



REPORT

ON THE GOVERNMENT'S REPORT ON THE ANNUAL
EXECUTION OF 2016 STATE BUDGET
SHORT VERSION

2016



State Audit Office of Georgia

REPORT

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Tbilisi

2017

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THE MAIN ECONOMIC INDICATORS OF THE COUNTRY

ECONOMIC INDICATOR	2014	2015	2016
Nominal GDP (million GEL)	29,151	31,756	33,922
GDP Per Capita (GEL)	6,492	8,551	9,118
Economic growth	4.6%	2.9%	2.7%
Receipts (million GEL)	9,157	9,891	10,374
Payments (million GEL)	9,010	9,703	10,292
Tax revenues (million GEL)	6,847	7,550	7,987
Budget deficit	2.1%	1.1%	1.4%
State debt amount (million GEL)	10,375	13,161	15,123
State debt to GDP	35.6%	41.5%	45.5%
Inflation-Consumer Price Index	3.1%	4.0%	2.1%
Exports (million USD)	2,861	2,205	2,113
Imports (million USD)	8,602	7,292	7,288
Foreign trade balance (million USD)	-5,741	-5,088	-5,175
Money transfers (million USD)	1,441	1,080	1,151
Current account deficit	10.6%	11.7%	13.3%

PREPARATION/APPROVAL AND EXECUTION OF THE STATE BUDGET AT THE AGGREGATE LEVEL

During the year 2016, there was a change in the State Budget Law, which resulted in correction of revenues and taxes. In particular, the predictive amount of the receipts increased by 173 million GEL and amounted to 10, 318 million GEL. The planned rate of payments also increased and determined at the level of 10,298 million GEL. As for the actual execution, total amount of mobilized revenues during the fiscal year amounted to 10,374 million GEL and exceeded the indicator of annual plan (amendment) by 56 million GEL, while the expenditures from the state budget amounted to 10,292 million GEL. In addition, the amendment to the balance of the 2016 budget was considered to be zero, although the factual performance amounted to 81.8 million GEL.

Budget Law – Initial	Budget Law – Amendment	Actual Execution
Recipients 10,145,000	Recipients 10,317,950	Recipients 10,374,024
—	—	—
Expenditures 10,145,000	Expenditures 10,297,950	Expenditures 10,292,234
=	=	=
Change in Balance 0	Change in Balance 20,000	Change in Balance 81,790

Diagram 1. Aggregate Indicators of the State Budget of 2016 (Thousand GEL).

1.1. STATE BUDGET REVENUES

According to the law of the budget (amendment) of the 2016, the revenue forecast was 8,547 million GEL and the actual mobilization amounted to 8, 170 million GEL (100.4% of planned indicator determined by the budget law).

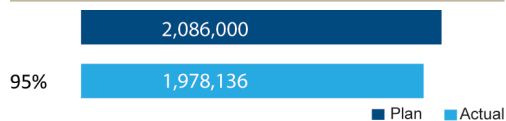
	Budget Law of 2016	Actual performance	%
Tax revenues	7,980,000	7,986,750	100.1%
Grants	246,800	296,827	120.3%
Other revenues	320,000	296,455	92.6%
Revenues	8,546,800	8,580,032	100.4%

Table 1. Execution indicators of Components of State Budget Revenues (Thousand GEL)

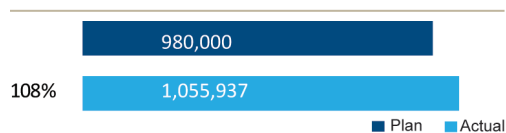
1.1.1. Tax Revenues

During 2016 the amount of mobilized tax revenues comprised 7,987 million GEL and exceeded the planned indicator determined by budget law by 6.8 million GEL. It should be noted that the value of the VAT, income and import taxes are characterized as being behind the annual plan.

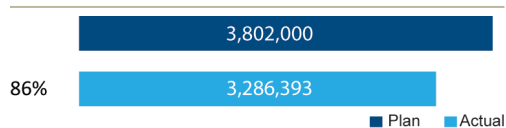
Income Tax Thousand GEL



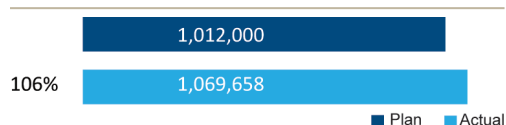
Profit tax Thousand GEL



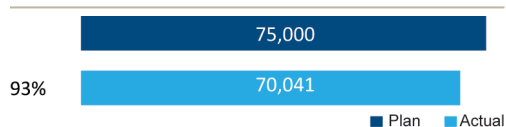
VAT Thousand GEL



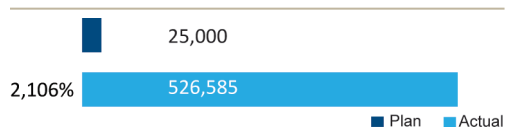
Excise Thousand GEL



Import tax Thousand GEL

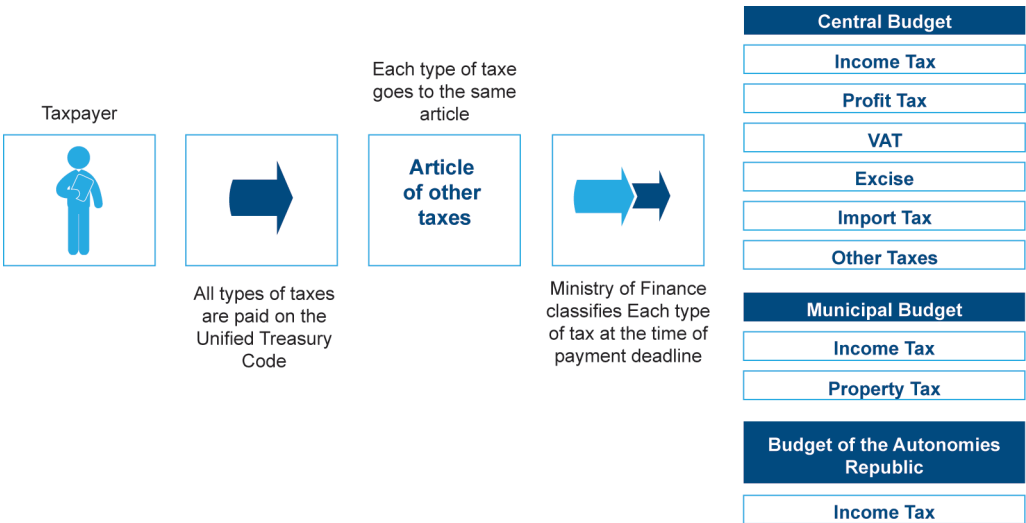


Other tax Thousand GEL



One of the main reasons for this tendency of tax revenues is the reform¹ carried out by the Ministry of Finance, according to which tax payment is not carried out (since December 14, 2015) on the Treasury Codes defined out for each type of taxes, instead they go to the unified code of Unified Treasury Account (101001000). In particular, as a result of the amendments, at the first stage of the tax mobili-

zation process the taxpayers pay all types of taxes on the Unified Treasury Code. Taxes are classified at the time of payment deadline for a specific payer, because of which paid taxes are reflected in article of "other taxes". In addition, in article of "other taxes", the taxes belonging to the autonomous republics and municipalities are gone along with the general state taxes prior to classification.



¹ Order No. 407 of December 7, 2015 on the amendment to the Order No.1226 of the Minister of Finance of Georgia on "Approval of Treasury Codes of Budget Receipts".

At the budget planning phase, regarding to the predictive value of the article of “Other Taxes”, there was not considered the fact that as of December 31, 2016 general state taxes and taxes belonging to territorial entities could not be fully separated from “Other Taxes. As a result, “in the article of “Other Taxes” have a surplus of more than 500 million GEL was accumulated at the end of the year”. According to the abovementioned, it is impossible to determine the exact amount of tax revenue (both aggregate and at the level of individual taxes) addressed to the state budget and to conduct a comprehensive analysis of on their fulfillment with regard to annual predictive plans determined by the budget law.

Revenue from VAT (in the amount of 516 million GEL) is characterized by considerable backwardness compared to the planned rate determined by the budget law. The reason for this fact and the relevant explanation is not presented in the budget execution report.

