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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

GEORGIA

Public Sector Financial Management Reform Support

Report No. 126842

JUNE 28, 2018

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PROJECT PERFORMANCE ASSESSMENT REPORT

GEORGIA

PUBLIC SECTOR FINANCIAL MANAGEMENT REFORM SUPPORT PROJECT
(IDA H2050, TF 26116, TF 511310)

June 28, 2018

Human Development and Economic Management
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Georgian lari (GEL)

2009	$1.00	GEL 1.68
2010	$1.00	GEL 1.77
2011	$1.00	GEL 1.66
2012	$1.00	GEL 1.66
2013	$1.00	GEL 1.68
2014	$1.00	GEL 1.79
2015	$1.00	GEL 2.41

Abbreviations

BDD	*Basic Data and Directions*
CCG	Chamber of Control of Georgia
COTS	commercial off-the-shelf
CPS	country partnership strategy
FAS	Financial Analytical Service
GDP	gross domestic product
ICR	Implementation Completion and Results Report
IDA	International Development Association
IEG	Independent Evaluation Group
IPSAS	international public sector accounting standards
IT	information technology
HRMIS	human resources management information system
M&E	monitoring and evaluation
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PFMIS	public financial management information system
PPAR	Project Performance Assessment Report
PRSO	Poverty Reduction Support Operation
PSFMR	Public Sector Financial Management Reform Support Project for Georgia
SAO	State Audit Office

All dollar amounts are U.S. dollars unless otherwise indicated.

Fiscal Year

Government: January 1– December 31

Director-General, Independent Evaluation	Ms. Caroline Heider
Director, Human Development and Economic Management	Mr. Auguste Tano Kouame
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Contents

This report was prepared by Florence Charlier and Aristomene Varoudakis, who assessed the project in November 2017. The report was peer reviewed by Zeljko Bogetic and panel reviewed by Robert Lacey. Carla F. Coles provided administrative support.

Figure

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Moderately satisfactory	Moderately satisfactory	Moderately unsatisfactory
Risk to development outcome	Moderate	Moderate	Low
Bank performance	Moderately satisfactory	Moderately satisfactory	Moderately unsatisfactory
Borrower performance	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory

* The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible World Bank global practice. The ICR Review is an intermediate IEG product that seeks to independently validate the findings of the ICR.

Key Staff Responsible

Project	Task Team Leader	Sector Manager	Country Director
Appraisal	Elene Imnadze	Cheryl W. Gray	Donna Dowsett-Coirolo
Completion	Elene Imnadze	William Dorotinsky	Henry Kerali

IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About This Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20–25 percent of the World Bank's lending operations through fieldwork. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, interview World Bank staff and other donor agency staff both at headquarters and in local offices as appropriate, and apply other evaluative methods as needed.

Each PPAR is subject to technical peer review, internal IEG panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank country management unit. The PPAR is also sent to the borrower for review. IEG incorporates both World Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://ieg.worldbankgroup.org).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current World Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, sector strategy papers, and operational policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared with alternatives. The efficiency dimension is not applied to development policy operations, which provide general budget support. *Possible ratings for outcome:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, highly unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for risk to development outcome:* high, significant, moderate, negligible to low, and not evaluable.

Bank Performance: The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan or credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible Ratings for borrower performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) evaluates the Public Sector Financial Management Reform Support Project for Georgia, including a grant in the amount of $3 million and funds contributed by other donors: $2.1 million by the Netherlands Ministry for Development Cooperation; $4.5 million by the Swedish International Cooperation Agency; and $4.5 million by the U.K. Department for International Development.

This report presents findings from an in-depth review of the related project documents, discussions with World Bank staff, and interviews with government officials and other stakeholders during an evaluation mission to Georgia in November 2017. The cooperation and assistance of all parties consulted are gratefully acknowledged, as is the support of the World Bank country office in Tbilisi.

