



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



DIRECTION: PUBLIC FINANCE
MANAGEMENT



ევროკავშირი
საქართველოსთვის
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ALTERNATIVE INTERMEDIATE REPORT OF THE PUBLIC ADMINISTRATION REFORM ACTION PLAN 2019-2020 IMPLEMENTATION MONITORING

DIRECTION: PUBLIC FINANCE MANAGEMENT

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MAIN FINDINGS

Several important findings have been identified during the monitoring process. The objectives and activities envisaged by the Action Plan for the reporting period of 2019:

- Out of 3 objectives 1 is fully implemented, 1 is partly implemented and 1 is unimplemented;
- Out of 5 activities 2 are fully implemented, 1 is mostly implemented, 2 are partly implemented;
- Activity (5.2.3), which deals with the development of quarterly and annual reporting requirements for state-owned enterprises, is fully covered by the activities (5.2.1 and 5.2.2) of the second objective which implies setting additional reporting standards for enterprises. Thus this approach increases expenditures of additional resources and duplicates activities.



INTRODUCTION

In the Association Agreement between Georgia and the European Union, the Government of Georgia recognizes the need for a number of reforms, including good governance, public service, public administration, the fight against corruption, and more.¹ The Public Administration Reform launched in 2015 based on the Association Agreement. The Government then approved a Public Administration Reform Roadmap and a Policy Planning System Reform Strategy. With these documents, the Government expressed the readiness to fulfill the obligations.

Every two years, the Government develops and approves an action plan. In 2019, the third action plan was prepared, which includes 6 directions: Policy Development and Coordination, Human Resources Management, Accountability, Service Delivery, Public Finance Management and Local Self-Government.

The present document addresses the fifth direction of the reform, Public Finance Management.

The Public Finance Management Reform has been underway in Georgia since 2007. The measures to improve existing practice and approximate with international standards were outlined not only in the action plans of the Ministry of Finance but also in the documents developed by other agencies (Open Government Partnership Action Plan; Action Plan of the National Anti-Corruption Strategy; Public Administration Reform Action Plan).

The reform has yielded significant results, such as:²

- Increased transparency of public finance;
- Introduction of fiscal discipline and fiscal rules;
- Strengthened and enhanced inter-agency fiscal relations;
- Improved process of program based budgeting;
- Development of electronic systems for budgeting, treasury and other related areas;
- Tax policy reform etc.

The progress made is confirmed by the results of international surveys. For example, it received “A” in the evaluation report 2017 of the **Public Expenditure and Financial Accountability (PEFA)**³. **In addition, in the Open Budget Index** in 2017, it was included in the list of fully transparent countries and earned 82/100 points in the transparency section and 22/100 points in the public participation section.⁴

Nevertheless, there is still a need to take steps to increase the efficiency of budget planning and the public participation in the budgeting process.⁵

1 “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”, Preamble <https://matsne.gov.ge/ka/document/view/2496959?publication=0>.

2 Public Finance Management Reform Strategy 2018-2021“, Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, page 2, <https://bit.ly/37RSFLm>

3 “Public Expenditure and Financial Accountability (PEFA) Assessment Report“, Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, June 29, 2018, <https://bit.ly/2XvE2c8>.

4 „OPEN BUDGET SURVEY 2017“, Georgia, International Budget Partnership (IBD), website of the Ministry of Finance of Georgia, <https://bit.ly/2KXvg0D>.

5 “Public Administration Reform Action Plan 2019-2020“, Administration of the Government of Georgia, website of the Administration of the Government of Georgia, June 10, 2019, page 18, <https://bit.ly/3goUh3j>.



METHODOLOGY

The purpose of this document is to monitor the implementation of the Public Administration Reform Action Plan for 2019-2020 and to evaluate the policies pursued. The report evaluates the implementation of each activity planned for 2019, based on the indicators set out in the Action Plan.

The results of the monitoring are presented in the following structure:

1. Overall assessment of the Public Administration Reform Action Plan for 2019-2020;
2. Measuring the implementation of the objectives envisaged by the Action Plan and the activities planned for their achievement in 2019, which are based on quantitative and qualitative criteria.

2.1. OVERALL ASSESSMENT OF THE ACTION PLAN

In this part of the monitoring, we assessed the compliance of the goals and objectives of the Public Administration Reform Roadmap and the Action Plan with the existing challenges. For this purpose, the situation analysis was conducted based on the reports, studies, recommendations and other information of international and local organizations.