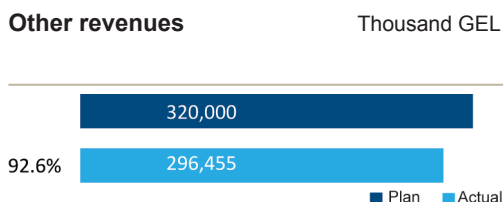
RECOMMENDATIONS

To the Ministry of Finance:

- In order to ensure transparency of the process of mobilized revenue taxes state budget tax revenue reporting and comparability to the planned parameters determined by the law, it is appropriate, for state budget implementation report to include, separately, on mobilized amounts of undistributed tax revenue in article of “other taxes” and directly, in article of “other taxes”. In addition, it is desirable that the report of the execution of the budget to include information from the article of “other taxes” on the amounts transferred to each type of tax in the period of January-March of the following year, which were accumulated in the article of “other taxes” at the end of the reporting year.

1.1.2. Other revenues

During 2016 under the article “other revenues” 296 million GEL was mobilized, which lagged behind the plan determined by the state budget law by 24 million GEL (320 million GEL).



Although the mobilization of overall other revenues is high, elaboration of the plans for separate components of other revenues still have deficiencies. Namely:

▶ According to the state budget law, annual plan of dividends, which should be paid by the State Owned Enterprises (SOEs), was 2.5 million GEL. During the year only 30 SOEs paid dividends, which amounted to the 717.1 thousand GEL and is 28.7% of annual plan. Accumulation trend of dividends for previous years and the low mobilization of the planned dividends refer on the one hand, to the deficiencies in the forecasting the revenues in the form of dividend and on the other

hand, to the absence of effective dividend mobilization mechanism. In particular, the Commission², which makes decision about the distribution of SOEs' net profit, did not meet during 2016. Moreover, the decisions made during the past meetings³ are not yet fully executed:

COMMISSION MEETING IN 2015

36 SOEs should pay dividends to the state budget during 2016, in total 1.5 million GEL - by the end of 2016, 25 SOEs have paid in total 572 thousand GEL (38% of the total amount)

COMMISSION MEETING IN 2013

124 SOEs should pay dividends to the state budget, in total 17.4 million GEL - by the end of 2015, 15 SOEs have paid partially or fully in total 15.3 million GEL (88% of the total amount)

▶ As of April 4, 2017, 125 SOEs are under the governance of LEPL “National Agency of State Property”, from which only 64 are functional enterprises, others are

² Commission created for reviewing and approving proposals regarding the distribution and utilization of net profits gained by SOEs.

³ Commission meetings were held on December 14, 2015 and July 22, 2013.

inactive ones. Based on financial/property and portfolio analysis⁴ of the SOEs, only 4 enterprises are in the so-called “good” condition, 8 of them are at the lower level (“noteworthy”), most of them (40- approximately 77%) are in poor financial condition (accordingly to the category “bad” - the enterprises cannot provide the agency with enough information);

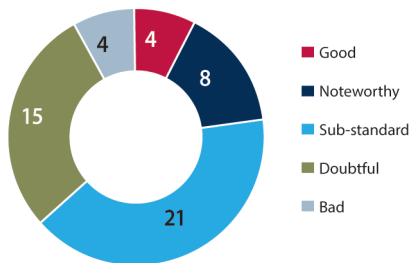


Diagram 2. Categorization of SOEs under the governance of the LEPL “National Agency of State Property” based on their financial/property conditions – 2016.

▶ As of April 4, 2017, only 23 out of 64 functional enterprises presented business-plan⁵. In this regard, according to the 2016 action plan, the instruction development on sanctioning system was planned by state enterprises in case of violation of

the accountability terms. However, based on the information received from the agency the approval of the above-mentioned instruction has not been made yet;

▶ Revenue from voluntary transfers (except grants) received during the year amounted to 23.1 million GEL and exceeded the indicator determined by the plan by 20.7 million GEL. In this regard, it is noteworthy that, despite the request of the State Audit Office, the Ministry of Finance has not provided information on the amounts mobilized with a purpose in the article of “voluntary transfers (except grants)”. Consequently, the State Audit Office could not confirm the completeness, accuracy, and rightness of classification of the amount presented in the report of the budget execution;

▶ The forecasted amount of the article of “Mixed and Other Unclassified Revenues” was defined at 107.2 million GEL and increased by 26.2 million GEL in comparison with 2015. The unjustification of such sharp increase of this article was mentioned in the conclusion of the State Audit Office of Georgia on draft law of Georgia “on State Budget of Georgia of 2016” (3rd submission), while the actual mobilization

⁴ Analysis was conducted only on those enterprises, which are owned by LEPL “National Agency of Property” (more than 50%) and more than 75% (in case of stock companies), or on 52 enterprises.

⁵ At the request of State Audit Office LEPL “State Property National Agency” in total presented 23 business plans.

amounted to 63.6 million GEL and fell behind the plan by 43.6 million, which indicates the deficiencies in the planning.

profit in order to ensure timely and fully mobilization of the amount in state budget on the basis of agreements with the Commission.

RECOMMENDATIONS

To LEPL “National Agency of State Property”:

- To ensure the approval of the sanctions system and its implementation in practice in case of violation of the accountability conditions by the SOEs;

To the Ministry of Finance and the Ministry of Economy and Sustainable Development

- To ensure regular (annual) meeting of commission created for the purpose of distributing net profits of enterprises, in order to determine the amount of money mobilizing in the budget timely;
- To pay attention to the use of effective mechanisms for execution of decisions on distribution of

STATE BUDGET EXPENDITURES

Similarly, to previous years, one of the significant problems related to management of budgetary funds is the increased spending of unused state expenditures by budgetary organizations at the end of the fiscal year, which creates the risk of inefficient and unreasonable spending of budgetary funds. In particular, the amount of state budget expenditures spent in December is 151.7% of the average monthly rate of 11 months' expenditures for 2016. It is noteworthy that almost all components of the expenditures (except "interest") are characterized by sharp increase tendency at the end of the fiscal year.

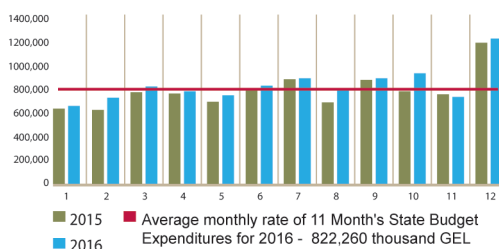


Table 2. Monthly Dynamics of State Budget expenditures - 2015-2016 (Thousand GEL)

Despite the fact, that the increase in the spending rate at the end of the year in some cases may be associated with objective circumstances, the above-mentioned indicates on systemic deficiencies in the budget planning and execution processes. In particular, at the end of the fiscal year, public agencies financed activities and purchased goods/services in the form of advance payments (sometimes as a result of changes in the procurement plan), the funding of which was not a necessity faced by them at that moment. Consequently, agencies are focused on spending their assignments rather than achieving certain results. This issue has been discussed and the problem was stressed several times in the reports and publication of the State Audit Office⁶.

The tendency of increased spending rate of appropriations at the end of the budget year is particularly high in the case of in-

⁶ Publication of the State Audit Office - "Transfer of Assignments to the Next Fiscal Year Budget" (Carry-over mechanism).
<http://sao.ge/files/kanonmdebloba/publication/Carry-Over.pdf>

dividual programs of spending agencies. Specifically, budgetary funds spent in December within the programs of the agencies (excluding "Expenditures of General State Importance") equals 189.0% of average amount spent for previous 11 months' in 2016.

and unreasonable spending of resources. Hence, it is advisable for spending agencies as well as for coordinating authority, to elaborate mechanism, which will ensure proportional spending of appropriations during the year.

Distribution of programs according to the budget spending in December as a percent of average amount spent in 11 months				
Interval	0-100%	100-200%	200-500%	500% <
Number of programs	36	62	29	7

Table 3. Distribution of programs according to the budget spending in December - 2016

RECOMMENDATIONS

To the Ministry of Finance and budgetary organizations:

○ Increased spending of unused budgetary funds at the end of the fiscal year, including accelerated spending as a result of changes in the procurement plan and signed agreements in the year-end, creates the risk of inefficient

2.1 SPENDING AGENCIES

2.1.1. Deficiencies in budget planning processes in budgetary organizations

State budget expenditure planning and execution analysis revealed significant deficiencies in the budget planning process in budgetary organizations, which is expressed in large-scale redistribution of appropriations between programs/ sub-programs during the fiscal year and in the existence of low execution rate programs and sub-programs at the end of the year.

