

INTERIM (2020) ALTERNATIVE MONITORING REPORT  
ON THE IMPLEMENTATION OF PUBLIC ADMINISTRATION  
REFORMATION PLAN FOR 2019-2020



Direction 5: Public Finance Management

2020 Year

2021





ევროკავშირი  
საქართველოსთვის  
The European Union for Georgia



GEORGIAN  
YOUNG  
LAWYERS'  
ASSOCIATION

**INTERIM (2020) ALTERNATIVE MONITORING REPORT  
ON THE IMPLEMENTATION OF PUBLIC ADMINISTRATION REFORM  
ACTION PLAN FOR 2019-2020**

**2020 YEAR**

**Direction 5: Public Finance Management**

The document was prepared by the Georgian Young Lawyers' Association (GYLA) supported by the European Union (EU). The Georgian Young Lawyers' Association is fully responsible for the content of the document. The content may not reflect the opinion of the European Union.



# CONTENTS

- MAIN FINDINGS ..... 7**
- 1. INTRODUCTION ..... 9**
- 2. METHODOLOGY ..... 11**
  - 2.1. Implementation of objectives and activities ..... 12
  - 2.2. Monitoring Tools ..... 12
  - 2.3. Monitoring Sources ..... 13
- 3. MONITORING IMPLEMENTATION OF PUBLIC FINANCE MANAGEMENT OF PAR .... 14**
  - Objective 5.1:** strengthen the sustainability of the medium-term planning in order to increase the budget planning efficiency ..... 17
  - Objective 5.2:** Strengthen effectiveness of Fiscal Risk Management in order to ensure macrofiscal stability ..... 25
  - Objective 5.3:** Ensure further transparency of the budget process and citizens participation in order to enhance accountability..... 30
- 4. CONCLUSION AND RECOMMENDATIONS ..... 35**

## **ABBREVIATIONS**

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**PEFA** - Public Expenditure and Financial Accountability

**BDD** - Basic Data and Directions

**DSGE** - Dynamic Stochastic General Equilibrium

**MTBF** - Medium Term Budget Framework

**eBTPS** - Budget Transparency and Participation System

**PFM** - Public Financial Management

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## MAIN FINDINGS

Several important findings were identified during the monitoring process.

- With regards to objectives and activities envisaged for 2020 reporting period:
  - ▶ Out of 3 objectives, 2 were mostly implemented, while performance for 1 cannot be measured;
  - ▶ Out of 7 activities, 1 is fully implemented, 3 are mostly implemented and 3 are partly implemented;
- Implementation deadline for 5 out of 7 activities of the Action plan is the IV quarter of 2020, while for the remaining 2 activities, this deadline applies for both years, making it complicated to verify implementation progress in the period before the end of the Plan. This, in turn, made it impossible to assess the implementation progress, as well as to eliminate gaps identified in the last quarter;
- Referring to the assessment of Public Expenditure and Financial Accountability (PEFA) as an outcome indicator, is irrelevant for the purposes of monitoring 2019-2020 Action Plan, since the issuance of PEFA validation document for Georgia is scheduled 4 years after the previous assessment and its issuance does not coincide with the 2-year Action Plan; this made monitoring impossible for the mentioned part;
- Open Budget Index score is defined as an outcome indicator for the 3<sup>rd</sup> objective of the Action Plan. This document is issued in every 2 years. The last report is dated 2019 and assesses situation as of 31 December 2018. 2020 assessment will be available in 2021. This document also turned out to be irrelevant for monitoring purposes, since it became impossible to determine the relevant open budget score for the reporting period;
- Several indicators fail to meet S.M.A.R.T. criteria. Therefore, it became necessary to develop alternative indicators. For several cases, including the assessment against PEFA and open budget index, even this proved to be impossible.



## 1. INTRODUCTION

Public Finance Reform has been underway in Georgia since 2004.<sup>1</sup> However the country officially committed to its implementation within the frames of Public Administration Reform under EU-Georgia Association Agreement in 2014.<sup>2</sup> In 2015, the Government approved The Public Administration Reform Roadmap and Policy Planning System Reform Strategy,<sup>3</sup> thus, starting to fulfill its commitment to the Association Agreement in the direction of public administration. As a next stage, this was followed by 2-year Action Plans and different sectoral policy documents.<sup>4</sup>

In 2019 the Government developed and approved the third Action Plan for the Public Administration Reform, covering the following 6 areas: Policy Planning and Coordination, Civil Service and Human Resource Management, Accountability, Public services Delivery, Public Finance Management and Local Self-government.<sup>5</sup> This document addresses the 5<sup>th</sup> area of the reform, the Public Finance Management, and monitors the fulfillment of commitments in this field by the responsible agency.

Despite the success of the Government, achieved in the direction of public finances,<sup>6</sup> challenges still remains and there is a need for taking further steps in order to ensure the efficiency of budget planning and macro-fiscal stability. Special work needs to be undertaken in order to increase citizen participation in the budget planning process.<sup>7</sup>

<sup>1</sup> Georgian Fiscal Policy and Management and its Compliance with the EU Practice, The Ministry of Finance of Georgia, 2016, p. 19, available at: <https://bit.ly/3dgqfxF>, updated on: 21.05.2021.

<sup>2</sup> Article 4, the 'Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part.

<sup>3</sup> The Resolution N427 of 19 August 2015 of the Government of Georgia on the approval of strategic documents for the implementation of public administration – Public Administration Reform Roadmap 2020 and Policy Planning System Reform Strategy 2015-2017.

<sup>4</sup> Such as Public Finance Management Strategy, Open Government Partnership Action Plan, National Anti-Corruption Strategy Action Plan, Public Administration Reform Action Plan.

<sup>5</sup> Resolution N274 of 10 June 2019 of the Government of Georgia on the approval of Public Administration Reform Action Plan for 2019-2020“.

<sup>6</sup> In a 2017 Public Expenditure and Financial Accountability PEFA Assessment Georgia earned 'A' ranking for the relevant sub-indicator of the Action Plan. See Public Expenditure and Financial Accountability PEFA Assessment Report, The Ministry of Finance, The Ministry of Finance Website, 29 June, 2018, available at: <https://bit.ly/2XvE2c8>, updated on: 21.05.2021; while in 'Open Budget Index' of 2017 Georgia was listed among fully transparent countries and earned 81/100 points in the part of transparency. See „OPEN BUDGET SURVEY 2017“, Georgia, International Budget Partnership (IBP), available at: <https://bit.ly/3wKlu7t>, updated on: 21.05.2021; see also: Amanda Sayegh, et al, *Georgia, Fiscal Transparency Evaluation*, September, 2017, available at: <https://bit.ly/2RkTKB0>, updated on: 21.05.2021.

