control rules and procedures appear relevant, comprehensive and cost effective. Compliance with rules is very high. Enhanced completeness of the commitment controls and improved compliance have been positive changes since 2008 PEFA.
PI-21	Effectiveness of internal audit	**C+**	**D+**	Internal audit is operational for the majority of central government entities and generally meet professional standards. However, the internal audit cadre is inexperienced and in need of professionalization. Internal audit reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and supreme audit institution. Internal audit units monitor implementation of previous findings and recommendations. However, there are insufficient quantifiable data to be able to assess this properly. During the period covered by 2008 assessment internal audit system and procedures aligned with international standards were not established.
C(iii) Accounting, Recording and Reporting				

PI-22	Timeliness and regularity of accounts reconciliation	**B+**	**A**	Bank reconciliation for all Treasury managed bank accounts take place at least monthly. Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. A decrease in the performance since 2008 assessment is a result of an incorrect rating for dimension as bank reconciliations of non-Treasury managed bank accounts was not taken in account in 2008.
PI-23	Availability of information on resources received by service delivery units	**B**	**D**	Primary healthcare facilities are substantially privatized and thus not within the scope of this performance indicator. Public schools produce six months and annual financial reports that purport to include information about all central government resources received by the school whether in cash or in-kind. However, the consolidated bi-annual and annual reports still show only aggregate data. Comprehensive data collection was missing for 2008 PEFA assessment period.
PI-24	Quality and timeliness of in-year budget reports	**A**	**B+**	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. Consolidated reports are prepared quarterly and issued within 4 weeks of end of reporting period. There are no material concerns regarding data accuracy. The in-year budget reports reviewed for 2008 PEFA lacked sufficient disaggregation to allow a comparison with the original budget.
PI-25	Quality and timeliness of annual financial statements	**C+**	**D+**	Financial statements contain information on all receipts, payments and bank balances and financial assets and liabilities, but this information is not complete and comprehensive. Financial statements submitted within three months of the end of the fiscal year. No consolidated financial statements were produced during the period covered by 2008 PEFA.
C(iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	**B+**	**D+**	The SAOG audited entities representing 79% of total central government expenditures in accordance with auditing standards that focus on significant and systemic issues. The audit report on the BER to the Parliament was issued within four months of the end of the period covered being within one month of receipt of the BER. There is clear evidence of effective and timely follow-up. Implementation by the SAOG of an improved set of auditing standards and audit

				methodology represents major improvement since 2008.
PI-27	Legislative scrutiny of the annual budget law	**A**	**B+**	The review covers the medium term fiscal framework and priorities as well as annual details. The procedures for budget review by the legislature are clear and have been closely adhered to. The legislature has more than two months to review the budget proposal. The rules for in-year budget amendments are clearly established and respected. The limits are set for the extent and nature thereof. The latter was not the case during 2008 PEFA.
PI-28	Legislative scrutiny of external audit reports	**D+**	**C+**	The Parliament completes the scrutiny of the audit opinion on budget execution report within 3 months upon its submission. Occasional hearings of audit findings are conducted, though no minutes documenting the scope and participants of the hearings are available. There is no evidence of practical application of the above authority. No recommendations were issued by the Parliament on the latest audit report.
D. RELATIONS WITH DONORS				
D-1	Predictability of direct budget support	**C+**	**C+**	Over the course of the past three years direct budget support outturn fall short of forecast by more than 15% only in one year. Quarterly writing out transfers, agreement with donors at the beginning of the fiscal year and the weighted delay of actual transfers has not exceeded 25 % in any of the last three years.
D-2	Financial Information for budgeting and reporting provide by the donors about projects and program assistance	**C**	**C**	Disbursement estimates are provided by the major donors in a format not consistent with the government's budget classification. Donors' quarterly report on the disbursement made; reports are not aligned with the government's budget classification.
D-3	Proportion of aid that is managed by use of national procedures	**D**	**D**	Less than 50% of aid funds are managed through national procedures.

Annex 2: Disclosure of Quality Assurance Mechanism
The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for Georgia, final report dated 15 August, 2013.

1. Review of Concept Note and/or Terms of Reference

Draft concept note dated June 24, 2012 was submitted for review on June 24, 2012 to the following reviewers:

1) Arman Vatyan, ECSO3, World Bank
2) Cem Dener PRMSP, World Bank
3) Papuna Petriashvili, Ministry Finance
4) Philip Sinnett, PEFA Secretariat
5) Saiyed Shabih Ali Mohib EASPR WB

Final concept note dated September 12, 2012 forwarded to reviewers, along with the concept review minutes, on September 12, 2012, including a table showing the response to all comments raised by the reviewers

2. Review of draft report(s)

Draft report dated June 19, 2013 was submitted for review on June 19, 2013 to the following reviewers:

1) Irakli Khmaladze and Ramon-Maria Reigada-Granda, EU Delegation to Georgia
2) Eka Guntsadze, PEFA Self-Assessment Working Group led by the MoF
3) Philip Sinnett, PEFA Secretariat
4) Ivor Beazley, ECSP4, World Bank

3. Review of final draft report

A revised final draft assessment was forwarded to reviewers on August 15, 2013 and included a table showing the response to all comments raised by all reviewers.