Systemic deficiencies in the budget planning process

FREQUENT AND LARGE-SCALE REDISTRIBUTION OF APPROPRIATIONS	Despite the fact that the spending agencies meet the limits set by the Budget Code ⁷ , frequency and amount of redistribution of appropriations between programs / subprograms and budget classification articles during the year is noteworthy, as it indicates on the deficiencies during budget formation process
REVERSE REDISTRIBUTION OF RESOURCES	In some cases, the budgetary organizations revert appropriations on programs / subprograms from which the resources were transferred during the year
PLANNING EXCESS APPROPRIATIONS	In case of some budgetary organizations, on the budget planning stage, higher amount of appropriations are planned than is required for programs/subprograms or budget classification articles or/and unused resources are redistributed to other programs/subprograms during the year that indicates on deficiencies during the planning process
ALLOCATION OF RESOURCES FOR UNPLANNED EVENTS	In some cases, during the fiscal year funds are allocated for the projects/ events, or for purchasing products/services, which were not considered by the state budget law, or assigned program appropriations were not sufficient for complete implementation of the project. In some cases, such allocations take place in the beginning of the fiscal year
UNEXECUTED PROGRAMS/ SUBPROGRAMS	In the case of 1 program and 6 sub-programs, planned appropriations envisaged by the Budget Law of 2016, were not used during the year
PROGRAMS/ SUBPROGRAMS WITH LOW EXECUTION RATE	6 programs and 46 subprograms are characterized by execution rate less than 80% of the adjusted annual budget plan. In addition, some programs/ subprograms, which have a very high execution rate with respect to adjusted budget plan, have low spending rate with respect to initial budget plan, approved by the Budget Law. Abovementioned also indicates on the deficiencies during the planning process of state budget

⁷ The Budget Code of Georgia, Article 31, paragraph 3: "Distribution of funds between programs of the spending institution shall not exceed 5% of the appropriations provided by annual budget for the spending institutions".

Program/subprogram execution with respect to adjusted plan				
Interval	0-80%	80-90%	90-95%	95-100%
Number of programs	6	5	7	114
Number of subprograms	46	31	34	705

rates should be taken into consideration by the budgetary organizations, in order to avoid the existence of large-scale redistributions and unexecuted programs / subprograms during the year.

Program/subprogram execution with respect to approved plan				
Interval	0-80%	80-90%	90-100%	>100%
Number of programs	14	13	56	44
Number of subprograms	91	61	193	218

Table 4⁸. Programs / subprograms execution rate with respect to approved and adjusted budgets, excluding target grants and direct investments – 2016.

RECOMMENDATIONS

To the Ministry of Finance and Budgetary Organizations:

- **During the budget planning process, past and present years' experience of program execution**

2.1.2. Labor Remuneration

During 2016, for the purpose of compensating permanent employees, 1,452 million GEL was spent from the article - "Compensation of Employees" of the State Budget. This is 75.2 million GEL (5.5%) higher compared with the previous year. Additionally, it is noteworthy that the budgetary funds spent from the article - "Compensation of Employees" incompletely depicts total amount of resources used for this purpose and does not provide the full picture of compensation of the permanent employees in the public sector during the year. In particular, remuneration expenses are met not only from the article "Compensation of Employees", but also from the articles "Subsidies" and "Other expense", from where the total expense incurred for this purpose amounted 53,026 thousand GEL. Therefore, in order to get a

⁸ Difference in the total amount of programs/subprograms is caused because of absence of plans of some programs/subprograms.

complete picture, it is advisable to present the summed up amount of resources used on compensation of employees from all of the above-mentioned articles.

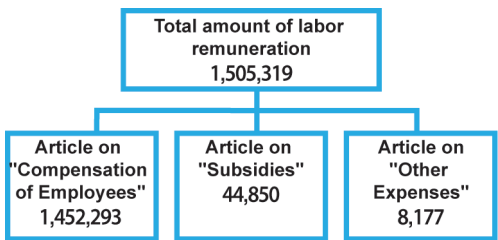


Diagram 3. The total amount of funds directed at remuneration of permanent employees in 2016 State Budget according to corresponding funding sources (thousand GEL).

During 2016, 322 million GEL was allocated from the articles - "bonuses" and "salary supplements" in total, which exceeded the corresponding amount of 2015 by 6.0%. Additionally, compensation of employees in the form of bonuses was 5.1% (3.7 million GEL) lower compared to 2015, while salary supplements increased by 9.5% (21.9 million GEL).

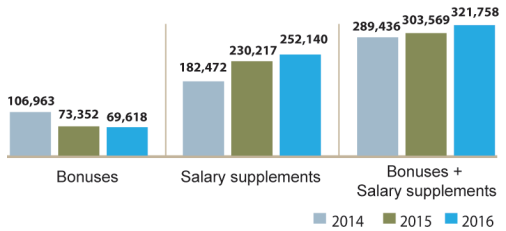


Table 5. Dynamics of bonuses and salary supplements (including bonuses and salary supplements financed from the articles "subsidies" and "other expense") - 2014-2016 (thousand GEL).

The data that should be given in the rationale of awarding the bonus, according to the Resolution of the Government of Georgia No. 449 "On the approval of the procedure for determining the amount of bonuses in the public institutions", is not very informative. It does not give the opportunity to determine in what specific conditions can the decision of awarding the bonus be made. Moreover, analysis of the information provided by the ministries to the State Audit Office, revealed that the majority of them do not have a performance appraisal system, which would ensure transparent and justified payment of bonuses and allowances.

The following systemic deficiencies were identified in the process of the analysis of compensation of employees:

Resolution No. 449 of the Government of Georgia determines the maximum amount of one-off payments and possible payment periodicity of bonuses. However, in certain budgetary organizations, there are occasions, when awarded bonuses and salary supplements are higher than the position-based salary and are paid more frequently than allowed.

In some budgetary organizations, the payment of salary supplements is justified by overtime work and/or fulfillment a task, which requires particular responsibility of the receiver. However, the agencies could not present relevant documents justifying the appropriateness of the above mentioned facts and allowances.

Like the established practices of the previous years, there are cases of granting salary supplements for a particular employee during the whole year on the basis of one order of an authorized person, which, from its monthly character resembles the position-based salary rather than the allowance. Since the allowance is granted from the economy generated in the fund of employee compensation, taking overtime work and exceptional task responsibility into account, paying it in advance for the whole year cannot be considered as acceptable practice.

In certain budgetary organizations the number of employed staff (permanent) during the year is significantly lower than the planned number at the budget planning stage. As a result, the appropriations provided by the article - "Compensation of Employees" remain either unspent or are distributed to employees as bonuses and salary supplements, which also cannot be considered as acceptable practice.

The information about the number of employed staff at the spending agencies during the year is not presented in the state budget execution report. Consequently, it is not clear whether the budgetary organization/structural unit (within the program/subprogram) has implemented the original plan.

According to the State Budget of 2015, Article 22, paragraph 1, the number of contracted employees in budgetary organizations should not exceed 2.0% of the permanent staff. However, exemption from the restrictions, defined by the article,

may be granted by the agreement with the Government of Georgia. As of 2016, both central offices of ministries and legal entities of public law have exceeded the limit (2.0%), which was agreed with the Government. The number of legal entities of public law that exceeded the abovementioned limit was 71. Frequency and scale of exemptions raises doubts about effectiveness and consequently about reasonableness of the limits set.

Additionally, it is noteworthy that a contracted employee should be taken on a job by appointment or on the basis of labor contract for a certain period of time in order to perform temporary tasks. However, the duration of temporary tasks is not defined by legislation. As a result, in practice, contracted employees are hired for a long period of time, for the purpose of performing permanent tasks rather than for temporary ones. The specific features of the latter often do not differ from the permanent tasks of regular employees.