<sup>7</sup> In a "Open Budget Index", In 2017, in the part of citizen participation, Georgia earned 22/100, while in 2019 - 28/100 points. See „OPEN BUDGET SURVEY 2017“ და „OPEN BUDGET SURVEY 2019“, Georgia, International Budget Partnership (IBP), available at: <https://bit.ly/3d6Nxri>, updated on: 21.05.2021.



## 2. METHODOLOGY

The purpose of this document is to monitor the implementation of the Public Administration Reform Action Plan for 2019-2020 and to assess policies pursued.

Based on indicators, defined by the Action Plan, the report assesses the implementation of each activity scheduled for 2020. The document also features monitoring results for those objectives and activities that had the following status in 2019 monitoring period: mostly implemented, partly implemented or unimplemented.

## 2.1. IMPLEMENTATION OF OBJECTIVES AND ACTIVITIES

Qualitative and/or quantitative indicators are used to assess the implementation of objectives and activities, defined by the Action Plan.

The implementation of objectives and activities is described by one of the following four statuses:

1. **FULLY IMPLEMENTED** – an activity/objective is fully or almost fully implemented and only minor part of it has not been completed;
2. **MOSTLY IMPLEMENTED** – the major part of an activity/objective was implemented, while part of it has not been completed;
3. **PARTLY IMPLEMENTED** – a part of an activity/objective was implemented while a major remains incomplete;
4. **UNIMPLEMENTED** – an activity/objective was not implemented at all or a minor part is implemented it is impossible to observe progress.

The reporting period for monitoring is 2020. Therefore, it will assess the part of the reform, implementation of which was scheduled for 2020, as well as the activities that were not implemented in 2019.

## 2.2. MONITORING TOOLS

The monitoring was mainly based on the analyses of legislation, international standards and commitments related to Public Administration Reform, through various tools. Legislative and other normative data were assessed. In addition, the monitoring group also studied international standards and commitments that Georgia took in the field of public administration.

### 2.3. MONITORING SOURCES

The monitoring was based on the following sources:

- Public information (data provided by the Ministry of Finance);
- Open sources, information found on websites and in the reports of state agencies;
- Interviews with the representatives of the Ministry of Finance<sup>8</sup>.

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<sup>8</sup> The interview was conducted with the following representatives of the Ministry of Finance: Natia Gulua – Deputy Head of Budget Department, Nino Mikeladze – the Head of Macroeconomic Analysis division of the Department of Macroeconomic Analysis and Fiscal Policy Planning; Shota Gunia – the Head of Fiscal Risk Management division; Nato Mokverashvili – Senior Specialist of Budget policy Division of the Budget Department.



### **3. MONITORING OF THE OBJECTIVE AND ACTIVITY IMPLEMENTATION**

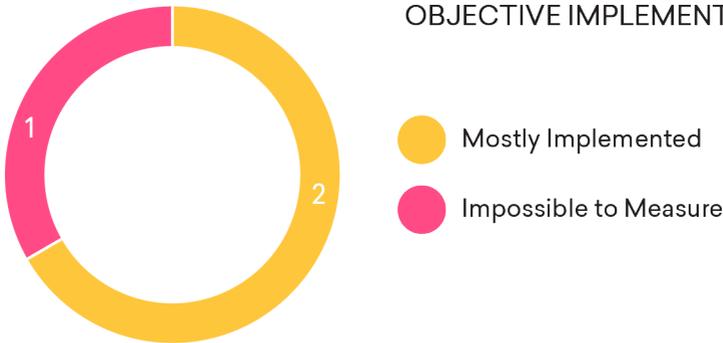
The 5<sup>th</sup> area of the Public Administration Reform aims at the improvement of processes related to the administration of public finances and at their approximation to international standards. Under the reform, the action plan envisages to:

- (1) Strengthen the sustainability of medium-term planning;
- (2) Strengthen effectiveness of Fiscal Risk Management;
- (3) Ensure further transparency of the budget process and participation system.

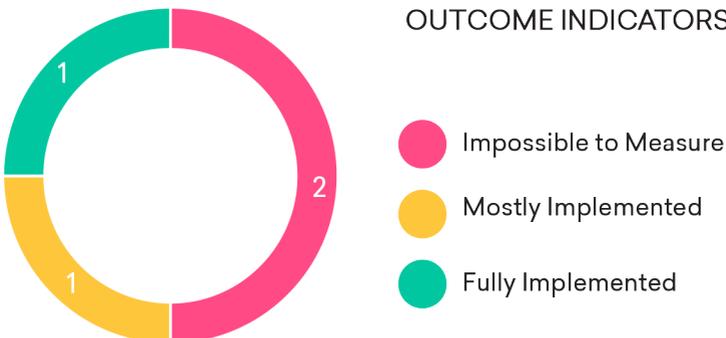
Therefore, the Action Plan comprises of 3 objectives, and within the frames of these objectives, of 7 activities and 13 indicators (including 4 outcome and 9 output indicators). The implementation of the majority of activities is envisaged for 2020, however, some activities were completed in 2019, before the deadline. These activities were still assessed in this document.

Out of the 3 objectives of the Public Finances' direction of the Action Plan, two were mostly implemented, while it was impossible to assess the implementation for one. Out of 4 outcome indicators, 1 was fully implemented, 1 was mostly implemented and it was impossible to assess the implementation of 2.

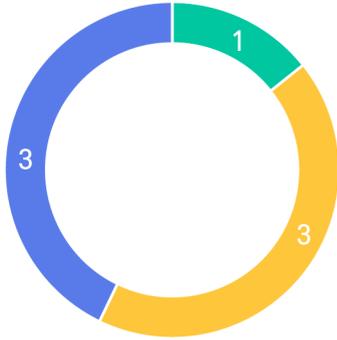
### OBJECTIVE IMPLEMENTATION RESULTS



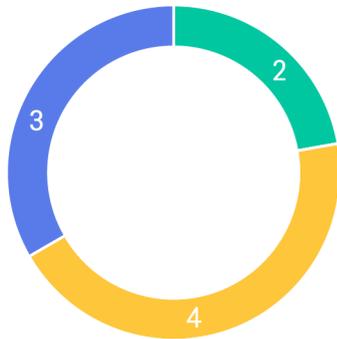
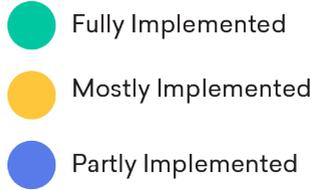
### OUTCOME INDICATORS



Out of the 7 activities of the public finance management of the Action Plan, 1 was fully implemented, 3 were mostly implemented, and 3 were partly implemented in the monitoring period. Out of 9 output indicators, 2 were fully implemented, 4 were mostly implemented, and 3 were partly implemented.