4. This form, describing the quality assurance arrangements is included in the revised draft report.

Annex 3: Sources of Information: Interviews Conducted

Name	Title	Organization
Government		
Giorgi Tabuashvili	Deputy Minister	Ministry of Finance
Tsotne Kavlashvili	Head, Treasury Service	Ministry of Finance
Nino Chelishvili	Deputy Head, Treasury Service	Ministry of Finance
Samson Uridia	Deputy Head, Revenue Service	Ministry of Finance
Giorgi Kakauridze	Head, Budget Department	Ministry of Finance
Ekaterine Guntsadze	Head, Policy Office, Budget Department	Ministry of Finance
Ioseb Skhirtladze	Head, Foreign Affairs Department	Ministry of Finance
Sergo Nozadze	Head, Finance Academy	Ministry of Finance
Lela Pataraia	Deputy Head, Accounting, Methodology and Analysis Department, Treasury Service	Ministry of Finance
Davit Gamkrelidze	Head, Financial Analysis Office, Accounting, Methodology and Analysis Department	Ministry of Finance
Beka Dekanosidze	Head, Office of Internal Debt and State Obligations' Management, Internal Assets and Obligations' Department	Ministry of Finance
Nino Shanshiashvili	Chief Specialist, Office of Foreign Debt at Foreign Affairs Department	Ministry of Finance
Maia Lavrinenko	Chief Specialist, Fiscal Forecasting Department	Ministry of Finance
Levan Dvalishvili	Chief Specialist, Internal Audit Department	Ministry of Finance
Irakli Japaridze	Specialist, Office of Tax Policy Department	Ministry of Finance

Nazi Vekua	Chief Specialist, Legal Office of Revenue Service	Ministry of Finance
Sopo Momcemlidze	Chief Officer, Information and Consultation Office of Service Department of Revenue Service	Ministry of Finance
Liana Skhirtladze	Programmatic Budget Consultant	Ministry of Finance
Lili Begiashvili	Deputy Head (former), Revenue Service	Ministry of Finance
Natia Gulua	Head of Budget Department	Ministry of Health
Lasha Saghinadze	Head of Budget Department	Ministry of Education and Science
Shorena Kakhidze	Head, Budget Office of the Financial – Budget Committee	Parliament of Georgia
Avtandil Kokhreidze	Chief Specialist, Budget Office of the Financial – Budget Committee	Parliament of Georgia
Devi Vephkhvadze	Deputy Head	State Audit Office of Georgia
Giorgi Alasania	Head, Auditing Department	State Audit Office of Georgia
Marika Natsvlishvili	Deputy Head, State Service Audit Department	State Audit Office of Georgia
Aleksandre Bregvadze	Intern-Auditor, State Service Audit Department	State Audit Office of Georgia
Tato Urjumalashvili	Head	Competitiveness and State Procurement Agency
Sopiko Berishvili	Chief Lawyer, Legal Department	State Procurement and Competitiveness Agency
Papuna Petriashvili	Vice-Mayor	Tbilisi City Hall

International Organizations

Irakli Khmaladze	Project Manager	EU Delegation
Anja Gaentzsch	Team Leader, Support to SAOG	GTZ
Nia Sharashidze	Economist	IMF

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Annex 5: Data Tables Supporting Selected Indicator Assessments

Table 1: State Budget for 2009

Organization Code	State Budget for 2009	Approved Plan	Fact	Revised Plan	Difference (5-4)	Difference in Module (5-4)	Difference in % compared to approved plan (7/5)
1	2	3	4	5	6	7	8
01 00	Parliament of Georgia and related organizations	42,963.7	36,700.8	43,635.6	6,934.8	6,934.8	15.9%
02 00	Administration of the President of Georgia	16,000.0	12,502.0	16,250.2	3,748.2	3,748.2	23.1%
04 00	Government Chancellery	10,000.0	7,891.0	10,156.4	2,265.4	2,265.4	22.3%
05 00	Chamber of Control of Georgia	12,306.7	11,546.1	12,499.2	953.1	953.1	7.6%
23 00	Ministry of Finance of Georgia	159,087.0	380,879.2	161,575.0	-219,304.2	219,304.2	135.7%
24 00	Ministry of Economy and Sustainable Development of Georgia	35,860.2	26,100.6	36,421.0	10,320.4	10,320.4	28.3%
25 00	Ministry of Infrastructure and Regional Development	181,388.4	175,496.7	184,225.2	8,728.5	8,728.5	4.7%
26 00	Ministry of Justice	55,150.0	65,764.1	56,012.5	-9,751.6	9,751.6	17.4%
27 00	Ministry of Penitentiary, Probation and Legal Assitance of Georgia	119,005.6	117,610.8	120,866.8	3,256.0	3,256.0	2.7%
28 00	Ministry of Foreign Affairs of Georgia	71,320.0	65,901.4	72,435.4	6,534.0	6,534.0	9.0%
29 00	Ministry of Defence of Georgia	942,000.0	868,098.0	956,732.2	88,634.2	88,634.2	9.3%
30 00	Ministry of Interior of Georgia	568,000.0	571,635.8	576,883.1	5,247.3	5,247.3	0.9%
31 00	Surveillance Service of Georgia	6,500.0	6,500.0	6,601.7	101.7	101.7	1.5%
32 00	Ministry of Education and Science of Georgia	510,736.8	471,479.8	518,724.3	47,244.5	47,244.5	9.1%
33 00	Ministry of Culture and Protection of Monuments of Georgia	86,350.0	84,798.7	87,700.5	2,901.8	2,901.8	3.3%
34 00	Ministry of Refugees and Resettlement of Georgia	30,000.0	44,956.9	30,469.2	-14,487.7	14,487.7	47.5%
35 00	Ministry of Labor, Health and Social Affairs	1,443,581.0	1,476,022.8	1,466,157.5	-9,865.3	9,865.3	0.7%
36 00	Ministry of Energy of Georgia	22,844.6	6,173.3	23,201.9	17,028.6	17,028.6	73.4%
37 00	Ministry of Agriculture of Georgia	59,131.6	58,278.4	60,056.4	1,778.0	1,778.0	3.0%
38 00	Ministry of Environment and Natural Resources of Georgia	40,000.0	34,342.3	40,625.6	6,283.3	6,283.3	15.5%
	Others	846,782.9	818,576.8	860,026.0	41,449.2	41,449.2	4.8%
	Total	5,259,008.5	5,341,255.5	5,341,255.5	0.0	506,817.6	9.5%
	Reserve Funds	100,000.0	93,853.1				1.8%
	Grand Total	5,359,008.5	5,435,108.6				1.4%