RECOMMENDATIONS

To the Government of Georgia:

- In order to ensure transparency of the accounting process of employee compensation from the state budget and completeness of information presented in the article “Compensation of Employees”, all of the expenses of employee compensation should be accounted homogenously;
- Additional criteria can be defined that the rationale for awarding bonuses to the public agency employees should satisfy. This will, on the one hand, support the formation of a healthy awarding system, and on the other hand, increase transparency of spending of the budgetary resources;
- Additional attention should be paid to appraisal system implementation at the spending agency level, which will ensure transparent and justified payment of bonuses and salary supplements;

○ It is advisable that the state budget law includes information about the planned amount of compensation for contracted employees which would ensure comparability of actual spending in this direction with the planned amount and therefore, will support the improvement of public finance management and accounting process transparency;

○ In order to develop efficient recruitment and management process of contracted workers, it is advisable to adopt international practices in this direction, to improve and disaggregate relevant regulatory norms;

To the Ministry of Finance:

○ In order to ensure transparent accounting process of the expenditures incurred from the state budget, it is advisable that the Annual Report on the Execution of the State Budget includes information on actual employment during the year at the spending agencies (within programs / subprograms).

To Budgetary Organizations:

○ In order to prevent the existence of large amount of vacancies and significant economy in the employee compensation fund, establishment and corresponding compensation fund should be realistically determined at the budget planning stage.

2.1.3. State vehicle fleet management

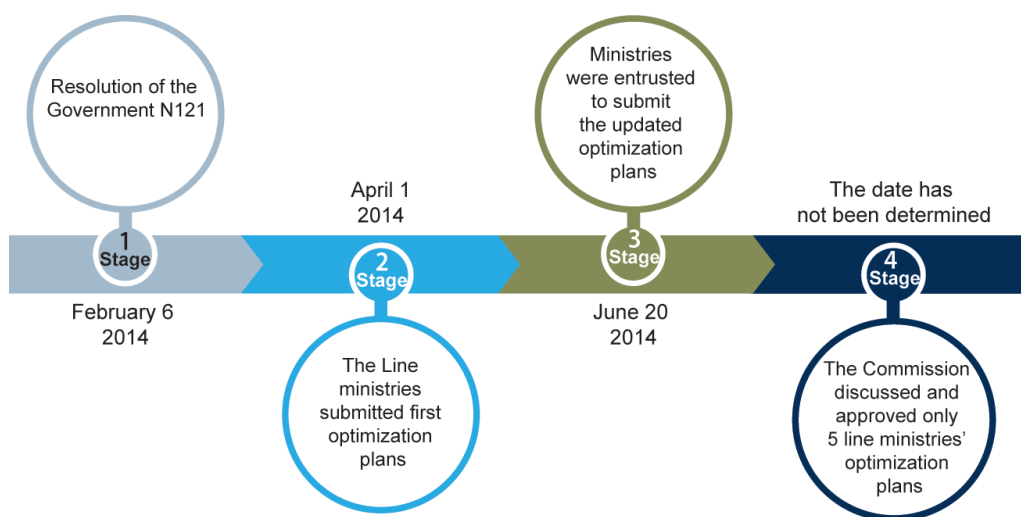
In order to regulate the issues related to the state motor vehicle fleet management, the Government of Georgia adopted Resolution N121 on February 6, 2014 on "The Approval of the Rule for the Distribution and the Classification of the State Fleet and the Purchase or the Replacement of Vehicles." According to the resolution, all line ministries were entrusted to develop and submit optimization plans of their vehicle fleet to the Government Commission⁹ under their ownership to the Government Commission until April 1, 2014.

⁹ State Commission Studying an Issue Related the Use, the Purchase and the Replacement of State vehicles

The goal of submitting the optimization plans to the Commission was to identify the agencies whose number and distribution of administrative vehicles does not meet the requirements of the Resolution, taking into account the number of employees. The preparation and submission of the optimization plans to the Commission was carried out by spending agencies in the abovementioned terms. However,

submitted optimization plans were characterized by shortcomings and according to minute N2 of Commission meeting of June 20, 2014, the agencies were entrusted to submit the updated optimization plans to the Commission. But, as far as the specific deadline for submitting new Optimization Plans has not been determined, only 5 Ministries¹⁰ optimization plans were approved so far.

Optimization process of state vehicle fleet



¹⁰ Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees; Ministry of Defense; Ministry of Justice; Ministry of Agriculture; Ministry of Environment and Natural Resources Protection.

As a result, optimization process of state vehicle fleet, starting from 2014, has not been completed yet and the limits set by the Government's Resolution N121 do not apply for all line ministries. This, in turn, impedes the process of optimization of the

vehicle fleet in the public sector.

During the analysis of the state budget execution, the following systemic deficiencies were identified in the state vehicle fleet management process:

Government's Resolution N121 defines the state officials with the right to use the personalized motor vehicles. But, in some cases, the facts of using personalized vehicles improperly with the position were identified in the budgetary organizations

In some cases, Vehicles purchased by some of the budgetary organizations during the year do not satisfy the criteria and limits defined by the resolution N121 of the Government. However, they have not addressed the Commission with request to make exception for this purchase

For some vehicles of certain budgetary organizations, there are no ceilings defined for fuel consumption, making it difficult for the agency to plan necessary expenses and consequently, post monitoring of fuel consumption

In the case of certain agencies, the balance records contain registered vehicles, which have not been used throughout the year. This once again indicates that resource identification and needs assessment should be conducted in the budgetary organizations and therefore, indicates on the necessity of timely completion of the optimization process of state vehicle fleet, to ensure effective management of the existing assets.

RECOMMENDATIONS*To the Government of Georgia:*

- In order to implement the optimization process smoothly and unhindered, it is recommended to define a reasonable timeframe by the “State Commission Studying an Issue Related the Use, the Purchase and the Replacement of state vehicles” for the review and the approval of optimization plans submitted by the spending agencies, in order to ensure activation of the limits set by the First Paragraph of Article 5 of the Government’s Resolution N121;
- To avoid further ambiguity and prevent violation of the criteria defined by the Resolution N121,

cases of transferring vehicles to the budgetary organizations in the permanent or temporary use (lending) without charge should be also regulated and covered by the law. Thus, it is recommended that the resolution clearly and fully defines the area regulated by the normative act.

2.1.4. Procurement management

During 2016, the total value of state procurement contracts amounted to 4,018 million GEL and exceeded by 815 million GEL of the analogous indicator of 2015. In the process of auditing budgetary organizations, some systemic deficiencies have been identified at all stages of procurement process, especially at the planning stage:

SYSTEMIC DEFICIENCIES DETECTED AT DIFFERENT STAGES OF PROCUREMENT*Determination of needs*

- In case of some budget organizations, tenders are announcement on those type of goods/ services, which are not needed. Mostly, this is discovered after the completion

Procurement planning

- There are frequent and large-scale changes in the approved plans of the state procurement. Moreover, a large amount of unplanned procurement takes place at the beginning of the year;
- Sometimes, in case of correct and timely planning, procuring entities can avoid the purchases in the form of the simplified procurement and/or with the motive of urgent necessity, and therefore, can procure through the electronic tender. This fact, itself creates a non-competitive environment in the procurement process and generates the risk of uneconomical management of budgetary funds;
- The high share of the tenders with the status of contract not awarded refers to the significant deficiencies in the procurement planning process. Namely, from the total number of tenders announced in 2016 (38,072) 10,304 tenders have failed to finalized successfully, which is 27% of the total amount.

Preparation of tender proposals

- In some cases, the technical and qualitative characteristics of the goods/services to be procured are put in the limiting framework that results in the formation of the non-competitive environment in the procurement process and generates the risk of uneconomical use of the budgetary funds;
- In some cases, the preliminary research of the market is not properly done, the technical and qualitative characteristics of the procurement object are not studied and the estimated market value of the procurement object during the current period is not defined. As a result, cancelled tenders or significant economies arise in the procurement process. This indicates to the deficiencies in the determination of the estimated value of the procurement object and increases the risk of uneconomical usage of budget funds in the absence of competition;
- Certain budgetary organizations cannot properly define the technical and qualitative characteristics of the goods/services, which causes the cancellation of the tenders, lengthening the tender procedures and/or the purchasing of the goods/services with the motive of urgent necessity, as long as it is impossible to have electronic tender procedures because of time constraint. As a result, the risk of uneconomical usage of budget funds increases.