### ACTIVITY IMPLEMENTATION RESULTS



### OUTPUT INDICATORS



## OBJECTIVE 5.1: STRENGTHEN THE SUSTAINABILITY OF THE MEDIUM-TERM PLANNING IN ORDER TO INCREASE THE BUDGET PLANNING EFFICIENCY

The first objective of the public finance management reform of PAR aims at increasing the efficiency of budget planning through strengthening the medium term budget framework. This ensures the compliance of the government program and of different sectoral strategies with medium-term parameters,<sup>9</sup> enabling the Government to expand the fiscal policy horizon beyond the specific budget year.<sup>10</sup>

Public Financial Management Reform Strategy for 2018-2021,<sup>11</sup> approved by the Minister of Finance, also envisages the enhancement of accuracy, reliability and linkage with annual plans of the medium-term forecasts.

### Outcome indicators:

1. The quality of Basic Data and Directions (BDD) document

**Baseline (2018):** BDD does not clearly reflect the information on the impact of current and new policies on the budget

**Target (2020):** BDD clearly reflects the information on the impact of current and new policies on the budget, based on the example of at least 2 ministries

**Alternative target indicator:** the impact of current and new policies is given in monetary value and forecasts are outlined for the planned year and the following three years, on an example of at least 2 ministries.

2. The preciseness of macro-economic and fiscal forecasts

**Baseline (2018):** The Public Expenditure and Financial Accountability (PEFA) Assessment – PI-3.1 – Score – A

**Target (2020):** PEFA Assessment – PI-3.1 – Score – A

**Objective implementation status: Mostly implemented**

<sup>9</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2020), Administration of the Government of Georgia, 2020, p. 64.

<sup>10</sup> European Commission, Directorate-General for Economic and Financial Affairs (2007), "Public Finances in EMU-2007", pp. 152-154, available at: <https://bit.ly/3ufuLEh>, updated on: 21.05.2021, see also: Georgian fiscal policy and Management and its Compliance with the EU Practice, The Ministry of Finance of Georgia, 2016, p. 19, available at: <https://bit.ly/3dgqfxf>, updated on: 21.05.2021.

<sup>11</sup> Public Finance Management Reform Strategy 2018-2021, The Ministry of Finance, The Ministry of Finance website, page 3, available at: <https://bit.ly/36vWPrE>, updated on: 21.05.2021.

The first outcome indicator of this objective is assessed qualitatively, based on the Basic Data and Directions document (BDD). According to the Action Plan, BDD should clearly reflect information about the impact of current and new policies on the budget, on an example of at least two ministries. It is noteworthy that, the requirement of a 'clear' reflection of information does not comply with the S.M.A.R.T. criteria, since it is an biased category and is impossible to be measured objectively. Therefore, for the purposes of monitoring, the monitoring group developed more measurable target indicator, in order to measure the performance of the objective. In particular, the impact of existing and new policies shall be summarized quantitatively, in accordance to planned directions and, at the same time, forecasts shall be outlined for the following three years, on an example of at least two ministries. Thus, this monitoring report assessed the completion of the 1<sup>st</sup> outcome indicator of the 1<sup>st</sup> objective, based on the mentioned criteria.

In 2020 the Ministry of Finance developed draft government resolution 'on Measures to be Taken for the Compilation of 2021-2024 Basic Data and Directions Document',<sup>12</sup> defining the list of information to be submitted by spending agencies, as well as deadlines.<sup>13</sup> Initial version of 2021-2024 BDD document which, among other things, includes allocation and quantity thresholds for spending agencies, were submitted to the Government in a medium-term period and was approved;<sup>14</sup> the revised version of BDD document was submitted to the Government and the Parliament in the IV quarter of 2020, along with the State budget.<sup>15</sup>

2021-2024 BDD document reflects information about the impact of current and new policies on the budget, on the example of the following 3 ministries: (1) the Ministry of Education, Science, Culture and Sports, (2) the Ministry of IDPs from Occupied Territories, Labor, Health and Social Affairs and (3) the Ministry of Economy and Sustainable Development.<sup>16</sup> The document features 5 new policy directions for these ministries. These include:

**1) Education:** The scheme for teachers' professional development and career advancement and the increase of remuneration, as well as the implementation of 'new school' model

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<sup>12</sup> Letter N08-02/19972 of 22 February 2021 of the Ministry of Finance.

<sup>13</sup> Decree N137 of 28 february 2020 of the Governmnet of Georgia on the measures to be carried for the composition of the Basic Data and Directions (BDD) Document 2021-2024.

<sup>14</sup> Decree N1219 of 10 July 2020 of the Government of Georgia

<sup>15</sup> Letter N08-02/19972 of 22 February 2021 of the Ministry of Finance.

<sup>16</sup> Basic Data and Directions (BDD) Document 2021-2024, The Ministry of Finance Website, available at: <https://www.mof.ge/BDD>, updated on: 21.05.2021.

With regards to teachers, the BDD states that, within the frames of education reform, the next stage of teachers' professional and career development is planned for 2021. This also encompasses the increase of allowances for senior, leading and mentor teachers (more than 39 000 teachers). Relevant amounts are also specified.

As for to the 'new school' model, the BDD document does not separately contain impact on the budget data for it. It is indicated in the Document that this model is planned to be implemented in all public schools throughout the country in the medium-term period. Different intensive activities, to be carried out within the frames of the reform, are listed. Information about the impact on the budget and forecasts for the upcoming 3 years is provided in the direction of teachers' professional and career development and the increase of their remuneration. Therefore, in this part, the BDD document complies with 2020 alternative target outcome indicator: the impact of the policy is provided in a numerical data and forecasts are outlined for the upcoming three years.

### **2) Social protection** - indexation of pensions

The BDD document envisages the increase of annual pension . Amounts are indicated according to respective age groups. The document also defines the amount of state pension by the end of medium-term period, as well as forecasts for upcoming three years. Thus, the impact of existing and new policies is provided in numeric data, forecasts are also outlined for all four years. Therefore, in this part, the BDD complies with 2020 alternative target outcome indicator.