In the same part the structural validity of the Action Plan and compliance of the objectives, indicators and activities with S.M.A.R.T criterion was assessed (according to which the mentioned components of the Action Plan should be specific, measurable, attainable, relevant and time-based).

2.2. IMPLEMENTATION OF OBJECTIVES AND ACTIVITIES

Quantitative and/or qualitative indicators are used to assess the objectives and activities outlined in the Action Plan.

Implementation of the objectives and activities were given one of four statuses:

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

The reporting period for monitoring is 2019. Accordingly, the part of the reform that was planned to be implemented during 2019 will be evaluated.

2.3. MONITORING TOOLS

Assessment within the framework of the monitoring was mainly based on an analysis of legislation, international standards and commitments related to public administration reform through various instruments. Legislative and other normative materials were evaluated during the monitoring. In addition, the monitoring group studied the international standards and commitments made by Georgia in the field of public administration.

2.4. MONITORING SOURCES

The monitoring was based on the following main sources:

- **PUBLIC INFORMATION**

Statements requesting public information were sent to the responsible agencies, the Ministry of Justice and Administration of the Government of Georgia. The document also used information from open sources, websites, reports from the government agencies.

- **GROUP INTERVIEWS AND WORKSHOPS**

The monitoring methodology included group interviews and workshops, however they were not necessary to be conducted under the development of the present monitoring report.



GENERAL EVALUATION OF THE ACTION PLAN

The structure of the Action Plan for the 5th direction, the formulation of objectives, activities and indicators, has significantly improved compared to previous years. For example, the 2015 Public Finance Management Reform had two main objectives.⁶ The first involved the implementation of the 2014-2017 Public Finance Management Strategy and the 2015 Action Plan.⁷ It is impossible to measure such general statement by S.M.A.R.T. criterion. The reform of 2017-2018, in fact, was a complete repetition of the activities envisaged in the strategy of the Ministry of Finance, and a large part of the output indicators did not meet the S.M.A.R.T. criteria. In the document under consideration, the indicators are much more specific and measurable, which greatly simplifies the monitoring process and is a good practice. Nevertheless, the following shortcomings were identified:

- **LESS AMBITIOUS OBJECTIVES:** The new document does not provide for ambitious reforms. On the contrary, it mainly makes commitments which already are undertaken. For example the 3rd objective of the reform, which implies development of a mechanism for involvement of citizens in development of the budgetary documents and public participation in the budget planning process is also envisaged by the Public Finance Management Reform Strategy of the Ministry of Finance.⁸ The same applies to the 1st and 2nd objectives of the reform on sustainable mid-term planning of the budget and increased state-owned enterprise coverage to improve fiscal risk management.
- **AMBIGUITY OF INDICATORS:** Although the quality has improved compared to the previous action plan, ambiguous indicators are still often present in the document. For example according to one of the indicators: “BDD should be clearly reflecting the information of the existing and new policy impact on the budget”. It is unclear what the “clear” information means and, in fact, by what methodology and criteria the quality of the document will be measured and evaluated;
- **MISSED KEY ISSUES:** Although one of the objectives of the Action Plan implies obligations related to the state-owned enterprises, such as development of corporatization strategy and classification of these enterprises as entities of public interest (5.2), the key issue characteristic for this field is missed – there is no defined policy on state-enterprise establishment criteria.

The objectives of the Public Finance reform do not significantly repeat the objectives of other action plans unlike in previous years. For example, the Public Finance Management in Open Governance Partnership Action Plan is related to the efficient engagement of citizens in the budget planning process.⁹ While the Anti-Corruption Strategy is focused on, the institutional strengthening of the Audit Office and generally aims at improvement its activities, the development of functionalities and services of electronic public finance management systems, the introduction of International Public Sector Accounting Standards (IPSAS) and etc.

6 “Public Administration Reform Roadmap 2020”, Administration of the Government of Georgia and Government Planning and Innovations Unit, website of the Administration of the Government of Georgia, May 25, 2015, page 29, <https://bit.ly/2Z0ae8>

7 Ibid.

8 “Public Finance Management Reform Strategy 2018-2021”, Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, page 10, <https://bit.ly/36vWPrE>

9 “Open Government Partnership Georgia Action Plan 2018-2019”, Analytical Department under the Ministry of Justice of Georgia, website of the State Procurement Agency, November 12, 2018, page 24-25, <https://bit.ly/2M0s2Kd>.