Tender procedures

- In certain cases, while identifying the tender winner, procuring entity does not scrutinize if the submitted bidding documents fully satisfy the bidding requirements and also, in case of delayed or incomplete submission of documents the applicants are not disqualified.

The high share of simplified procurement in the total state procurement is also noteworthy. In particular, according to the data¹¹ of 2015, agreements signed in the form of simplified procurement amounted to 33.7% of the total value of the Purchase Agreements. The similar indicator of 2016 increased up to 37%. This indicator is especially high in case of some budgetary organizations.

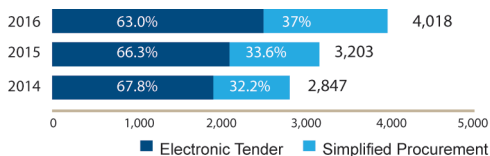


Diagram 4. The share of simplified procurement in total state procurement – mln. GEL

2.1.5. Legal Entities of Public Law

In case of legal entities of public law (LEPL) and non-profit (non-commercial) legal entities (NAPR), the planned and

actual income are significantly different. A similar tendency is observed in the case of expenditures, which indicates on significant flaws in the planning of the budgets of LEPLs / NAPRs.

Actual income with respect to the planned amount				
	<100%	100%-200%	201%-400%	>400%
Number of LEPL/NAPR	205	8	6	14

Actual expenditures with respect to the planned amount				
	<100%	100%-200%	201%-400%	>400%
Number of LEPL/NAPR	212	7	3	12

Table 6. Distribution of LEPL/NAPR according to the receipts and expenditures - 2016

Also, as a result of analyzing information related to LEPLs/NAPRs provided in the state budget execution report, it becomes apparent that there are flaws related to the completeness and accuracy of the disclosed data. Namely:

¹¹ Reports of State Procurement Agency of 2015-2016.

▷ The document does not include information about the budget execution of 1 LEPL;

▷ The aggregate revenues and expenses of LEPLs/NPRAs disclosed in the budget execution report does not coincide with the sum of the revenues and expenses of each and every agency presented in the document;

▷ The balances at the end of 2015 and at the beginning of 2016 does not coincide with each other and the difference between these variables equals to 77 million GEL. This discrepancy results from the existing deviations at the level of the agencies.

its. However, exceptions from these limits may be made by agreement with the Government of Georgia.

IN CASE OF 71 LEPLS

Number of contracted employees exceeds the 2% of permanent employees

IN CASE OF 6 LEPLS

the average salary for permanent employees exceeds 1,500 GEL

IN CASE OF 8 LEPLS

Annual amount of bonuses exceeds 20% of the actual amount of labor remuneration

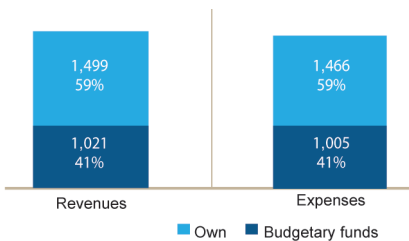


Diagram 5. Receipts and expenses incurred during 2016 by LEPLs and NPRs.

Considering the frequency and scale of the exceeding 2% limit set by the legislation as an exception on the basis of agreement with government, there rises a question whether this limit is reasonable and effective. This issue has been raised several times by SAOG in its reports.

In order to regulate the activities of LEPLs, the state budget law defines different lim-

RECOMMENDATIONS

To the Ministry of Finance and budgetary organizations:

○ It is recommended for budgetary organizations to pay more attention to the budget planning stage, in order to timely and realistically define the programs and corresponding activities and financial resources necessary for their realization, in order to avoid large-scale distribution of funds during the fiscal year and failure to reach the planned results due to the lack of financial resources.

ious sources during the year and actual expenses amounted to 173 million GEL.

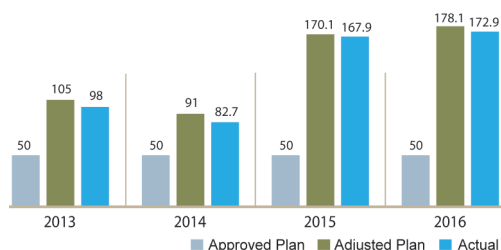


Diagram 6. Dynamics of Government Reserve Fund (Thousand GEL)

It should be noted that the large-scale tendency of appropriations during the year defined by the budget law for government reserve fund needs additional attention especially if we consider the fact that neither the limits connected with the distribution of appropriations established by Budget Code, nor requirements determined by the law on procurement does not apply to usage of budget funds allocated from reserve fund.

2.2. GENERAL STATE EXPENSES

2.2.1. Government Reserve Fund

The volume of the government reserve fund was defined by the state budget law of 2016, at the level of 50 million GEL, however, as in previous years, the volume of fund increased to 178 million GEL as a result of mobilization of funds from var-

According to the Budget Code, "Reserve funds of the President of Georgia and the Government of Georgia are allocated to finance the Expenditures unforeseen by the State Budget" (Article 28, paragraph 2). This regulation aims to finance the

payments that could not be taken into account at the state budget planning stage due to objective circumstances. However, according to the general nature of the explanation of the Reserve Funds, in 2016 like in previous years, there has been direction to funds for financing such activities / projects which are systematic and in the case of appropriate planning it would be possible to consider them in the budget planning stage. In connection with these measures, the State Audit Office has repeatedly reported this in budget execution reports.

The purpose of 24% of funds allocated from the government reserve fund during 2016 is presented by uninterrupted functioning of budgetary organizations or financing of individual ongoing expenditures without any specific reason which casts doubt on the need to fund these expenditures by reserve fund resource.

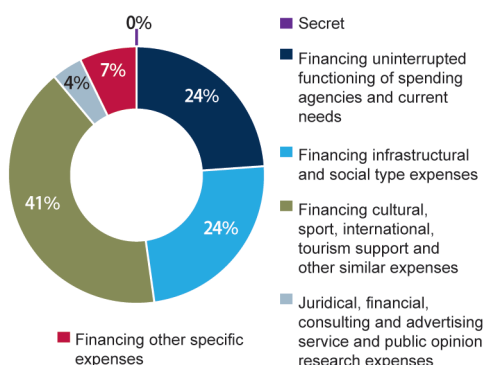


Diagram 7. Distribution of the funds allocated from Government Reserve Fund – 2016

RECOMMENDATIONS

To the Ministry of Finance and Budget Organizations:

- **Budgetary organizations shall take timely determination of the activities and their respective appropriations in order to avoid funding of expenditures from the reserve fund, which could be considered at the budget planning stage;**

To the Ministry of Finance:

- To improve definition of reserve funds at legislative level and to define more specifically the type and content of the measures which could be financed from the reserve funds, in order to prevent funding activities of the systematic nature that follows from the general nature of definition and activities that can be considered at budget planning stage.

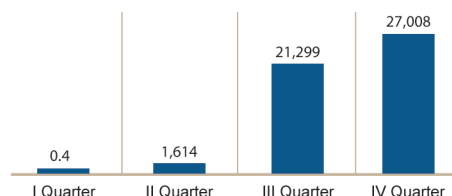


Diagram 8. Budgetary funds used by municipalities from the Village Support Program across the quarters (thousand GEL).

As of 28 December 2016, from 5,949 projects financed from the Village Support Program 91% have completed, 3% are ongoing and 6% of the projects have not started.

2.2.2. Village Support Program

In 2016 the amount of resources assigned to municipalities from the Village Support Program amounted to 49,922 thousand GEL. It should be highlighted that the implementation of the projects by the municipalities actively starts only from the third quarter. However, unlike the previous years, the third quarter was also characterized by a slowdown in 2016, resulting in a much larger usage of resources in the fourth quarter in comparison with the previous years.

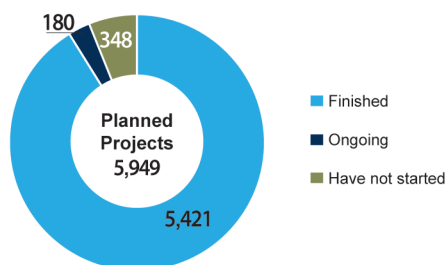


Diagram 9. The status of execution of projects under the Village Support Program as of December 28, 2016.