### **3) Health care:** a new direction of primary and emergency medical care – co-financing insurance for ambulance stuff and doctors/nurses

According to the Document, co-financing insurance for ambulance stuff (4500 employees) and for rural doctors/nurses (3000 doctors/nurses) will begin from 2021. The amount of contribution is also indicated. Forecast for this direction is outlined in BDD in the part of healthcare protection, within the frames of the provision of primary and emergency medical care. Therefore, the impact of the new policy is provided in specific amounts and forecasts are also outlined for the upcoming three years. The BDD meets 2020 alternative target outcome indicator in this part as well.

### **4) Labour and employment:** new directions of occupational safety and employment policy

Taking into account amendments introduced to the labour legislation, LEPL Labour Inspection Service was established in order to fully undertake labour inspection functions. Pursuant to its functions, forecasts are outlined in BDD for the planned year, as

well as for upcoming three years. With regards to the new direction of employment, State Agency for the Promotion of Employment has been created in order to ensure effective implementation of state policy in the area of labour and employment promotion, active labour market policy, and the management of employment promotion service mechanisms. Within the frames of its mandate, the BDD includes forecasts for all four years. Therefore, the impact of new policy is provided in specific amounts and forecasts are outlined for both parts. BDD meets the 2020 alternative target outcome indicator.

**5) New directions of Economic Support Policy:** Credit- Guarantee Scheme and support to the construction sector

The Credit-Guarantee scheme is an important component of the package of economic support against Corona-virus (COVID-19).<sup>17</sup> The programme was developed as a response to the crisis caused by the pandemic, in order to improve access to finance for small and medium sized businesses and to facilitate additional lending to the economy. For the same purpose the programme was developed within the scope of the Support Plan to the development/construction sector.

According to the BDD document, the State plans to under certain conditions subsidize the interest of mortgage loans (up to GEL 200000) taken in June-December. The duration, interest and the borrowing period are indicated. With regards to calculation, these directions have been added, as part of the policy of economic support against corona-virus and only includes the data of 2021. As it turns out, this is the first time that such a short-term new policy direction is reflected in the document.<sup>18</sup> It can be concluded that the BDD takes into account impacts on the budget and, despite the absence of a 3-year forecast, the document meets 2020 alternative target outcome indicator in both parts.

Therefore, the implementation of this indicator is completed and the status is **fully implemented**.

The 2<sup>nd</sup> outcome indicator of the 1<sup>st</sup> objective is assessed based on PEFA – Public Expenditure and Financial Accountability Report.<sup>19</sup> The PEFA assessment has been used by different governments in the process of analyzing Public Finance Management

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<sup>17</sup> Basic Data and Directions (BDD) Document 2021-2024.

<sup>18</sup> Interview with the representatives of the Ministry of Finance.

<sup>19</sup> Public Expenditure and Financial Accountability (PEFA) Assessment is developed by different actors, such as the EU Commission, International Monetary Fund and the World Bank. Its purpose is to review Public Finance Reform in Georgia. It assesses the results of reforms carried out in previous years and of those implemented by the Government after the PEFA assessment.

reforms since 2005.<sup>20</sup> The goal is to prepare objective analysis of public finance management system of a country by applying PEFA indicators,<sup>21</sup> resulting in the identification of weaknesses and their elimination.<sup>22</sup>

The Action Plan applies the 3<sup>rd</sup> PEFA indicator (PI – 3.1), which assesses the difference between the initially approved budget and actual revenue at the end of the year,<sup>23</sup> while 3.1. subindicator assesses the total revenue performance.<sup>24</sup>

According to the 2018 report, which covered 2013-2016, Georgia is rated with the best (A) score, against the sub-indicator applied in the Action Plan. Therefore, the target indicator of the Action Plan implies the maintenance of the same indicator.<sup>25</sup>

Based on the PEFA methodology, in order to obtain A score, the forecast performance results should be between 97% and 106%. According to the Status Report of the Ministry of Finance, consolidated budget revenues were implemented by 91.1%, against the initial plan, including taxes – by 89.1%, grants – by 144.4% and other income – by 99.2%. However, as explained by the Ministry, the deviation is caused by COVID-19 pandemic and such factor is impossible to be predicted; in addition, this was a one-off deviation and will not affect the accuracy of forecasts for upcoming years.<sup>26</sup> According to the Report, amid increased risks in the region, the accuracy of medium-term macroeconomic forecasts is also expected to deteriorate.<sup>27</sup>

It is noteworthy that the PEFA document assessing 2019-2020 period has not yet been issued. It is expected to be elaborated in 2021 and reflect on the situation of previous 4 years. Because of the absence of PEFA document for the period foreseen by the action plan, the monitoring group was **unable to measure the performance of this indicator for 2020**.

To sum up, the 1<sup>st</sup> outcome indicator of the 1<sup>st</sup> objective is fully implemented, while it is not feasible to verify the implementation of the 2<sup>nd</sup> outcome indicator. However,

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<sup>20</sup> Jens Kromann Kristensen et al (eds.), PEFA, Public Financial Management, and Good Governance, World Bank Group, 2019, p. 4, available at: <https://bit.ly/2O947go>, updated on: 21.05.2021.

<sup>21</sup> Public Expenditure and Financial Accountability (PEFA) Assessment Report, The Ministry of Finance, The Ministry of Finance Website, 29 June, 2018, available at: <https://bit.ly/2XvE2c8>, updated on: 21.05.2021.

<sup>22</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2019), Administration of the Government of Georgia, 2020.

<sup>23</sup> Public Expenditure and Financial Accountability (PEFA) Assessment Report, p. 17.

<sup>24</sup> *Ibid*, p. 18.

<sup>25</sup> *Ibid*.

<sup>26</sup> Status Report of the Ministry of Finance.

<sup>27</sup> *Ibid*.

according to the forecasts made by the responsible agency, within the scope of PEFA methodology, despite the deviation, the next assessment may still range around the same score, or the methodology might change, considering the challenges facing the country. Since, in relation to this indicator, only PEFA document needs to be issued, the objective itself may be considered as **mostly implemented**.

With regards to activities, there are two of them for the 1<sup>st</sup> objective:

### ***Activity 5.1.1 Analysis of the impact of current and new policies on the budget***

#### **Output indicator:**

1. Working meetings on how to prepare analysis on impact of current and new policies on the budget is conducted with representatives of the pilot ministries' policy and financial/economic departments

**Alternative indicator:** minimum one meeting with at least one representative of policy and financial/economic departments of at least 4 pilot ministries

2. Information about the impact on the budget of the current and new policies is elaborated by at least 4 pilot ministries and is reflected in the BDD

**Activity Implementation status: mostly implemented**

There are two outcome indicators that quantitatively assess the first activity.