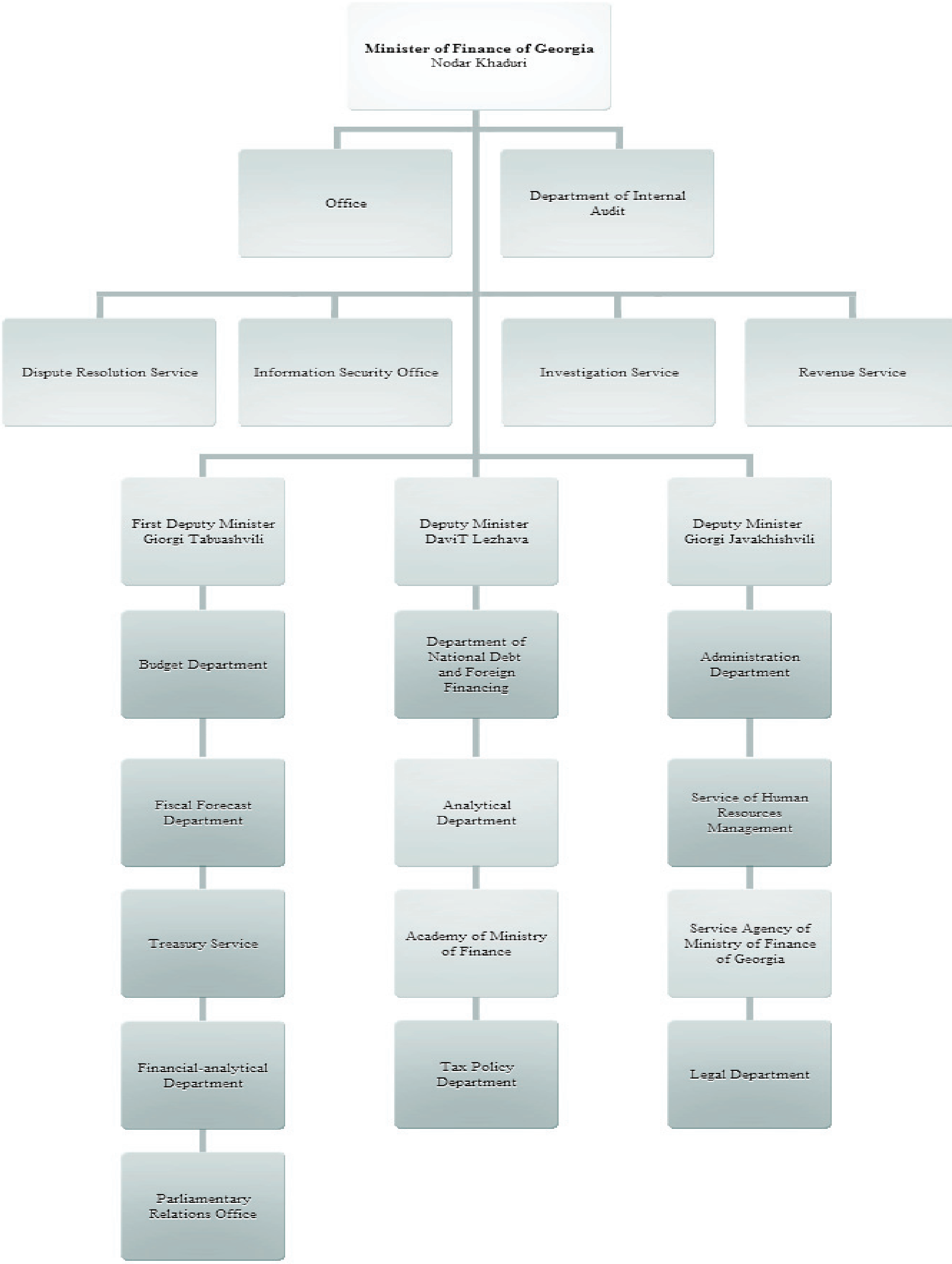
Table 2: State Budget for 2010

Organization Code	State Budget for 2010	Approved Plan	Fact	Revised Plan	Difference (5-4)	Difference in Module (5-4)	Difference in % compared to approved plan (7/5)
1	2	3	4	5	6	7	8
01 00	Parliament of Georgia and related organizations	40,133.7	35,924.1	41,517.1	5,593.0	5,593.0	13.5%
02 00	Administration of the President of Georgia	16,955.7	15,605.8	17,540.2	1,934.4	1,934.4	11.0%
04 00	Government Chancellery	7,590.7	8,745.2	7,852.4	-892.8	892.8	11.4%
05 00	Chamber of Control of Georgia	12,306.7	12,048.6	12,730.9	682.3	682.3	5.4%
06 00	Central Election Commission of Georgia	36,554.0	37,065.7	37,814.0	748.3	748.3	2.0%
23 00	Ministry of Finance of Georgia	103,393.5	163,326.9	106,957.6	-56,369.3	56,369.3	52.7%
24 00	Ministry of Economy and Sustainable Development of Georgia	23,836.5	42,574.6	24,658.2	-17,916.4	17,916.4	72.7%
25 00	Ministry of Infrastructure and Regional Development	145,434.8	195,564.5	150,448.1	-45,116.4	45,116.4	30.0%
26 00	Ministry of Justice	45,300.0	45,105.9	46,861.5	1,755.6	1,755.6	3.7%
27 00	Ministry of Penitentiary, Probation and Legal Assitance of Georgia	113,000.0	123,362.2	116,895.2	-6,467.0	6,467.0	5.5%
28 00	Ministry of Foreign Affairs of Georgia	66,498.1	66,965.2	68,790.3	1,825.1	1,825.1	2.7%
29 00	Ministry of Defence of Georgia	749,550.0	671,140.6	775,387.6	104,247.0	104,247.0	13.4%
30 00	Ministry of Interior of Georgia	548,000.0	547,190.0	566,890.0	19,700.0	19,700.0	3.5%
32 00	Ministry of Education and Science of Georgia	544,000.0	522,957.9	562,752.1	39,794.2	39,794.2	7.1%
33 00	Ministry of Culture and Protection of Monuments of Georgia	81,542.4	56,111.7	84,353.2	28,241.5	28,241.5	33.5%
34 00	Ministry of Refugees and Resettlement of Georgia	25,421.1	36,563.3	26,297.4	-10,265.9	10,265.9	39.0%
35 00	Ministry of Labor, Health and Social Affairs	1,566,581.0	1,571,083.2	1,620,582.3	49,499.1	49,499.1	3.1%
36 00	Ministry of Energy of Georgia	7,851.1	6,881.8	8,121.7	1,239.9	1,239.9	15.3%
37 00	Ministry of Agriculture of Georgia	29,154.7	16,815.4	30,159.7	13,344.3	13,344.3	44.2%
38 00	Ministry of Environment and Natural Resources of Georgia	23,905.0	23,288.7	24,729.0	1,440.3	1,440.3	5.8%
	Others	1,136,214.9	1,308,398.4	1,175,381.1	-133,017.3	133,017.3	11.3%
	Total	5,323,223.9	5,506,719.7	5,506,719.7	0.0	540,090.5	9.8%
	Reserve Funds	50,000.0	104,003.3				1.9%
	Grand Total	5,373,223.9	5,610,723.0				4.4%