As of 28 December 2016, from 5,949 projects financed from the Village Support Program 91% have completed, 3% are ongoing and 6% of the projects have not started.

Improper performance of the suppliers, which resulted in termination of contracts as well as in the imposition of penalties and sanctions by the municipalities

Problematic issues related to procurement procedures, including, like the past years, flaws with successful carrying out of tenders

Due to incorrect estimation of the funds needed for project implementation and increased market prices some works cannot be financed

Flaws in planning, including the lack of required permissions and inaccurate identifications of the specifications of the project

“Produce in Georgia” implemented by the Ministry of Economy and Sustainable Development.

34 projects were planned within 10 million GEL¹² allocated for municipalities, 20 of which were completed, 2 were stopped and 12 projects are ongoing. The reason why 2 projects are stopped is the deterioration of climate conditions due to which the initially defined date of completion of the works in the contract was rescheduled.

One of the critical factors causing the low usage of resources is the fact that the implementation of the projects does not begin until August. Consequently, due to seasonal changes causing the deterioration of climate conditions the implementation of projects is obstructed. In addition, the fact that the Ministry of Regional Development and Infrastructure was given the resource (10 million GEL) only in June, which in turn inhibited the timely planning and launching of the projects.

2.2.3. High Mountain Settlement Development Fund

Under the 2016 Budget Law, 20 million GEL was planned for the High Mountain Settlement Development Fund; By the decree of N994 of the Government of June 2, 2016, 10 million GEL was assigned to the Fund of Projects Implemented in the Regions and 10 million GEL - to the program

¹² The disposal of these resources is carried out in accordance with the Government Decree N23 by the Governmental Commission for Regional Development

RECOMMENDATIONS

To the Government of Georgia:

- It is recommended, that the decision on assigning resources to the specific public agencies from the High Mountain Settlement Fund should be made earlier. It, on one hand, will facilitate the implementation of projects by the municipalities timely and, on the other hand, avoid delay of their execution due to seasonal climate changes.

2.3. Capital projects

Annex on capital projects is the only document, where the information on capital projects financed by the state budget is accumulated. In 2013-2016 years, total resources allocated to the capital projects comprised to 4,189 million GEL.

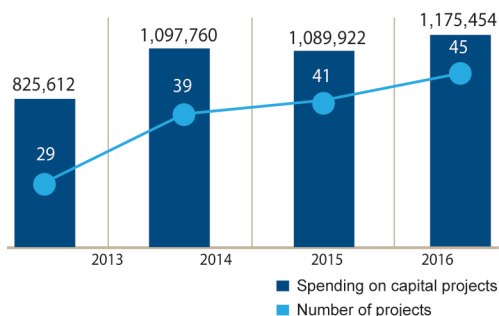


Diagram 10. The number and cost of capital projects executed during 2013-2016 (thousand GEL).

On July 22, 2016, by the order of the Minister of Finance, a detailed methodology of investment projects was prepared, which discusses the activities needed at all stages of the projects' life-cycle and also, defined the functions and obligations of the parties involved in the process. However, the life-cycle defined by the methodology will only be passed by those capital projects, whose total predictive value is or exceeds 5 million GEL. Considering the fact, that the methodology aims to regulate only those projects financed by the budgetary resources, this margin cannot be considered as optimal, since only small portion of the budget financed projects will be obliged to fulfill the requirement defined in methodology. As a result, the issue of selection and evaluation of the main part of the projects financed by the budget re-

sources will remain unresolved, as their value is less than 5 million GEL and therefore, the requirements set out in the methodology will not apply.

The main source of funding capital projects in municipalities is the Regional Development Fund. In 2016, 174 million GEL were spent from the Fund for the execu-

tion of 536 projects. 467 projects have been completed, 68 are in progress and 11 projects have been terminated. The main reason for termination of projects is the failure in the fulfillment of the contract obligations by suppliers. In addition, in case of some ongoing projects, the works are overdue, and therefore, the project implementers are fined.

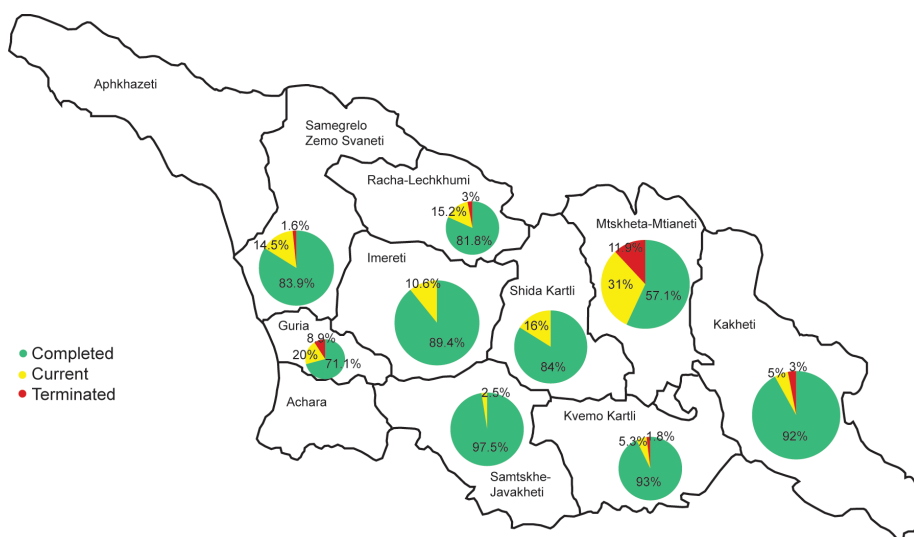


Diagram 11. Performances of projects financed by the Commission from the Regional Development Fund – 2016

The following systemic deficiencies are observed in the management of capital

projects funded by the Regional Development Fund:

In case of 84% of completed projects, predetermined budget and actual spending were different

In case of 42% of completed projects, predetermined completion time of projects has changed. In addition, 33% of completed projects were lengthened

According to the legislation, municipalities are no longer obliged to submit project progress and completion reports to the Ministry of Regional Development and Infrastructure or to the Governor. In addition, both the Ministry and the Governor have the authority and not the obligation to request information from the municipalities or to inspect the projects physically for monitoring purposes. Consequently, between consecutive monitoring activities the big time gaps are in place

The evaluation of the projects is not carried out after their completion, which impedes the possibility to consider the experience obtained from the projects implemented in the previous periods in the planning process of the future projects.

RECOMMENDATIONS

To the Ministry of Regional Development and Infrastructure of Georgia:

- To develop the criteria for defining the marginal limits based on which resources will be allocated among municipalities from the Regional Development Fund;
- To initiate the amendments in the Government Decree N23, ac-

cording to which the municipalities will be obliged to prepare projects' progress reports and submit them to the Ministry with the predetermined periodicity. In addition, the municipalities should be obliged to prepare the report after the completion of the projects. Also, the Ministry in collaboration with the municipalities, should develop the format of project interim and completion evaluation reports, based on which projects' progress will be analyzed.

13 For analyzing the performance of projects, auditors used information provided by the municipalities.

STATE FINANCIAL ASSETS MANAGEMENT

3.1. LOANS

Based on the Treasury data, total volume of relending loans in 2016 amounted to 285 million GEL and 95% of annual defined plan. However, this indicator does not include loans issued within the Water Infrastructure Renewal Project (25 04 02) and Water Structure Renewal II Project (25 04 03) with the total amount of 19.4 million GEL. Despite that these transactions are the financial assets by their content, they are classified under the budget item of expenditures, in various capital expenditures, resulting in the fact that the actual amount of item “financial assets increase” has been presented incomplete. As to the loans issued from the internal resources of the State Budget, analysis of the dynamics of state loans reveals blemishes¹⁴ related to the evaluation of solvency of payer and also to their efficiency

when issuing the loans and as a result the share of overdue loans is increased in the portfolio of issued loans. In particular, by the end of 2016, the balance of loans issued from internal budget resources was defined at the level of 212.8 million GEL, among which, based on the state loans unified registry, 92% constitutes overdue debts to the state budget.