The 1<sup>st</sup> indicator should be assessed based on the meetings conducted with pilot ministries. This indicator is not fully measurable and does not comply with the S.M.A.R.T. criteria, since it is impossible to determine, how many meetings were to be held and with how many persons. Therefore, as an alternative to this outcome indicator, the monitoring group has identified the following: minimum 1 meeting with at least one representative of policy and financial-economic departments of at least 4 ministries.

According to the information of the Ministry of Finance, the meeting started from 2019<sup>28</sup> and were resumed from 1 March, 2020. However, in 2020, due to the constraints of COVID-19 pandemics and limited fiscal resources available for the implementation of the policies, no active meetings/workshops were held with pilot min-

<sup>28</sup> Letter N08-02/12379 of 5 February 2020 of the Ministry of Finance.

istries<sup>29</sup> around the topics of current and new policies.<sup>30</sup> However, according to the information of the Ministry, the work was being done remotely with all four pilot ministries.<sup>31</sup> As a result, new policy directions were reflected in 2021 state budget package, which was submitted to the Parliament.<sup>32</sup> Even though, the remotely meetings were not documented as required by the verification source ('meeting attendance sheet'), this indicator is still considered as **fully implemented**.

The 2<sup>nd</sup> output indicator is measured based on the content of 2021-2024 BDD document. It should include information about the impact of current and new policies of at least 4 pilot ministries on the budget.

2021-2024 BDD document contains information about the impact of existing and new policies on the budget. As indicated by the Ministry of Finance, despite the scarcity of resources, in 2020, 5 new policy directions were reflected.

in 2021 budget (in BDD and in program budget annex) within the scope of the following three ministries: (1) The Ministry of Education, Science, Culture and Sports, (2) the Ministry of IDPs from Occupied Territories, Labor, Health and Social Affairs and (3) The Ministry of Economy and Sustainable Development.

Risks for the performance of this indicator include limited ability of spending agencies to take decisions on the development of new programs in a rapidly changing environment.<sup>33</sup> The situation caused by the spread of a corona-virus in the country is named as a challenge.<sup>34</sup> As revealed at the meeting with the representatives of the Ministry of Finance, the pandemic has significantly hindered the ministries in the development of new policy directions and in the allocation of budget for this purpose. According to the Ministry, it is not mandatory to reflect the impact of new policies in the budgetary documentation,<sup>35</sup> however, since in 2021-2024 BDD document the information about the impact of current and new policies on the budget is reflected in the scope of 3 ministries instead of 4, the status of the indicator is **mostly implemented**. The activity status, similarly to the status of its indicators, would be **mostly implemented**.

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<sup>29</sup> Pilot Ministries are as follows: The Ministry of Education, Science, Culture and Sports of Georgia, Ministry of IDPs from Occupied Territories, Labour, Health and Social Affairs, the Ministry of Environment and Agriculture, the Ministry of Economy and Sustainable Development.

<sup>30</sup> Letter N08-02/19972 7of 22 February 2021 of the Ministry of Finance.

<sup>31</sup> Interview with the representatives of the Ministry of Finance.

<sup>32</sup> Letter N08-02/19972 7of 22 February 2021 of the Ministry of Finance.

<sup>33</sup> Public Administration Reform Action Plan for 2019-2020.

<sup>34</sup> Status-report of the Ministry of Finance.

<sup>35</sup> Interview with the representatives of the Ministry of Finance.

### **Activity 5.1.2: Improvement in budget revenue forecasts**

#### **Output indicator:**

Analysis and forecast of macro-economic and fiscal indicators by applying Dynamic Stochastic General Equilibrium Model

#### **Activity Implementation Status: Mostly implemented**

There is one activity for this indicator, which assesses it quantitatively.

The goal of the State, in this regard, is to improve the process of planning medium-term fiscal framework through the analysis and forecast of macro-economic and fiscal indicators by the applying of DSGE – Dynamic Stochastic Equilibrium Model.<sup>36</sup> The goal of this model is to describe the dynamics of the development of economy through the analysis of interaction between different macroeconomic decisions.<sup>37</sup> The publication of the description of DSGE model was planned for 2020, while its full implementation was planned for the end of the year, after which DSGE would become the main formula of macro-economic and fiscal analysis for the Ministry of Finance.<sup>38</sup> As stated by the Ministry, macro-economic forecasts (basic, optimistic, pessimistic) were developed in the second part of 2020, on the basis of which forecasts were prepared for the basic data and indicators of the budget.<sup>39</sup> Dynamic stochastic General Equilibrium Model, prepared by the Ministry of Finance and International Monetary Fund, was applied for this purpose; the model is tailored to the structure of Georgian economy.<sup>40</sup>

According to the Status Report of the Ministry, the project of the implementation of the model was completed successfully. The application of the model commenced in 2019, while in 2020 it was already fully involved in the budgetary process. Through this model, different scenarios of economic development were assessed, including

<sup>36</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2019), Administration of the Government of Georgia, 2020.

<sup>37</sup> Dynamic Stochastic General Equilibrium, International Encyclopedia of Housing and Home, 2012, available at: <https://bit.ly/3t8sASi>, updated on: 21.05.2021.

<sup>38</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2019), Administration of the Government of Georgia, 2020.

<sup>39</sup> 2021 State Budget Project, The Ministry of Finance website, available at: <https://www.mof.ge/5355>, Updated on: 21.05.2021.

<sup>40</sup> Letter N08-02/19972 of 22 February 2021 of the Ministry of Finance.

the one related to pandemics. Taking into consideration the fact that the project was being implemented through the technical cooperation from the International Monetary Fund, the publication of its detailed description will only be allowed after the International Monetary Fund publishes the basic data, on the ground of which the Georgian fiscal model was created.<sup>41</sup> Even though the project is now completed, the Fund has postponed the publication until 2021, therefore, the Ministry of Finance was unable to publish the characteristics of the Model.<sup>42</sup> The Agency has provided the Public Administration Reform Secretariat with the detailed description of the model as a verification source for the implementation of output indicator.<sup>43</sup> The document describes the formulas/equations and mechanisms used for the analysis and forecast of macroeconomic and fiscal indicators.<sup>44</sup> The description has not been published on the Ministry website during the reporting period, however, it is actually being used in practice. Therefore, the implementation status for this output indicator is **mostly implemented**.

Thus, the implementation status for the 2<sup>nd</sup> activity is also **mostly implemented**.