The PPAR emphasizes the lessons for World Bank teams striving to reform and modernize public financial management and facing challenges similar to those encountered in Georgia. An area where this project offers special learning potential is Georgia's experience in developing a public financial management information system (PFMIS), given that the government eventually canceled that aspect of the project and developed the PFMIS with its own resources. What are alternative ways for World Bank teams to support clients in decisions about investing in complex information systems? Another area of learning involves the design of complex projects with multiple implementing agencies when implementation capacity is weak. This is relevant in the context of the World Bank's scaling up of lending to International Development Association (IDA) states and those in fragile or conflict-affected situations. As a former IDA country that experienced economic and political turbulence during the project, Georgia is a useful case study of what has worked well and what has worked less well. This PPAR also provides inputs for the upcoming public finance evaluation fiscal year 2019.

Following standard Independent Evaluation Group procedures, this report was sent to government officials and agencies in Georgia for review and feedback. No comments were received from the borrower.

Summary

This Project Performance Assessment Report (PPAR) evaluates the Public Sector Financial Management Reform Support Project for Georgia, including a grant in the amount of $3 million and funds contributed by other donors: $2.1 million by the Netherlands Ministry for Development Cooperation; $4.5 million by the Swedish International Cooperation Agency; and $4.5 million by the U.K. Department for International Development. The government of Georgia requested the project, which was designed as a technical assistance and investment grant with a focus on institution and capacity building, to support the implementation of key reforms in its Strategic Vision for Public Financial Management Reform. The project was approved by the World Bank's Board of Executive Directors in February 2006 and closed in March 2012, two years after the original closing date.

The project's development objectives were to enhance governance, particularly in the public financial management domain, by strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources and improving accountability in the use of public resources. To meet these objectives, the project focused on four components: (i) the Medium-Term Expenditure Framework (MTEF) and budget management; (ii) treasury reform and budget execution; (iii) implementation of a human resources management information system (HRMIS); and (iv) public accountability and oversight of public financial management.

Both project objectives were highly relevant. They were aligned with Georgia's Economic Development and Poverty Reduction Program, elaborated in 2004. They were also highly relevant to the World Bank Group's 2006–09 country partnership strategy, of which the third objective was improving efficiency in public services. Attaining this objective required building capacity for efficient, accountable, and trustworthy public institutions and processes. The objectives remain relevant to the 2014–17 country partnership strategy, especially the first pillar— "establishing the preconditions for growth in terms of a stable macroeconomic environment, effective public sector management, and fiscal efficiency and responsibility."

The project activities were relevant for achieving the two project development objectives, but the design overestimated the government's capacity to implement such a comprehensive reform program. First, despite uneven institutional capacity across government agencies, along with uncoordinated initiatives at the individual agency level, the design was complex and multiple activities were expected to occur in parallel, leading to capacity bottlenecks. Second, Georgia's dynamically evolving agenda for public sector reform warranted pragmatism and flexibility in the design of activities supporting institutional development, rather than the project's less flexible approach. Third, the project placed excessive emphasis on commercial off-the-shelf information technology (IT) solutions for the public financial management information system (PFMIS), thereby neglecting the need for flexibility in future system deployment. Concerned about the cost of tailoring an off-the-shelf PFMIS to the country's evolving needs, the government eventually opted for in-house PFMIS development, which led to the cancellation of an important aspect of the project. Owing to these deficiencies, the design of the project is rated **modest.**

Despite progress toward implementing the MTEF, little advancement had been made by project closure in implementing international public sector accounting standards and

strengthening cash management. The cancellation of the PFMIS compromised an important objective of the project. Project activities did contribute to improving citizens' access to budgetary information, parliamentary scrutiny of the budget, intergovernmental fiscal relationships, and the robustness of external audit. The subobjective of deploying the human resource management information system for the Ministry of Finance was achieved, although the more ambitious initial goal of an integrated HRMIS for the civil service was not.