Table 3: State Budget for 2011

Organization Code	State Budget for 2011	Approved Plan	Fact	Revised Plan	Difference (5-4)	Difference in Module (5-4)	Difference in % compared to approved plan (7/5)
1	2	3	4	5	6	7	8
01 00	Parliament of Georgia and related organizations	40,133.7	33,536.7	43,204.5	9,667.8	9,667.8	22.4%
02 00	Administration of the President of Georgia	14,154.0	11,874.0	15,237.0	3,363.0	3,363.0	22.1%
04 00	Government Chancellery	8,500.0	9,810.5	9,150.4	-660.1	660.1	7.2%
05 00	Chamber of Control of Georgia	10,800.0	11,474.4	11,626.3	151.9	151.9	1.3%
23 00	Ministry of Finance of Georgia	113,044.4	112,340.9	121,693.9	9,353.0	9,353.0	7.7%
24 00	Ministry of Economy and Sustainable Development of Georgia	33,294.7	91,062.1	35,842.2	-55,219.9	55,219.9	154.1%
25 00	Ministry of Infrastructure and Regional Development	212,107.5	298,257.4	228,336.7	-69,920.7	69,920.7	30.6%
26 00	Ministry of Justice	68,700.0	121,985.7	73,956.5	-48,029.2	48,029.2	64.9%
27 00	Ministry of Penitentiary, Probation and Legal Assitance of Georgia	105,065.0	110,817.4	113,103.9	2,286.5	2,286.5	2.0%
28 00	Ministry of Foreign Affairs of Georgia	73,236.0	72,152.6	78,839.6	6,687.0	6,687.0	8.5%
29 00	Ministry of Defence of Georgia	660,000.0	704,592.5	710,499.1	5,906.6	5,906.6	0.8%
30 00	Ministry of Interior of Georgia	566,000.0	565,863.4	609,306.8	43,443.4	43,443.4	7.1%
32 00	Ministry of Education and Science of Georgia	550,842.1	546,311.3	592,989.1	46,677.8	46,677.8	7.9%
33 00	Ministry of Culture and Protection of Monuments of Georgia	53,000.0	61,326.2	57,055.2	-4,271.0	4,271.0	7.5%
34 00	Ministry of Refugees and Resettlement of Georgia	28,399.4	40,825.3	30,572.3	-10,253.0	10,253.0	33.5%
35 00	Ministry of Labor, Health and Social Affairs	1,569,974.6	1,640,454.0	1,690,099.4	49,645.4	49,645.4	2.9%
36 00	Ministry of Energy of Georgia	7,818.1	19,125.2	8,416.3	-10,708.9	10,708.9	127.2%
37 00	Ministry of Agriculture of Georgia	52,771.0	24,892.3	56,808.7	31,916.4	31,916.4	56.2%
38 00	Ministry of Environment and Natural Resources of Georgia	21,985.6	11,139.2	23,667.8	12,528.6	12,528.6	52.9%
39 00	Ministry of Sport and Youth Affairs of Georgia	35,000.0	41,631.7	37,678.0	-3,953.7	3,953.7	10.5%
	Others	1,190,740.6	1,300,459.6	1,281,848.7	-18,610.9	18,610.9	1.5%
	Total	5,415,566.7	5,829,932.4	5,829,932.4	0.0	443,254.8	7.6%
	Reserve Funds	100,000.0	98,619.8				1.8%
	Grand Total	5,515,566.7	5,928,552.2				7.5%