## **OBJECTIVE 5.2: STRENGTHEN EFFECTIVENESS OF FISCAL RISK MANAGEMENT IN ORDER TO ENSURE MACROFISCAL STABILITY**

The enhancement of the efficiency of managing fiscal risks implies the development of analysis of macro-economic risks for the sector, as well as the establishment of unified management system for state-owned enterprises. The Strategy for Corporatization of State Enterprises and their classification<sup>45</sup> is aimed at the promotion of the above. The enhancement of monitoring and prevention mechanisms of contingent liabilities and other fiscal risks deriving from their operations is also important in order to achieve the main outcome of the Action Plan and to increase the share of state-owned enterprises covered by the document of fiscal risk analysis.<sup>46</sup>

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<sup>41</sup> Status Report of the Ministry of Finance.

<sup>42</sup> *Ibid.*

<sup>43</sup> *Ibid.*

<sup>44</sup> Interview with the representatives of the Ministry of Finance.

<sup>45</sup> Public Finance Management Reform Strategy 2018-2021, p. 3.

<sup>46</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2019), Administration of the Government of Georgia, 2020.

**Outcome indicator:**

The share of State-owned enterprises covered by the of Fiscal Risk Analysis document

**Baseline (2018):** 85%

**Target (2020):** 95%

**Objective implementation status:** mostly implemented

The performance of the 2<sup>nd</sup> objective is assessed quantitatively, based on one outcome indicator.

Fiscal Risks Analysis Document, adopted in 2020, should have reflected information about 95% of state-owned enterprises. 2018-2021 document includes data on 235 state-owned enterprises. 159 out of these are owned by central government and 77 - by the local government.<sup>47</sup> In 2020, 352 state-owned enterprises are presented in the Fiscal Risks Analysis Document, 179 owned by the central and 173 - by the local governments. The latter covers 92% of the enterprises.<sup>48</sup> The baseline indicator is improved (it was 85% in 2018 and 2019), however, 2020 target outcome (95%) is not achieved. According to the Status Report, the implementation process is still ongoing. Based on the percentage data, the indicator of the 2<sup>nd</sup> objective is **mostly implemented**.

<sup>47</sup> Fiscal Risk Analysis 2018-2021, The Ministry of Finance, p. 15, available at: <https://bit.ly/3f6XZ2Y>, updated on: 21.05.2021.

<sup>48</sup> Fiscal Risk Analysis Document, State Enterprises, PPP Projects, Natural disasters, November 2020, The Ministry of Finance of Georgia, p. 7, available at: <https://bit.ly/3401e5X>, updated on: 21.05.2021.

There are three activities for the 2<sup>nd</sup> objective:

**Activity 5.2.1: Elaboration the Strategy for the Corporatization of State-owned Enterprises<sup>49</sup>**

**Output indicator:**

1. The Strategy is approved by the relevant normative act of the Government of Georgia or the Minister of Finance
2. Guiding principles are elaborated by the Ministry of Finance

**Activity implementation status: Partly implemented**

There are 2 output indicators for the 1<sup>st</sup> activity of the 2<sup>nd</sup> objective, assessing it quantitatively.

The aim of the Strategy document for the Corporatization of State-owned enterprises is to establish basic corporate governance principles for the enterprises. The strategy and the classification of enterprises is aimed at the promotion of the establishment of unified management system of state-owned enterprises.

2021-2024 Government Program also considers the state enterprise reform as a crucial component of overcoming the crisis caused by the pandemic and of further development of the economy.<sup>50</sup> According to the Status report of the Ministry, before the commencement of the reform, it is essential to develop a comprehensive strategy, that would outline the objectives, main components and activities of the reform, implementing agencies, parties involved, deadlines, and main principles of legislative framework.<sup>51</sup> The Ministry of Finance has already started working on this topic, the draft strategy that defines the afore-mentioned principles, has been prepared.<sup>52</sup>

According to the information of the Ministry of Finance, the Fiscal Risks Analysis Document, prepared and published in the 2<sup>nd</sup> half of 2020, includes data on the State-

<sup>49</sup> Even though 2020 is defined as the deadline for the activity implementation, the responsible agency started implementation process earlier.

<sup>50</sup> Government Programme 2021-2024 toward building an European State, Georgian Government website, available at: <https://bit.ly/3mxmlbjL>, updated on: 21.05.2021.

<sup>51</sup> Status Report of the Ministry of Finance of Georgia.

<sup>52</sup> Annual Implementation Monitoring Report of the Public Administration Reform Action Plan for 2019-2020 (January-December 2020), Administration of the Government of Georgia, 2020, p. 64.

owned Enterprises reform.<sup>53</sup> The Ministry has also prepared draft government resolution on ‘the Establishment of State Enterprise Reform Council’.<sup>54</sup> The council was established as a result of Government’s resolution of 7 April 2021.<sup>55</sup> The function of the Council is to develop State Enterprise Reform Strategy and to submit it to the government for approval before 1 September 2021.<sup>56</sup> The document has not yet been approved. Therefore, the 1<sup>st</sup> output indicator of the 1<sup>st</sup> activity of the 2<sup>nd</sup> objective is **mostly implemented**.

The 2<sup>nd</sup> output indicator of this activity is to develop relevant guidelines. This implies the definition of basic principles for the corporate governance of enterprises, also envisaged by the regulation of State Enterprise Reform Council within the scope of the Strategy.<sup>57</sup> As noted by the representative of the Ministry of Finance, there is no intention to separately approve the document, as it is included in the strategy document. However, since this activity indicator is presented separately, its performance will also be evaluated as part of the monitoring. As noted in the evaluation of the performance of the 1<sup>st</sup> indicator, the Ministry of Finance has prepared the Strategy but its approval has been postponed until 1 September 2021. Since the process of developing the strategy has not yet been completed, and the Council responsible for the creation of final draft was only established in the 4<sup>th</sup> month of 2021, there is still an important part of work that needs to be done in order to implement the indicator. Therefore, 2<sup>nd</sup> output indicator of the 1<sup>st</sup> activity of 2<sup>nd</sup> objective is **partly implemented**, and the activity is also **partly implemented**.

***Activity 5.2.2: Define state-owned enterprises as ‘Public Interest Enterprises’ in compliance with the Law of Georgia on Accounting, Reporting and Auditing***

**Output indicator:**

A relevant normative act is elaborated and approved by the Government of Georgia or the Ministry of Finance, in order to identify state-owned enterprises as public interest enterprises

**Activity implementation status: fully implemented**

<sup>53</sup> Fiscal Risk Analysis Document, 2020, p. 71.

<sup>54</sup> Letter N08-02/19972 of 22 February 2021 of the the Ministry of Finance of Georgia.

<sup>55</sup> Decree N156 of 7 April 2021 of the Government of Georgia on the establishment of State Enterprise Reform Council.