MONITORING OF THE IMPLEMENTATION OF THE PUBLIC FINANCE MANAGEMENT

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

The goal of the first objective of the Public Finance Management Reform is to increase the budget planning efficiency through strengthening the sustainability of the medium-term planning of expenditures (MTBF - Medium Term Budget Framework). This ensures that the program of the government and the strategies of different sectors are compatible with the medium-term parameters.¹⁰ This allows the government to expand the fiscal policy horizon beyond a specific budget year.

The Strategy 2018-2021 of the Ministry of Finance also envisages strengthening the accuracy, reliability of the forecast and connection with the annual plans.¹¹

Objective outcome indicators:

1. Country's Basic Data and Directions Document (BDD) quality
2. Macroeconomic and fiscal forecasting accuracy

Objective implementation status: partly implemented

The first objective has two indicators:

Assessment of the first indicator is based on the Country's Basic Data and Directions Document (BDD). The BDD should clearly be reflecting the information of the existing and new policy impact on the budget based on the example of at least two ministries.

According to the Ministry of Finance, work on this issue has been underway since 2018.¹² Meetings were held with the pilot ministries: (1) Ministry of Education, Science, Culture and Sport; (2) Ministry of Environmental Protection and Agriculture; (3) Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs.¹³ Meetings resumed on March 1, 2020.

The outcome indicator for this objective will be measured in 2020 based on the BDD quality of 2021-2024. **Thus the component is in the process of implementation and the status is: partly implemented.**

10 „Annual Report of the Public Administration Reform 2019-2020 Action Plan Implementation Monitoring (January-December, 2019)”, Administration of the Government of Georgia, Public Administration Division, Policy Development and Coordination Department, 2020. Page 64.

11 Public Finance Management Reform Strategy 2018-2021“, Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, page 3, <https://bit.ly/36vWPrE>.

12 Letter N08-02/12379 of the Ministry of Finance of Georgia, of February 5, 2020.

13 Ibid.

The second indicator is assessed based on the Public Expenditure and Financial Accountability (PEFA) Performance Assessment report 2020¹⁴.

According to the report of 2018, Georgia is assessed with the best (A) score¹⁵, thus this indicator implies that this position is maintained.

PEFA 2020 document is yet to be published, thus **this component goes beyond the reporting period of the present document and will be evaluated in the next study.**

ACTIVITY 5.1.1: ANALYSIS OF THE INFORMATION ON THE EXISTING AND NEW POLICY IMPACT ON THE BUDGET

Output indicator:

1. Meetings have been held with the representatives of the policy implementers and representatives of financial-economic departments of the pilot ministries on preparation of the information on the impact of the existing and new policy on the budget.
2. Information on the impact of the existing and new policy on the budget from at least 4 pilot ministries is prepared and reflected in the Country's Basic Data and Directions Document (BDD).

Activity implementation status: partly implemented

The first activity has two indicators that evaluate it qualitatively.

The first indicator shall be evaluated based on the meetings with the pilot ministries.

The Decree of the Government on the Measures to be taken to Elaborate the Country's Basic Data and Directions Document implies preparation of the information on the ongoing (basic) and new policy impact on the budget.¹⁶ For this purpose pilot ministries were selected in 2019 information of which will be reflected in the final draft of the Country's Basic Data and Directions Document (BDD) 2021-2024.¹⁷

Meetings with the pilot ministries are scheduled from March 1, 2020¹⁸, which goes beyond the reporting period of 2019. However, since the work is launched, the activity is considered partly implemented.

14 Public Expenditure and Financial Accountability (PEFA) Assessment is developed by different actors, such as inter alia, the European Commission, the International Monetary Fund and the World Bank. Its goal is to discuss Public Finance Management Reform in Georgia. It evaluates results achieved after the reforms implemented by the State in previous years and after PEFA assessment.

15 „Public Expenditure and Financial Accountability (PEFA) Efficiency Assessment Report”, Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, June 29, 2018, <https://bit.ly/2XvE2c8>.

16 Decree of the Government #107 (March 1, 2018) on the Measures to be Taken to Elaborate the Country's Basic Data and Directions Document 2019-2022), Article 2.

17 Letter N08-02/12379 of the Ministry of Finance of Georgia, of February 5, 2020

18 Ibid.

The second indicator will be measured in 2020 based on the quality of the BDD 2021-2024 which will include information from at least 4 pilot ministries on the impact of the existing and new policy on the budget.

Thus, this component goes beyond the reporting period of the present document and will be evaluated in the next study.