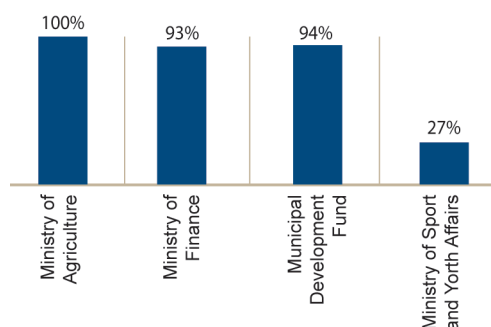


Diagram 12. Share of overdue loans in the total portfolio of loan issuing offices – 2016.

In terms of payment, there are deficiencies in cases of onlending loans from external

¹⁴ These statistics are based on the data of unified registry of state loans provided by the Ministry of Finance of Georgia

sources. Namely:

► The Batumi City Hall was unable to complete the full loan service under the Subsidiary Agreement signed with “Rehabilitation of Communal Infrastructure in Batumi” (II and III Phases, KfW). By the end of 2016, the debts generated by the non-payment of the principal of debt amounted to 1.3 million euros;

► Ltd “EnergoTrans” could not service the loan under the Subsidiary Agreement signed with the Black Sea Power Transmission Network Project (KfW). The mobilization of 13, 857 thousand euros was planned to cover the principal of the loan during the year, from which only 6, 999 thousand euros were covered. It is noteworthy that at the request of Ltd “EnergoTrans”, the period of starting to pay the principal of loan was rescheduled until 2021;

► Payment of principle of loan within the rehabilitation projects of Vardnili and Enguri by Ltd “EngurGas” was rescheduled for 2 years. Among them, rescheduling touched upon the principal amounts to be paid on May 15 and May 25, 2016, which amounted to 1,428,571 US dollars.

3.2. SHARES AND OTHER EQUITY

According to the amendment to the state budget law the planned indicator of item “Shares and other capital” has been reduced from 184.1 million GEL to 169.3 million GEL. However, cash execution made up 210.3 million GEL and, like the previous years, exceeded the plan determined by the budget law. In particular, the volume of payments carried out under the item exceeds planned amount in the corresponding year on average¹⁵ by 124%, which should be considered as an undesirable tendency.

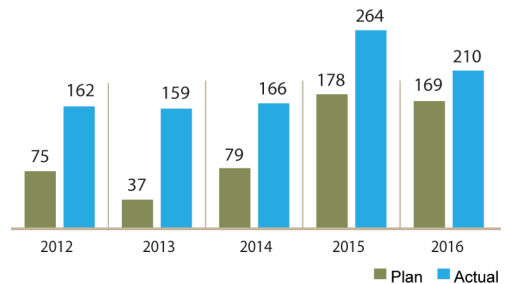


Diagram 13. Dynamics of payments under article on “Shares and other capital”- (million GEL).

As a result of analyzing the budget funds carried out under the item of shares and other equity, the following deficiencies

¹⁵ Last Average Figure of 5 last years (2012-2016).

were identified:

► The lending and lease liabilities of LTD “Mechanizatori” were covered by the state budget (22 million GEL in 2016), but the loan from the Ministry of Finance is not registered in the state debt portfolio;

► The Ministry of Regional Development and Infrastructure of Georgia increased the capital by 11.9 million GEL in Ltd “State Construction Company”, however the cash funds were spent from the appropriations allocated within the Ministry of Labor, Health and Social Affairs under the item of “various capital expenditures”. As a result, the volume of payments carried out in the report of state budget execution by item “Shares and other capital” incompletely (11.9 million GEL) reflects the increased amount of capital in enterprises with state equity participation during the budget year.

► In certain cases, the transferred resources in order to increase the capital in the state owned enterprises by ministries is totally unused or/and is partially utilized during the budget year for execution of works and the remaining funds are placed on the bank account that indicates the

gaps in determining the financial resources needed to carry out the planned activities.

The deficiencies in accounting of revenues collected from share privatizations are noteworthy. In particular, the funds received from state equity privatization in 2016 were not accounted under the item “Shares and other capital” of non-financial assets decline but under “other non-material main assets” and “non-residential buildings” in the item of non-financial assets decline.

As far as according to the “Budget Code of Georgia”, the state budget deficit is determined by the amount of the total balance, the volume of which is affected only by changes in revenues, expenditures and non-financial assets and the component of financial assets is not involved in, the State Audit Office assesses that it is necessary to pay attention to classification of revenues received from financial assets decrease and to their accounting in the relevant items since the accounting of transactions under the item of “expenses” or/ and “non-financial assets” affects the size of the budget deficit.

RECOMMENDATIONS

To Ministry of Agriculture, Ministry of Finance, LEPL “Municipal Development Fund”, Ministry of Sport and Youth Affairs:

- To assess the current portfolio of loans issued from the internal budget resources and to take effective measures to review the volume of overdue loans and to reduce the amount of outstanding loans and respectively of the amount of borrower’s arrears payable to the budget.

To the Ministry of Finance and Budget Organizations:

- According to the Budget classification, loans issued from external credit resources and capital increase in state owned enterprises represents an increase in financial assets. Therefore, it should be ensured that the transactions carried out in the above-mentioned cases shall be classified as item “financial assets” and they shall not be reflected under the item “expens-

es” or/and “non-financial assets”;

- It is advisable to define a list of the activities / projects to be implemented by the state owned enterprises during the year at budget planning stage and the amount of necessary financial resources, in order to avoid reducing of appropriations allocated to different programs / subprograms and allocating them to the enterprises during the fiscal year;

To the Budget Organizations:

- In order to ensure the effective use of budget funds, it is necessary for the relevant budget organization to receive full information (including initial documents) on the implemented works, spent financial resource and on the balances in the end of the year within the increased capital of state owned enterprises.

FUNDING FROM EXTERNAL SOURCES

4.1. Foreign credits

In 2016, 1,377 million GEL were mobilized from foreign sources, which amounted 13.3% of total state budget revenues.

The original budget law considered financing of 27 investment projects from foreign loans, but as a result of the amendment to the law, the number of investment projects to be financed was increased to 29. However, during the year the foreign credit resources were spent on 35 investment projects in total in amount of 811 million GEL.

Out of the above projects, 6 such projects were implemented, which were not planned by the initial budget or amendment to the law. Although the amendment to the Budget was made in December, and by the end of November a significant part of the credit resource had been spent, in the cases of 2 investment projects¹⁶ re-

courses had been fully spent there was no adjustment of the planned indicator within these projects after the change in the law. In total, 45.9 million GEL was spent on these investment projects.

It is noteworthy that, in contrast to the abovementioned 6 investment projects, in case of several projects planned indicators have been corrected in the budget law during the fiscal year. Consequently, it is not clear based on which criteria several projects financed by investment resource were considered and the planned indicator was corrected in the budget law.

During 2016, spending on certain projects financed by foreign credit resources was carried out by impediments and consequently, the implementation of projects. As a result, the additional expenditures related to the loan service were made from the budget on the undisbursed part of the loan, as commitment fee that could have

¹⁶ Internal Road Asset Management Project "(25 02 02 13)" and "Water Infrastructure Renewal Project "(25 04 02).

been avoided by the proper planning and implementation of the project.

4.2. State debt balance

By the end of 2016 state debt amounted to 15,123 million GEL and exceeded the upper limit determined by the budget law by 532.5 million GEL. The violation of the upper limit of the state debt determined by the state budget of 2016 was mainly due to depreciation¹⁷ of the GEL exchange rate at the end of the budget year.

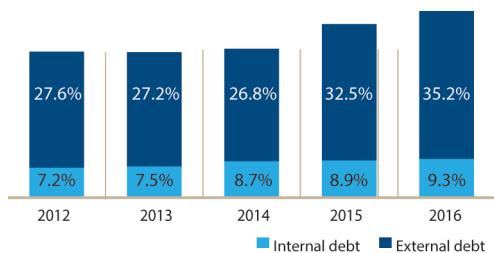


Diagram 14. State debt in respect to GDP - 2016.