Annex 6: The Structure of the Ministry of Finance



Annex 7: Discrepancy between the Self-assessment and the Validation Results

The validation of the PEFA self-assessment by the Bank team reconfirmed the scores for the most of the PEFA indicators. The indicators for which the scores assigned by the Bank differ from those as per the Government's self-assessment are listed in the table below. As a result of further consultations with the counterparts, the consensus was reached on a number of those indicators leaving just few where the difference of views remained. The Table also sums up respective comments by the MoF and conclusions:

	Indicator	2012 Validation Score (initial/ revised)	2012 Self-assessment Score	Comment
1	PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+/B+	A	The self-assessment scored the sub-dimension (iii) as 'A' based on the arguments that the BDD includes sector priorities for 91% of total expenditures both current and investment represented in the document on the level of priorities within each ministry thus providing a framework for financing of the programs in the annual budget. However, the Bank team could not accept this argument noting that full costing of recurrent and investment expenditures was missing. In the course of further consultations, the MoF agreed with the validation team on scoring the sub-dimensions (iii) and (iv) as 'B'. Thus consensus was reached on the overall score of 'B+'.
2	PI-18: Effectiveness of payroll controls	B+/B+	A	The self-assessment scored the sub-dimension (iv) as 'A.' However, the validation argument to downgrade it to 'D' in view of no payroll audits conducted in the last three years was accepted and the consensus was reached on the final overall score of 'B+.'
3	P1-22: Timeliness and regularity of accounts reconciliation	B+/B+	A	The MoF's arguments for scoring the sub-dimension (i) as 'A' were as follows: (a) LEPLs get their budget allocations through the Treasury following the same procedures as all the other budgetary units; therefore funds spent by them from the state budget are reported and reconciled through the Treasury; (b) according to Technical Memorandum of Understanding (TMU)[113] of the IMF staff report, the general government is defined as the central government and local governments, and does not include LEPLs, State-Owned Enterprises, or the Partnership Fund; the

[113] http://www.imf.org/external/pubs/ft/scr/2013/cr1395.pdf

				public sector consists of the general government and the National Bank of Georgia (NBG); (c) even if it included the LEPLs, the legislation allows the latter to generate own revenues for certain services they provide; such revenues can be used only for the purpose of the functions of the LEPL and are accumulated on the their own accounts held in commercial banks; the LEPLs through internet banking have daily access to their bank accounts and all the daily activities, receiving their own revenues or payments are done through their bank accounts; thus these accounts in commercial banks are managed by the LEPLs and not the central government units as such and are mostly reconciled on daily basis. The validation team remains of the view that non-Treasury managed bank accounts should be taken into account when assessing the subject indicator. Therefore no consensus was reached on the final overall score.
4	PI-23: Availability of information on resources received by service delivery units	D/B	A	The MoF provided additional information clarifying the reporting arrangements by the public schools. In view of this clarification, the validation score was upgraded to ‘B’ from initial ‘D.’ However, since the bi-annual and annual reports were produced by the MoF in 2011 only showing just aggregate data, the self-assessment score ‘A’ was not considered as warranted. The MoF agreed with the final overall score of ‘B’.
5	PI-24: Quality and timeliness of in-year budget reports	D+/A	A	The MoF provided additional clarification on the arrangements for producing 4th quarter in-year reports along with the respective evidence. As a result, the initial score for the sub-dimension (ii) was upgrade from initial ‘D’ to ‘A’. The overall score thus was aligned with the one as per the self-assessment.
6	PI-28: Legislative scrutiny of external audit reports	D+/D+	A	The self-assessment score was based on the following arguments: for sub-dimension (ii) - within their scope of their respective competences, the Parliament committees carry out control of state bodies accountable towards the Parliament; through its committees, the Parliament is authorized and actually permanently carries out detailed hearings together with the representatives of agencies being audited; the sub-dimension should be scored ‘A’; for sub-dimension (iii) - the legislative body carries out control and monitoring through the SAOG which is authorized to include conclusions and

				recommendations in its report. The SAOG should be informed by the executive agency on the status of the recommendation being implemented within the period of one month or any other the term as defined by the SAOG. The SAOG is authorized to send to the President of Georgia, the Parliament and the Government information about the outcomes of the audit as well as suggest discussing and reviewing the outcomes of the audit to the respective committee of the Parliament; the sub-dimension should be scored 'A'. Since no evidence was made to the Bank's team documenting the scope and participants of the Parliament hearings, or recommendations issued by the Parliament on the latest report, the validations scored sub-dimensions (ii) and (iii) as 'C' and 'D' respectively. The MoF agreed with the final overall score of 'D+'.
7	D-1: Predictability of direct budget support	C+	A	The self-assessment scored the sub-dimension (i) as 'A' based on the argument that the cancellation of the EU's macro-financial assistance (MFA) was reflected in the amended 2011 state budget and therefore no disbursement of the respective funds shall not be considered as deviation from the forecast. The Bank team remains of the view that assessment shall be done against the initially approved budget rather than in-year amendments thereto, and therefore the sub-dimension merits score 'C'. No consensus was reached on the overall score for the indicator.