OBJECTIVE 5.2: STRENGTHEN EFFECTIVENESS OF FISCAL RISK MANAGEMENT IN ORDER TO ENSURE MACRO-FISCAL STABILITY

Strengthening effectiveness of the fiscal risk management implies development of the sector macroeconomic risk analysis and establishment of the unified system of the state-owned enterprise management. It also implies classification of the enterprises, prevention of possible fiscal risks based on the conditional liabilities and their operations which shall increase the share of the state-owned enterprises covered by the Fiscal Risk Analysis Document.

Objective outcome indicator:

The share of state-owned enterprises covered by the Fiscal Risk Analysis Document

Objective implementation status: unimplemented

The achievement of the second objective is evaluated quantitatively, based on one indicator.

The Fiscal Risk Analysis Document, developed in 2020, should reflect information on 95% of state-owned enterprises. The 2018-2021 document includes data on 236 state-owned enterprises. Out of these, 159 are owned by the central government and 77 by the local government.¹⁹ The Fiscal Risk Analysis Document for 2019 preserves the previous year's figure, and the coverage area is 85% of state-owned enterprises.

Considering the aforementioned, the share of state-owned enterprises is not increased, which means that the second objective is not implemented.

¹⁹ "Fiscal Risk Analysis 2018-2021", Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, page 15, <https://bit.ly/35tJXSq>.

ACTIVITY 5.2.1: STATE-OWNED ENTERPRISE CORPORATIZATION STRATEGY DEVELOPMENT²⁰

Output indicator:

The strategy is approved by the respective normative act of the Government of Georgia or the Minister of Finance; Guideline for the issue is developed by the Ministry of Finance of Georgia

Activity implementation status: partly implemented

The first activity of the second objective has two indicators that evaluate it qualitatively.

The purpose of the State-owned Enterprise Corporatization Strategy Document is to establish the basic principles of corporate management of enterprises. At this stage, the Ministry of Finance has prepared a draft strategy, which defines these principles.²¹

Thus the first activity of the second objective is partly implemented.

ACTIVITY 5.2.2: CLASSIFICATION OF THE STATE-OWNED ENTERPRISES AS ENTITIES OF PUBLIC INTEREST IN ACCORDANCE TO THE LAW OF GEORGIA ON ACCOUNTING, REPORTING AND AUDIT

Output indicator:

In order to classify State enterprises as entities of public interest, a respective normative act is developed and approved by the Government of Georgia or the Minister of Finance

Activity implementation status: fully implemented

The second activity of the second objective has one indicator that evaluates it qualitatively.

The Government has determined the criteria for state-owned enterprises that shall be classified as entities of public interest by a decree.²²

The goal of identification of the state-owned enterprises as entities of public interest is:²³

- To increasing the accountability of enterprises;
- To increase confidence in them;
- To protect the interests of partners and third parties.

²⁰ Although the timeframe for the activity implementation is 2020, the responsible agency launched its implementation ahead of schedule.

²¹ "Annual Report of the Public Administration Reform 2019-2020 Action Plan Implementation Monitoring (January-December, 2019)", page 64

²² Decree of the Government of Georgia #584 (November 29, 2019) on Approval of the Criteria for Classifying the Legal Entity as a Public Interest Entity by the Service for Accounting, Reporting and Auditing Supervision

²³ "Annual Report of the Public Administration Reform 2019-2020 Action Plan Implementation Monitoring (January-December, 2019)", page 66.

Accordingly, the above-mentioned decree by the Government confirms that the activity indicator is fully implemented.

ACTIVITY 5.2.3: DEVELOPMENT OF QUARTERLY AND ANNUAL REPORTING REQUIREMENTS FOR STATE-OWNED ENTERPRISES IN ORDER TO IMPROVE THE FISCAL RISK IDENTIFICATION TIME AND RISK REDUCTION STRATEGIES

Output indicator:

The reporting requirements are approved by the respective normative act of the Government of Georgia or the Minister of Finance

Activity implementation status: partly implemented

The third activity of the second objective has one indicator that evaluates it qualitatively. However, this activity will not be considered separately and will be covered within the activities 5.2.1. (State-owned enterprise corporatization strategy development) and 5.2.2. (Classification of the state-owned enterprises as entities of public interest in accordance to the Law of Georgia on Accounting, Reporting and Audit).

The strategy and classification of enterprises are aimed at promoting the establishment of a unified system of management of state-owned enterprises. In addition to the criteria for state-owned enterprises, additional reporting requirements and standards have been identified, which will also be considered in the strategy (Objective 5.2.1.). Consequently, there is no longer a need to elaborate them separately.