The state debt to GDP ratio increased by 3 percentage points in comparison to 2015 and amounted to 44.5 %. It is noteworthy that in 2016 the state debt to GDP ratio exceeded to 40% - the level determined by

¹⁷ The predictive balance of the state debt by budget law (amendment) of 2016 budget was calculated at the rate of 1 USD = 2.5 GEL, while the national currency was down by about 6% (USD 1 = 2.65 GEL) by 31 December 2016.

the social-economic development strategy of Georgia “Georgia 2020”.

Due to the fact that the foreign currency denominated debt take a significant portion in the state debt portfolio of Georgia, in order to provide state debt sustainability in medium and long terms an important risk factor is the currency exchange rate, which is especially notable after a significant depreciation of GEL against USD during the past year.

RECOMMENDATIONS

To the Ministry of Finance:

- It is recommended, in case of amendment in the budget law to use coherent approach for correction of the planned indicator in case of all investment projects and to consider their current development trends in order to compare the indicator of receipts received under the item “external liabilities growth” with the planned indicator defined by the budget law.

○ It is advisable to account for the debt obligations of state owned enterprises and other legal entities in the state debt portfolio, which are covered from the state budget. Also, based on the probability of materialization of fiscal risks of high-risk state enterprises, it is advisable to reflect their debt obligations in the state debt portfolio;

To the persons implementing investment projects funded at the expense of the Ministry of Finance and Foreign Credit Resources:

○ To improve the coordination and planning process of utilizing funds from foreign credit sources and implementation of projects within investment loans in order to avoid prolongation of project implementation and additional expenses related to the loan service.

FISCAL DISCIPLINE

The Organic Law of Georgia on “Economic Freedom” defines three main fiscal rules:

EXPENDITURE RULE	Total amount of overall budget expenses and increase in non-financial assets shall not exceed 30.0% of GDP
BUDGET BALANCE RULE	Overall budget deficit shall not exceed 3.0% of GDP
DEBT RULE	The ratio of debt to GDP shall be less than 60.0%

It should be mentioned, that over the past three years the sum of overall budget expenses and increase in non-financial assets exceeded the 30% limit set by organic law and it is characterized by an increasing tendency.

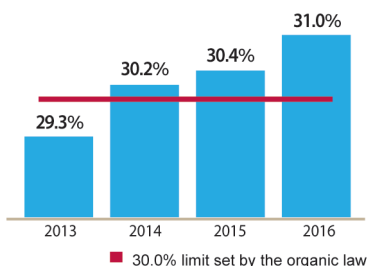


Diagram 15. Sum of overall budget expenses and increase in non-financial assets as a share of GDP - 2013-2016

It should be highlighted, that like last year, the budget execution report of 2016 does not include information about the above mentioned indicator. Taking into account the increasing tendency of exceeding the limited level, it is recommended to pay additional attention to this issue in order to meet the limits set by the legislation, which, in turn, is a precondition for fiscal stability.

PROGRAM BUDGETING

Since 2012, the state budget is prepared in the program budget structure, which is a result oriented approach of the budgeting. Differently from the traditional organizational structure of the budget, the basis of the program framework is the results attained as a consequence of the utilization of the budget resources rather than the amount of the funds allocated to the spending agencies.

Although the state budget is prepared in the program budget structure since 2012,

due to the complexity of the process, information presented in the annex of the program budget is not approved by law yet. Additionally, the preparation of the budget in the program structure still contains significant deficiencies, which makes it difficult or sometimes even impossible to measure effectiveness of the programs. Deficiencies are identified both, at the development stage of expected outcomes, performance indicators, and at the reporting stage about the results attained as well.

Development of expected outcomes

- 40.9% of programs and sub-programs, presented in the annex of the program budget, do not have an aim specified;
- In some of the cases, all the possible results that can be achieved as a consequence of the program implementation are not identified;
- In number of cases, the information about the activities undertaken by the spending agencies and the results attained are aggregated and presented at the program level. They are not further disaggregated at the subprogram level. It impossible to distinguish the outcomes and outputs of the program and to determine the relationship between them consequently.

Development of performance indicators

- 10.9% of the performance indicators for programs/subprograms cannot evaluate the results attained because the indicators are irrelevant, are incorrectly formulated or do not measure performance;
- 59.0% of the programs and subprograms need additional indicators for a complete assessment of the outputs/outcomes attained;
- In some cases, all the expected outcomes do not have corresponding indicators or only one type of indicator is used, while for the purpose of complete evaluation several types of them are required.

Reporting on the Results Achieved

- In certain cases, achieved results are not presented in relation to predefined assessment indicators and for some programs the information about the achievement of the planned outcomes is presented only partially;
- In case of some programs / sub-programs, the achievement period of the target indicator for the expected outcome is medium-term rather than the current year, which makes it impossible to evaluate the results achieved within the program / sub-program at the reporting stage;
- In case of some programs, the results are presented inconsistently with the indicator defined at the planning stage, in other words, in a different way, that makes it difficult or even impossible to compare the planned and achieved results.

As for the methodology of preparing the program budget, it is advisable to continue working on its refinement and develop detailed instructions for drawing up medium-term plans, expected and achieved outcomes within the programs and for determining assessment indicators.

RECOMMENDATIONS

To the Ministry of Finance:

- **The refinement process of the program budget development methodology should be continued and, considering the international practice, more detailed instruc-**

tions of planning and reporting should be developed for preparing medium-term plans, expected and achieved results and the assessment indicators. It is also advisable that illustrative examples are given for the programs of different specificity;

- The purpose of evaluation for each type of indicator should be explained clearly and in more detail. Additionally, corresponding examples should be provided in order to avoid misunderstandings related to terminology.

To the Budgetary Organizations:

- More emphasis should be placed on the development of the corresponding target values during defining outputs of subprograms at the planning stage. This will enable assessment process of the subprogram results at the reporting stage;

- The programs and related expected results should be disaggregated at the subprogram and output level. This will support trans-

parency of planning the budget and disbursement of the budget resources. On the other hand, more detailed and clear information will be available for the stakeholders;

- More emphasis should be placed on developing effective indicators for assessing the results so that it is possible to evaluate all the expected outcome/output of the programs/subprograms. Additionally, different types of indicators should be used for program/subprogram assessment;

- Following the „Program Budget Development Methodology”, the difference between the expected and attained results should be explained in the program performance information;

- Spending agencies should develop a methodology, which will regulate the collecting and processing of the performance information. This will ensure completeness and accuracy of the information about the attained results. It will also increase the reliability of the presented figures.

ORGANIZATIONAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

The State Audit Office sent questionnaires for the assessment of organizational management to 16 offices of the ministries. Its primary aim is to evaluate transparency

and accountability of the public agencies. Analysis of the data provided by 15 ministries revealed the following issues:

10/15	Strategic Development Plan is prepared only in 10 ministries
8/15	Only 8 ministries monitor program implementation through the formalized mechanism
2/15	Despite the critical importance of risk analysis and management, only 2 ministries have developed appropriate systems
4/15	In order to create and maintain institutional memory, only 4 ministries have developed official policy documents that describe the procedures to be followed within the activities of the organization in detail
9/15	13 ministries provide comprehensive information to the citizens about the existence of programs and required enrolment procedures in a timely manner. While, 9 ministries measure public satisfaction
8/15	Only 8 ministries make the medium-term action plan available on the official website
10/14	Only 10 out of 14 ministries make performance reports available on the official web-site
4/15	Annual financial reports are available on the official web-sites in case of only 4 ministries

RECOMMENDATIONS

To the Ministries of Georgia:

- It is necessary for all ministries to develop a strategic development document in which all the basic features that are essential for sustainable, stable and efficient performance of the agency, will be presented;
- Following the of transparency and accountability principles of public management, it is necessary for all ministries to make the information about activities implemented during the year and its financial status – financial reports, available on the official web-site proactively;
- It is advisable that all the ministries form a citizen's participation mechanism, at the planning stage of programs/ activities and after their completion as well. This, on the one hand, will promote implementation of the programs/ activities that are oriented on real needs. On the other hand, evaluation of the achieved outcomes will

help identify the deficiencies of the program and plan the budget of the following year according to the existing needs;

- Considering characteristics of their activities, it is advisable for all the ministries to develop and implement a Code of Ethics as this document is a preventive mechanism against the realization of the risks related to conscientiousness of the employees.



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