Annex 8: Peer Reviewers' Comments by EU Delegation to Georgia and Responses

Comment	Response
General observation: The EUD was not involved from the beginning of the PEFA assessment, therefore, we can only provide general comments from the perspective of a recipient of the report. In this regard, it is mentioned at p. 12 of the report that "Throughout the assessment process the team consulted closely with the donors who have a strong interest in PFM. These include…. the European Commission, which is providing budget support…". However, the EU Commission and EU Delegation to Georgia were not involved or closely consulted during the process, notwithstanding their willingness and strong support for the PEFA process, and involvement in the previous assessment. The current draft document represents the first opportunity to be substantively consulted, and the report needs to be amended to reflect this.	Noted. Respective paragraph has been revised accordingly.
The overall impression of the report: The overall impression of the report is that it adheres to the format and approach of the PEFA Performance Measurement Framework with regards to length, adherence to the outline, inclusion of a comparison to previous findings, and insertion of clear summary tables. We note that the source of figures is overall well referenced, and that while minor mistakes have been detected throughout the document, these can be remedied by closer proof reading by the authors. The comparison and explanation for differences between the previous assessment findings are well identified. Further exposition on the state-of-play with regards to budget process reform, issues with the territorial budgets and LEPLs would be useful for the conclusions to be drawn. We should mention that a number of propositions have been made throughout the assessment which would require improvement by providing more information, or text revisions. For example, at Para 174 it is indicated that "It is understood that internal audit units finding and action by management on findings is prompt …" This would be strengthened by providing the evidence basis for this conclusion, particularly when it is further mentioned that "… quantifiable data in terms of the number of material weaknesses found per year and the remediation rates to enable an objective assessment of this are not available."	Noted. The paragraph has been updated to indicate that all the internal audit reports reviewed for the purpose of this PEFA assessment appeared to contain follow-up by internal audit units on their previous recommendations which seemed to suggest that action by management to those recommendations were prompt and comprehensive.
Objective, scope and process of the assessment: The objectives, methodology and scope for the assessment are well delineated at the relevant parts of the report.	NA

Country background information: The country background information appears comprehensive and is well presented, and provides a useful overview of the Georgian context.	NA
Country specific issues: The dimensions of country specific issues and are well outlined and discussed.	NA
Government reform process: Overall this is well described and corresponds with the government literature and known developments. In a number of areas, for example, such as developments in program budgeting, tax appeals and sub-national monitoring, the conclusions made would be strengthened by including information/evidence on the quality of the process and results achieved. This would support the rigor of the analysis and address any concerns about verifiability of the assessment. Further, it would be useful to know the impacts for the PFM reform process of the election of the new Government in October 2012	Noted. The Ministry of Finance is currently in the process of updating the PFM reform vision and respective action plan. The findings of the repeat PEFA assessment are expected to provide informed inputs to this process. As stated in the draft BDD 2014-2017, further strengthening of the public financial management through continuous improvements in the budget planning and execution process remains the MoF's priority.

Annex 9: Peer Reviewers' Comments by PEFA Secretariat and Responses

<table>
<tr><th colspan="4">General Comments</th></tr>
<tr><th colspan="2">Comment</th><th colspan="2">Response</th></tr>
<tr><td colspan="2">The FYs covered appear to be 2009-2011, although it is not clear if this period is applied consistently, as some ratings are "at the time of the assessment," and the fieldwork was undertaken in October, December, 2012.</td><td colspan="2">Clarification has been added in the Introduction section of the report that assessment covers financial years 2009-2011.</td></tr>
<tr><td colspan="2">Section 2- Background Information does not explain the division of responsibilities within the MoF.</td><td colspan="2">Paragraph 54 has been added explaining the division of the responsibilities within the MoF; also Annex 6 has been inserted to present the organization structure of the Ministry.</td></tr>
<tr><th colspan="4">Comments on Indicators</th></tr>
<tr><th>PI/ dim</th><th>Comments on evidence and rating</th><th>Comparison with 2008</th><th>Response</th></tr>
<tr><td>PI-1</td><td>The (rather unnecessarily complicated) Table 5 appears to have reached the correct variances and indicator score (A), but uses the term "difference in interest" incorrectly and also defines the variance incorrectly as "j/h" instead of "j/g".
Rating uncertain without clarification.</td><td>Performance improvement if corrections made.</td><td>Noted and corrected
The table is corrected to use the term overall variance instead of "difference in interest". The variance was defined as j/g. J/h was a typo, corrected in a revised version</td></tr>
<tr><td>PI-2 (i)</td><td>Appears correctly rated as 'B' on the basis of adequate evidence.</td><td>Not comparable.</td><td></td></tr>
<tr><td>(ii)</td><td>Appears correctly rated as 'A' on the basis of adequate evidence.</td><td>Not comparable.</td><td></td></tr>
<tr><td colspan="4">Overall: Appears correctly combined as 'B+'.</td></tr>
<tr><td>PI-3</td><td>Appears correctly rated as 'B' on the basis of adequate evidence.</td><td>Not comparable.</td><td></td></tr>
<tr><td>PI-4 (i)</td><td>Appears correctly rated as 'A', although it would be helpful to see the data (also, not sure why reference is made to 'net expenditure'?).</td><td>Unchanged performance</td><td>Noted. Reference to "net expenditure" deleted.</td></tr>
<tr><td>(ii)</td><td>Appears correctly rated as 'B' on the basis of adequate evidence.</td><td>Improvement evidenced.</td><td></td></tr>
<tr><td colspan="4">Overall: Appears correctly combined as 'B+'.</td></tr>
<tr><td>PI-5</td><td>May be correctly rated as 'A', but not clear if the program classification mentioned in para 71 was in place for 'last completed FY' (which incidentally, was presumably not 2009!): please clarify.</td><td></td><td>Clarification provided that last completed FY is 2011. Also, text update to reflect that both functional and sub-functional classification was applied using GFS/COFOG standards.</td></tr>
</table>