OBJECTIVE 5.3: ENSURING THE BUDGETING PROCESS TRANSPARENCY AND PUBLIC PARTICIPATION TO INCREASE ACCOUNTABILITY

The third objective of the Public Finance Management direction is to ensure greater transparency of the budgeting process and public participation. It implies the ability of citizens to plan next year's budget according to priority or spending entity. This shall increase the degree of transparency of budgeting processes.

Objective outcome indicator:

The Open Budget Index assessment in terms of public participation and transparency

Objective implementation status: fully implemented

The third objective was evaluated quantitatively, in particular, based on the score awarded by

the Open Budget Index²⁴. The goal of the objective is to improve the score or at least maintain it compared to the previous figure.

Georgia earned 82/100 points in transparency and 22/100 points in public participation in 2017.²⁵ According to the results of 2019, Georgia earned 81/100 in transparency (which is one point less than in the previous assessment), and 28/100 points in participation²⁶ (6 points more).

Accordingly, this activity will be considered fully implemented.

ACTIVITY 5.3.1: ENSURING ACCESS TO CITIZEN'S GUIDE IN BUDGET DOCUMENTATION, INCLUDING THE STATE BUDGET LAW, IMPLEMENTATION REPORTS AND THE COUNTRY'S BASIC DATA AND DIRECTIONS DOCUMENT (BDD)

Output indicator:

Budget documentation is published in an editable format on the website of the Ministry of Finance of Georgia

Activity implementation status: mostly implemented

The first activity of the third objective is evaluated qualitatively by one indicator.

In 2019, the Ministry of Finance prepared a Citizen's Guide to the 2020 State Budget Law.²⁷ The purpose of the Guide is to inform the public about key budget issues. The basic budget document includes the following information:²⁸

- What the term "Budget" means;
- The budget system components;
- The budget process;
- The legal grounds for conducting the budget process;
- Reforms implemented in public finance management in recent years;
- Priority directions of the 2020 State budget.

The Ministry of Finance has also developed a brief information/brochure on the 2020 budget for citizens²⁹.

24 The Open Budget Index is developed by the International Budget Partnership (IPB). IPB actively cooperates with states, businesses, civil society and stakeholders. Open Budget Index is assessed once every two years.

25 „OPEN BUDGET SURVEY 2017“.

26 Ibid.

27 "Citizen's Guide to the 2020 State Budget Law", Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, 2019, <https://bit.ly/2ysq4PD>.

28 Ibid.

29 "Budget 2020", Ministry of Finance of Georgia, website of the Ministry of Finance of Georgia, <https://bit.ly/35yNk10>.

All the above-mentioned documents are placed and publicly available on the website of the Ministry of Finance of Georgia, in the Citizens' Guide section. However, in order for this activity to consider fully implemented, the above information should be reflected in the Country's Basic Data and Directions document (BDD), which will be available by 2020. Therefore, this activity, **according to the assessment for the current year, is mostly implemented.**

ACTIVITY 5.3.2: DEVELOPMENT OF A MECHANISM FOR PUBLIC PARTICIPATION WHICH WILL ALLOW CITIZENS TO PLAN NEXT YEAR'S BUDGET ACCORDING TO PRIORITY OR SPENDING ENTITY³⁰

Output indicator:

A platform that allows citizens to participate in the budget planning process is developed

Activity implementation status: fully implemented

The second activity of the third objective also has one indicator which evaluates it qualitatively.

With the support of USAID, the Ministry of Finance has developed an electronic system for citizen participation in the budget planning process (eBTPS – Budget Transparency and Participation System), for which a separate website was created.³¹ Through it, all interested persons can get acquainted with the information about the State budget, the main priorities of the country, budget programs and are able to plan at their own discretion.

Accordingly, the last activity of the third objective **is fully implemented.**

³⁰ Although the timeframe for the activity implementation is 2020, the responsible agency launched its implementation ahead of schedule.

³¹ eBTPS Budget Transparency and Participation System website, <https://bit.ly/3c3Sk9D>.



RECOMMENDATIONS

- Majority of the activities to be implemented in 2019 are still in an active phase, so it is essential for each agency to rationally determine the timeframe for the remaining activities in order to avoid overdue;
- Government shall avoid duplication of obligations in various documents;
- New and ambitious commitments need to be envisaged within the Public Administration Reform;
- Action Plan should not include indicators that will not be specific and measurable.