<sup>56</sup> *Ibid.*

<sup>57</sup> Article 3, Statute of State Enterprise Reform Council, approved by decree N156 of 7 April 2021 of the Government of Georgia on the establishment of State Enterprise Reform Council.

There is one indicator for the 2<sup>nd</sup> activity of the 2<sup>nd</sup> objective, which qualitatively assesses its performance.

In 2019, the Government's decree defined the criteria of those state-owned enterprises that can be identified as Public Interest Entities (PIE).<sup>58</sup>

The purpose of identification of state-owned entities as PIEs is to: increase the accountability of enterprises, increase the trust in them; protect the interests of partners and third parties.<sup>59</sup>

Although, according to the Action Plan, the implementation period was the 4<sup>th</sup> quarter of 2020, this indicator was implemented in 2019 already. In addition, the Accounting, Reporting and Auditing Supervision Service of the Ministry of Finance approved the updated list of public interest entities in the 4<sup>th</sup> quarter of 2020.<sup>60</sup>

The afore-mentioned government decree is a confirmation that the output indicator and, therefore, the activity itself is **fully implemented**.

***Activity 5.2.3: Elaborate requirements for quarterly and annual reports of state-owned enterprises in order to improve the fiscal strategy on the mitigation of timing and risks in Fiscal risks identification***

**Output indicator:**

Reporting requirements are approved by the Government of Georgia or the Ministry of Finance

**Activity implementation status: partly implemented**

There is one indicator for the 3<sup>rd</sup> activity of the 2<sup>nd</sup> objective, which quantitatively assesses the outcome.

According to the Law of Georgia on Accounting, Reporting and Auditing, state-owned

<sup>58</sup> Decree N584 of 29 November 2019 of the Government of Georgia on the approval of criteria for the definition of legal entity as a public interest entity by the Accounting, Reporting and Auditing Supervisory Service.

<sup>59</sup> Annual Implementation Monitoring Report for the Public Administration Reform Action Plan for 2019-2020, Administration of the Government of Georgia, 2020, p. 66.

<sup>60</sup> Decree n575 of 25 November 2020 of the Accounting, Reporting and Auditing Supervisory Service of the Ministry of Finance of Georgia on the amendments to decree N1781 of 23 December 2019 of the head of Accounting, Reporting and Auditing Supervisory Service on granting the status of public interest entity to legal entities; available at: <https://bit.ly/3yuVz5G>, updated on: 21.05.2021.

enterprises are obliged to submit reports, including the audit one, immediately, but no longer than 1 October of the year following the reporting period.<sup>61</sup> In 2021 the Government of Georgia adopted a decree setting out interim deadlines for the submission of different report by the enterprises.<sup>62</sup> The decree is an individual legal act and does not fully meet the criteria required by the indicator. In addition, the decree was approved after the completion of the reporting period (even though it was prepared by the Ministry in 2020). Nevertheless, given the existence of the reporting document, this output indicator, as well as the activity itself, is considered as **partly implemented**.

### OBJECTIVE 5.3: ENSURE FURTHER TRANSPARENCY OF THE BUDGET PROCESS AND CITIZENS PARTICIPATION IN ORDER TO ENHANCE ACCOUNTABILITY

The third objective of the direction of public finances is aimed at achieving better transparency of the budgetary process and more inclusion of citizens. It implies the ability of interested entities to plan next year's budget according to the priority or the spending agency. This should increase the level of transparency of the budgetary process.

#### Outcome indicator:

Open Budget Index Assessment on citizen participation and transparency

**Baseline (2018):** 22 points (2017)

**Target (2020):** Improve the score (at least, maintain)

**objective implementation status: impossible to measure**

The third objective is assessed quantitatively on the basis of the score assigned by the Open Budget Index.<sup>63</sup> The objective is aimed at improvement or at least maintenance of the previous score.

<sup>61</sup> Status-report of the Ministry of Finance of Georgia.

<sup>62</sup> Decree N217 Of 11 February 2021 of the Government of Georgia on the establishment of deadlines for the submission of reports by enterprises operating by States share participation, defined as public interest enterprises', available at: <https://bit.ly/321HWMw>, updated on: 21.05.2021.

<sup>63</sup> The Open Budget Index is developed by International Budget Partnership (IBP). IBP actively cooperates with states, businesses, civil society and other stakeholders. The Open Budget Index is assessed once in every 2 years.

Informing society about budgetary decisions of the State is of crucial importance, since these are the decisions that affect their well-being and equality of social life the most. The extent to which the State fulfils this obligation is assessed by the Open Budget Survey. The document verifies the accessibility of budgetary processes to citizens in three directions: transparency, engagement of citizens and budgetary oversight.<sup>64</sup>

In 2017 report of the Open Budget Survey Georgia earned 82/100 points (Open Budget Index) in the part of transparency and 22/100 points in the part of citizen engagement.<sup>65</sup> According to 2019 report, which assessed the two previous years, the Country earned one point less in transparency, while earning 28/100 (6 points more) in citizen engagement.<sup>66</sup> Since this assessment takes part once in every two years, no data exists for 2019 and 2020 yet.

As it turns out, Georgia's result in the part of citizen engagement has been improved in comparison to 2015-2016 in two following years by 6 points, and has deteriorated by 1 point in the part of budget transparency. It is noteworthy that the direction of public finance management of 2019-2020 Action Plan of the Public Administration Reform has selected the condition 4 years prior to the commencement of its implementation as a baseline indicator for the 3<sup>rd</sup> objective, while the target indicator is set for 2020. In order for the target indicator to be deemed as implemented, the data for the reporting period of the Action Plan should exist. These data is not yet published during the monitoring period. Taking these circumstances into consideration the improved score in 2019 open budget index cannot be considered as the achievement of target indicator, as it related to 2017-2018. Therefore, measuring the achievement of mentioned outcome indicator for the purposes of 2-year monitoring of 2019-2020 Action Plan **is impossible**. Same is true for the implementation of the objective.

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<sup>64</sup> Open Budget Survey, available at: <https://bit.ly/2RzD0la>, updated on: 21.05.2021.

<sup>65</sup> Open Budget Survey 2017: Georgia.

<sup>66</sup> Open Budget Survey 2019: Georgia.

**Activity 5.3.1: ensure accessibility of Guidelines for citizens on budget documentation, including the law on State budget, its performance reports and BDD**

**Output indicator:**

Budget documentation in editable format is available on the website of the Ministry of Finance

Additional output indicator: increased number of users of the Ministry of Finance website

**Activity implementation status: mostly implemented**

The 1<sup>st</sup> activity of the 3<sup>rd</sup> objective is assessed qualitatively, by one output indicator.