PI-6	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
PI-7 (i)	May be correctly rated as ‘A’, but it is necessary to quantify the revenue generated by the LEPLs which is stated to be outside the budget. Rating uncertain.		Additional quantified information has been added.
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance	
Overall: Appears correctly combined as ‘A’, but now uncertain.			
PI-8 (i)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Possible improvement, as 2008 may be overrated.	
(ii)	May be correctly rated as ‘A’, if the practice actually conforms to the legal requirement – please confirm this.	Unchanged performance.	Confirmed that the legal requirements are actually followed in practice.
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Improvement evidenced.	
Overall: Appears correctly combined as ‘A’.			
PI-9 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Rated as ‘A’, but are there other liabilities apart from borrowing? – alternatively, there is no evidence of a consolidated annual report. Rating uncertain.	Rating uncertain.	Further clarification added on the fin financial liabilities; the text was also edited to reflect consolidated reports prepared by the MoF.
Overall: Appears correctly combined as ‘C+’, but now uncertain.			
PI-10	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Improvement evidenced.	
PI-11 (i)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as ‘A’, although it is difficult to understand the basis for the claims of improvement mentioned in the narrative from the situation assessed in 2008.			
PI-12 (i)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Improvement evidenced.	
	Appears correctly rated as ‘A’ on the	Improvement	

(ii)	basis of adequate evidence.	presumably due to IMF SBA.	
(iii)	It is not clear how sector strategies can be 'fully costed' if this is only done at the aggregate level, as stated in the narrative. Please clarify.	Rating uncertain.	The rating was changed to C to be aligned with the narrative.
(iv)	The narrative (para 102) is confusing, and appears to be based on FY 11. Rating uncertain.	Rating uncertain.	The rating is based on the current situation. The wording is corrected to reflect that the practice has started since 2011. Para 102 was revised to reflect that both BDD document and annual budget law reflect capital and recurrent expenditures. At the same time, full consistency of project selection with strategic documents is not yet ensures.
Overall: Appears correctly combined as 'B', but now uncertain.			
PI-13 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
(iii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Improvement evidenced.	
Overall: Appears correctly combined as 'A'.			
PI-14 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
Overall: Appears correctly combined as 'A'.			
PI-15 (i)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change evidenced.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	No change evidenced.	
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	No change evidenced.	
Overall: Appears correctly combined as 'D+'.			
PI-	Appears correctly rated as 'A' on the	Unchanged	

16 (i)	basis of adequate evidence.	performance.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as 'A'.			
PI-17 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance	
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as 'B'.			
PI-18 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Not scored.	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Not scored.	
(iii)	Please explain the statement in that narrative that *"Changes thereto should also be agreed upon by the Government"* as it is not clear how this represents a control in the system. Please clarify.	Not scored.	The text was edited to clarify that as mentioned in the paragraph 137, the Treasury managed payroll system would capture any unauthorized changes as well as any inconsistences between the payroll and the individual HR information as submitted by the MDAs.
(iv)	Appears correctly rated as 'D' on the basis of adequate evidence.	Not scored.	
Overall: Incorrectly combined as 'B+': as this is 'M1', it should be 'D+', but now uncertain.			The overall rating was corrected to D+
PI-19 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	NA	
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	NA	
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	NA	
(iv)	Appears correctly rated as 'A' on the basis of adequate evidence.	NA	
Overall: Appears correctly combined as 'A'.			
PI-	May be correctly rated as 'A', but	Change not	It was not meant to suggest that the 2008

20 (i)	is the comment that "Cash availability has not been an issue since 2005" meant to suggest that the 2008 score was incorrect?	evidenced.	score was incorrect. It was to say that because there has been no shortage of cash, the effectiveness of commitment controls has not been as critical as it may otherwise have been, given that one of the purposes of commitment controls is to ensure that the government's payment obligations remain with the limits of projected cash availability (as explained in the PEFA framework). As explained in paragraph 170, the change since the time of 2008 PEFA assessment is that "In 2008, it was noted that payments could be made and commitments registered prior to validation of contracts. Accordingly, commitment controls were incomplete. This is no longer the case."
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Change not evidenced.	As explained in paragraph 170, the change since the time of 2008 PEFA assessment is that "there is now a revised set of policies and procedures for non-salary expenditures including processing transactions through the Treasury Service."
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Change not evidenced.	As explained in paragraph 170, the change since the time of 2008 PEFA assessment is that "the revised set of policies and procedures together with the significant improvements in the functionality of and controls incorporated within the TIS have significantly improved compliance."
Overall: Appears correctly combined as 'A'.			
PI-21 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Change not evidenced.	As explained in paragraph 175, the change since the time of 2008 PEFA assessment is that "The inspector general offices or inspectorate departments have been replaced by internal audit units equipped with professional internal audit standards."
(ii)	Rated as 'A' on the basis that reports will go to CHU, but only "if asked" – which does not satisfy the requirements. Rating uncertain.	Rating uncertain.	The CHU in the MOF made a deliberate choice not to receive all internal audit units' individual internal audit reports, but rather to get all units' annual internal audit reports which consolidate the findings from all their individual internal audit reports. The CHU retains the power to

