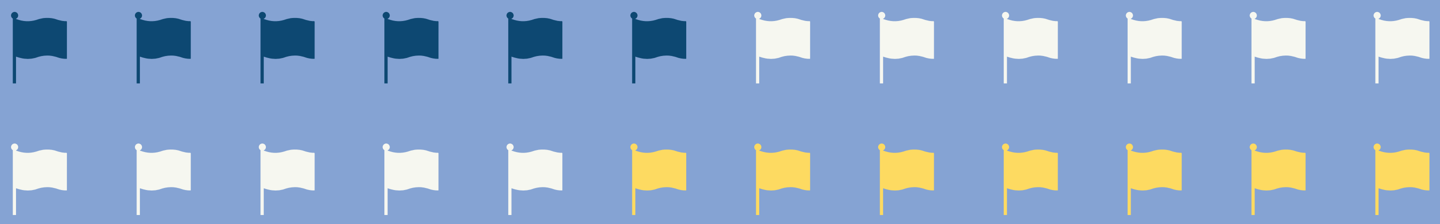
# BEST EUROPEAN PRACTICE OF PUBLIC ADMINISTRATION AND GEORGIA

## DIRECTION - PUBLIC FINANCE MANAGEMENT

Public finance management varies considerably in the European Union from country to country, depending on their different characteristics. **Six EU member countries have no Medium-Term Budget Framework (MTBF), it is used in practice by 11 countries, and seven EU member countries have a binding MTBF.**



In most EU member states, the government adopts a medium-term fiscal plan and sends it to Parliament for consideration, however, it does not require parliamentary approval. Nevertheless, there is a group of countries (Austria, the Czech Republic, France, Greece, Latvia, Lithuania, Luxembourg, Romania, Slovenia, Sweden and the United Kingdom) where such parliamentary adoption is necessary.

Vast majority of the country-specific MTBFs cover a period of three years, i.e. from t+1 to t+3 (t is a year to be planned). Furthermore, in quite a number of Member States the budgetary authorities are obliged to present plans for the coming four years (Austria, Denmark, Estonia, Finland, Germany, Greece, Italy, Luxembourg, the Netherlands and Portugal).

The planning documents of Finland, the Netherlands and the United Kingdom cover a fixed period of time beyond the budget year, and they are not being extended on a rolling basis.

In terms of setting global expenditure ceilings for the central government in Sweden the budgetary margin amounts to 1% of the forecast expenditure for the year t, 1.5% for t+1, 2% for t+2 and 3% for t+3 respectively. The expenditure ceilings for the central government in Finland are defined in real terms and then adjusted for inflation and generally no other revisions to them are foreseen, as in the case of the Netherlands. In Austria, the expenditure ceilings adopted are binding but the legislation includes lists of expenditure categories, which should be adjusted in line with new underlying forecasts on an annual basis, which ensures flexibility and transparency.

The fixed aggregate ceiling approach currently used by Sweden, Finland, the Netherlands, and Austria fixes a binding limit on all or most central government expenditure for two or more years, and is not revised during that period. This type of model is characterized by a higher degree of comprehensiveness and control at the aggregate level, but maintaining flexibility to revise and reallocate at the more detailed level.

Some EU Member States allow the carry-over of unspent appropriations in the following budget year(s) - in Estonia the limit for such carryovers is set at 3% of the total expenditure (except investment projects and co-financing of projects partly funded by the EU), Austria foresees the to build unlimited reserves from any unspent appropriations.

## FINDINGS OF THE ANALYSIS OF THE PUBLIC FINANCE MANAGEMENT IN GEORGIA:

Public finance reform in Georgia, which began in 2004, has made significant progress over the years:

- Fiscal discipline and fiscal rules have been established;
- Program based budgeting process and quality have been improved;
- Electronic system (ePFMS) for Budgeting, Treasury and other related areas has been developed and is operating;
- Tax policy reform is implemented;
- Public Finance Management Information System (PFMIS) is operating;
- The State Audit Office has transformed from the traditional control-inspection function to the new function of modern financial, performance and compliance audit in line with international best practice;
- Within the management reform framework revenues and expenditures of budgets of every level (Autonomous Republics and local governments) and every budgetary organization (including LEPLs and NNLEs) have been transferred to the Treasury Single Account.

Despite the progress made in terms of public financial management, there are still some challenges in this direction, which were not fully reflected in the 2019-2020 Public Administration Reform Action Plan.
Particularly:

- The Country Basic Data and Directions (BDD) document, which is the main tool for medium-term planning, fails to ensure the accuracy of forecasts given its review procedures.
- The finances of state enterprises that functionally provide public services are not included in the unified treasury system, which prevents the formation of a unified overall picture of the public finance management system.
- The action plan does not fully contain fiscal risks and risks such as government debt, interest rates, projected GDP, exchange rate fluctuations, inflation are neglected.
- The Action Plan for Public Finance Management lacks an important component to achieve accountability, such as oversight of budget execution by independent bodies
- The plan includes neither a public procurement segment nor internal and external oversight (audit) mechanisms of public finance expenditures, which would the transparency of the relevant procedures.

According to the official data of the Open Budget Survey 2019, Georgia has score of 28 (out of 100) in terms of public participation in budget processes. The lowest score (0) is for the public engagement in budget formulation and planning process, indicating that the Ministry of Finance of Georgia, despite various working groups, is not able to provide a full-fledged mechanism for public engagement in the state budget planning.

Mechanisms for participation in the discussion of the formulated budget submitted to the legislative body are relatively effective (56). Georgia also has a high score in the engagement in the draft state budget or the progress/implementation process assessment by the State Audit Office (78). As for the involvement in the implementation of the state budget plan, the challenges are great and the score is correspondingly low - 0 points.

## EXTENT OF OPPORTUNITIES FOR PUBLIC PARTICIPATION IN THE BUDGET PROCESS

| | | | |
|---|---|---|---|
| 0/100 | 56/100 | 0/100 | 78/100 |
| *Formulation (executive)* | *Approval (legislature)* | *Implementation (executive)* | *Audit (supreme audit institution)* |

*few: 0-40; limited: 41-60; adequate: 61-100*

## RECOMMENDATIONS:

In order to improve the effectiveness of public finance management reform, a key component of the ongoing Public Administration Reform in Georgia, the following recommendations need to be taken into consideration:

- Public participation in budgeting and inclusiveness of the process should be ensured from the budget formulation stage.
- Information on fiscal risks should be added to the draft state budget. For example, information on transfers to state enterprises, their quasi-fiscal activities, and fiscal year tax expenditures.
- The body responsible for improving citizen participation should also focus on the principles of the Global Initiative for Fiscal Transparency Initiative (GIFT).
- Pilot mechanisms should be introduced to ensure public participation in the formulation of the state budget and monitoring of budget execution.
- The most vulnerable and under-represented groups of the society should be actively engaged in the budget process directly or through civil society organizations representing their interests.
- The Six-Months Budget Execution Report should provide up-to-date data on expected revenues by the end of the current year and compare them with the original forecasts.
- Public participation should be better ensured in the development of a citizen's budget guide.
- The BDD document should become more accurate in terms of forecasts and the need for amendments to the budget law should be minimized based on a proper planning process.

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