Budget documentation, such as the State Budget Law, BDD document, consolidated budget, information on debt and others, are available in an editable format – in MS Word and Excel – on the Ministry of Finance website. In addition, in 2019-2020 the Ministry prepared citizen guides for 2020 and 2021 State budget laws, respectively.<sup>67</sup> Their aim is to inform the society about key issues around the budget. The published documentation contains the following information:

- What does the term ‘budget’ stand for;
- What are the components of the budget system;
- Levels of the budgetary process;
- Legal basis for conducting the budgetary process;
- Recent reforms in the direction of public finance management;
- Priority directions of 2020 state budget.<sup>68</sup>

The Ministry of Finance has also developed brief information/brochures<sup>69</sup> about 2020 and 2021 budgets for citizens.<sup>70</sup> All the afore-mentioned documents are publicly available on the website of Ministry of Finance in the section of Citizen Guides.

However, the publication of documentation in editable format is not sufficient to verify the objective of accessibility for citizens. Therefore the monitoring group has defined

<sup>67</sup> Citizen Guide – 2020 State Budget Law, The Ministry of Finance of Georgia, The Ministry of Finance website, available at: <https://bit.ly/3v2kifD>, updated on: 21.05.2021..

<sup>68</sup> *Ibid.*

<sup>69</sup> Budget 2020’, The Ministry of Finance of Georgia, The Ministry of Finance website, available at: <https://bit.ly/35yNki0>, updated on: 21.05.2021.

<sup>70</sup> Citizen Guide – 2020 State Budget Law.

additional output indicator for measuring the accessibility of budgetary documentation: increased number of users of the Ministry of Finance website. This indicator allows to assess the interest of citizens in budget and related information, as well as to identify the growing trend of this interest compared to previous year. It will also verify the accessibility to citizens and the accountability of the responsible agency.

According to the information received from the Ministry of Finance, the number of users interested in different budget documentation was as follows:<sup>71</sup>

	2019	2020
Citizen Guides	2,003	2,630
State budget	17,850	27,862
Implementation reports	2,551	2,423
BDD document	4,014	3,933
Public finance management	1,497	2,068

As confirmed by the data, in 2020, the interest in 2 out of 5 documents has decreased compared to previous year. Therefore, taking the additional indicator into consideration, as of 2020, the activity can be considered as **mostly implemented**.

***Activity 5.3.2: Develop Citizen Participation mechanisms on the website of MoF that enable citizens to plan next year's budget by priorities or spending agencies<sup>72</sup>***

#### Output indicator:

A platform that enables citizens to participate in budget planning process is developed  
Additional indicator: '1/5 of users registered on the electronic platform of budget transparency and participation, actually use the platform'.

**Activity implementation status: partly implemented**

<sup>71</sup> Letter N08-02/60481 of 17 May 2021 of the Ministry of Finance of Georgia.

<sup>72</sup> Even though the deadline for the activity implementation is defined as 2020, the responsible agency started implementation earlier.

There is one output indicator for the 2<sup>nd</sup> activity of the 3<sup>rd</sup> objective, which assesses it qualitatively.

With the support of USAID, the Ministry of Finance has developed eBTPS – electronic Budget Transparency and Participation System, for which a separate website has been created.<sup>73</sup> Through this website, all stakeholders are able to get information about the state budget, main priorities of the country, budget programs and to plan it according to own views. This activity was, by Plan, envisaged for the 4<sup>th</sup> quarter of 2020, but was implemented in 2019. As well as the accessibility indicator, the creation of the platform is not sufficient for measuring whether citizen engagement in budget planning process is ensured. In order to measure this, it is necessary to add such an indicator, that would determine how many citizens used this platforms, the rate of editing document, number of comments added etc. Therefore, the monitoring group developed an additional output indicator, that will measure how well the citizen participation mechanism is functioning: 1/5 of users registered on electronic Budget Planning and Participation System actually use the platform. The proposed share is not so unreal or artificial, to not be achieved.

According to the Ministry of Finance, 81 users are registered on an electronic platform, while the budget planning mechanism was used by 7 of them.<sup>74</sup> This data reveals that this system is not yet popular among citizens. In addition, as it turned out at the meeting with the Ministry of Finance, the portal is still operating in a pilot mode and its popularization is planned for the future, supposedly increasing the number of users.<sup>75</sup> Despite very low rate of the usage of portal, its existence and citizens' ability to use it in practice, indicate the **partial implementation** of 2<sup>nd</sup> output indicator of the 3<sup>rd</sup> objective and of the activity itself. It should be noted that the responsible agency shall carry on the implementation of the activity in the future and focus on the rate of actual apply of the portal.

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<sup>73</sup> eBTPS Budget Transparency and Participation System website, the Ministry of Finance of Georgia, available at: <https://bit.ly/3c3Sk9D>, updated on: 21.05.2021.

<sup>74</sup> Letter N08-02/60481 of 17 May 2021 of the Ministry of Finance of Georgia.

<sup>75</sup> Interview with the representative of the Ministry of Finance.



## 4. CONCLUSION AND RECOMMENDATIONS

As it turns out, out of objectives and activities outlined in the Public Finance Management Reform Action Plan none are unimplemented and this is welcomed. However, partially implemented indicators, that require additional work, still remain. Several measures that needed to be completed in 2020 are still in an active phase and will, supposedly move to the next plan. This indicates inadequate timelines for the implementation of foreseen activities. For several indicators, monitoring deemed to be impossible, since the issuance of documentation verifying their implementation did not coincide with the monitoring period. Therefore, the report was unable to determine implementation status for relevant objectives.

In order to eliminate gaps revealed as a result of monitoring, the present report offers following recommendations to the agencies responsible for the coordination and implementation of the reform:

- ▶ In order to avoid overdue deadlines, each agency should rationally determine time for the completion of remaining activities;
- ▶ In a two-year action plan the Government should distribute activities between relevant quarters as evenly as possible, so that it is possible to assess the progress of their implementation in interim periods;
- ▶ The Action Plan should not include indicators that are not specific and measurable, the indicators should also be sufficient for verifying the implementation of the activity and objective;
- ▶ In order to ensure the awareness of citizens about budgetary documentation and their participation in budget planning process, the Action Plan should include indicators that indicate positive trends in this direction. It is also necessary to popularize relevant portals;
- ▶ The Government should avoid duplicating objectives/activities across different documents;
- ▶ The Government should consider new ambitious objectives for the direction of finance management of the Public Administration Reform.