			request whichever individual internal audit reports they wish to receive. Thus, the CHU does get all internal audit units' internal audit reports in consolidated form at the end of the year in their annual reports. Consistent with the PEFA 2012 Fieldguide, the annual internal audit reports thus enable the CHU and MOF to monitor how the public financial management systems are functioning. For the sake of clarity, we have changed the wording of the last two sentences of PI-21(i) to read as follows: "Annual audit reports are distributed to the audited entity, the CHU and the SAOG and thus enable the MOF and SAOG to monitor how the public financial management systems are functioning. In addition, the individual audit engagement reports are distributed to the audited entity."
(iii)	Evidence is inadequate to support the rating. Rating uncertain.	Rating uncertain.	As explained in the text for this dimension, "quantifiable data in terms of the number of material weaknesses found per year and the remediation rates to enable an objective assessment of this are not available". It was understood from the interview with the CHU that prompt and comprehensive action is taken by many but not all managers. The CHU is independent from the individual ministry-level internal audit units and thus this representation was taken at face value, and accordingly the dimension was rated "B". During the course of the review, all the internal audit reports seen by the review seemed to have follow-up. To reflect this, the write up has been edited to clarify that "all internal audit reports reviewed for the purpose of this PEFA assessment appeared to contain follow-up by internal audit units on their previous recommendations which seemed to suggest that action by management to those recommendations were prompt and comprehensive." The dimension rating was

			changed to "C."
Overall: Appears correctly combined as ‘C+’, but now uncertain.			
PI-22 (i)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Unchanged performance: previously overrated.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as ‘B+’.			
PI-23	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Change not evidenced.	
PI-24 (i)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Change not evidenced.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as ‘A’.			
PI-25 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Change not evidenced.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Deterioration evidenced.	
Overall: Appears correctly combined as ‘C+’.			
PI-26 (i)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Improvement not evidenced.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Improvement evidenced.	
Overall: Appears correctly combined as ‘B+’.			
PI-27 (i)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
	Appears correctly rated as ‘A’ on	Improvement	

(iv)	the basis of adequate evidence.	evidenced.	
Overall: Appears correctly combined as ‘A’.			
PI-28 (i)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Deterioration evidenced.	
(iii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	Deterioration evidenced.	
Overall: Appears correctly combined as ‘D+’.			
D-1 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as ‘C+’.			
D-2 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Unchanged performance.	
(ii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Unchanged performance.	
Overall: Appears correctly combined as ‘C’.			
D-3	Appears correctly rated as ‘D’ on the basis of adequate evidence.	Unchanged performance.	

Annex 10: Assessment Team Composition

	A. PFM-OUT-TURNS: Credibility of the budget	
PI-1	Aggregate expenditure out-turn compared to original approved budget	Oleksiy Balabushko/Elene Imandze
PI-2	Composition of expenditure out-turn compared to original approved budget	Oleksiy Balabushko/Elene Imandze
PI-3	Aggregate revenue out-turn compared to original approved budget	Oleksiy Balabushko/Elene Imandze
PI-4	Stock and monitoring of expenditure payment arrears	Oleksiy Balabushko/Elene Imandze
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5	Classification of the budget	Oleksiy Balabushko
PI-6	Comprehensiveness of information included in budget documentation	Oleksiy Balabushko
PI-7	Extent of unreported government operations	Oleksy Balabushko
PI-8	Transparency of inter-governmental fiscal relations	Oleksiy Balabushko
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	Mariam Dolidze
PI-10	Public access to key fiscal information	Oleksiy Balabushko
	C. BUDGET CYCLE	
	C(i) Policy-Based Budgeting	
PI-11	Orderliness and participation in the annual budget process	Oleksiy Balabushko
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Oleksiy Balabushko
	C(ii) Predictability and Control in Budget Execution	
PI-13	Transparency of taxpayer obligations and liabilities	Elene Imnadze/Mariam Dolidze
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	Elene Imnadze/Mariam Dolidze
PI-15	Effectiveness in collection of tax payments	Elene Imnadze/Mariam Dolidze
PI-16	Predictability in the availability of funds for commitment of expenditures	Elene Imnadze/Oleksiy Balabushko
PI-17	Recording and management of cash balances, debt and guarantees	Elene Imnadze/Oleksiy Balabushko
PI-18	Effectiveness of payroll controls	Elene Imnadze/Oleksiy Balabushko
PI-19	Competition, value for money and controls in procurement	Sandro Nozadze
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	Ranjan Ganguli
PI-21	Effectiveness of internal audit	Ranjan Ganguli

	C(iii) Accounting, Recording and Reporting	
PI-22	Timeliness and regularity of accounts reconciliation	Ranjan Ganguli
PI-23	Availability of information on resources received by service delivery units	Ranjan Ganguli
PI-24	Quality and timeliness of in-year budget reports	Ranjan Ganguli
PI-25	Quality and timeliness of annual financial statements	Ranjan Ganguli
	C(iv) External Scrutiny and Audit	
PI-26	Scope, nature and follow-up of external audit	Ranjan Ganguli
PI-27	Legislative scrutiny of the annual budget law	Oleksiy Balabushko/ Ranjan Ganguli
PI-28	Legislative scrutiny of external audit reports	Ranjan Ganguli

	E. D. DONOR PRACTICES	
D-1	Predictability of Direct Budget Support	Elene Imnadze
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	Elene Imnadze
D-3	Proportion of aid that is managed by use of national procedures	Elene Imnadze

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