Efficiency is rated **modest.** Significant delays in project implementation generated substantial inefficiencies. Notably, the attempted investment in an off-the-shelf IT solution for the PFMIS led to a two-year extension of the project, with the government finally opting to develop the system in house. Those shortcomings outweighed the project's possible contributions to greater efficiency through pooling of donor resources and enhanced cash management, which were, in any event, tenuously linked to the supported activities.

Outcome is rated **moderately unsatisfactory.** This reflects high relevance of project objectives, modest relevance of program design, modest efficacy in outcome achievement under the first objective, and substantial efficacy under the second.

The risk to development outcome is rated **low.** The government has demonstrated its commitment to moving the public financial management (PFM) reform agenda forward, with the deployment of the MTEF, which has been followed by ambitious steps in program budgeting, more recent progress in introducing international public sector accounting standards, and improvement in cash management. With hindsight, the in-house development of the PFMIS by the Ministry of Finance is an example of a successful government endeavor. The PFMIS covers key PFM areas with adequate functionalities, customized to the government's needs.

Bank performance is rated **moderately unsatisfactory.** The project would have benefited from less emphasis at the design stage on commercial off-the-shelf IT solutions for the PFMIS, along with more exploration of options for assessing and developing in-house capacities for building the system. A greater degree of candor in supervision reports would have been helpful, and more proactive consultations early in implementation might have addressed sooner the government's concerns regarding off-the-shelf solutions.

Borrower performance is rated **moderately satisfactory.** The authorities remained focused on PFM reform, broadening the reform agenda after project closure, and the in-house deployment of the PFMIS was successful. Government performance is rated **satisfactory.** Protracted initial delays and slow reaction to them were moderate shortcomings, leading to a **moderately satisfactory** rating for implementing agency performance.

Lessons

- Creating a decision-making environment with continuous results monitoring and course correction based on experience would be a more promising approach to complex reforms. Such course correction may be needed due to changes in government priorities, as well as actual results that may be unexpected. This was demonstrated by the project's failure to assess the government's capacity for in-house PFMIS development and the possibility to change course to achieve this subobjective. Institutional development project designs should be adaptable enough to allow for constructive changes while ensuring that the revised targets are as significant and meaningful as the original ones.

- The costs of building and upgrading a PFMIS when a country's needs are evolving should be carefully assessed. When a PFMIS has to be built from a very low level of institutional capacity and the country's future needs are difficult to project, the costs of upgrading and customizing an off-the-shelf PFMIS may grow, possibly placing an excessive burden on the budget. If the local capabilities are adequate, as in the case of Georgia, an alternative would be in-house development of the PFMIS, which may allow for more flexibility in future upgrades and tailoring of the system to the government's evolving needs. Assessing local IT capabilities and, if needed, providing training, are prerequisites for choosing the right option.
- An alternative design option for PFM modernization projects would involve a two-stage approach. The first stage could consist of a much smaller effort, focusing on the strategically most important areas of PFM reform, with substantial technical assistance directed toward assessing in-house capacity for integrated PFMIS development. Depending on the outcomes of the first stage, the second stage of the project could involve either the purchase and implementation of an off-the-shelf PFMIS or the provision of training and further capacity building for in-house PFMIS development. In the case of Georgia, such a two-stage design might have prevented the unsuccessful international competitive bidding for the PFMIS, strengthening instead the in-house capacity for system development through targeted training.
- Project implementation may be hindered by uneven institutional capacity. When such is the case, the involvement of multiple implementing agencies may cause lines of accountability to become unclear, and uncoordinated initiatives at the individual agency level may become counterproductive and impede reforms. That was the implementation experience of this project. Simplicity in project design and activity coordination in such cases is an important requirement for project success.

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1. Background and Context

1.1 Thanks to ambitious economic reforms and a favorable global environment, Georgia was able to grow quickly, with macroeconomic stability, before the 2008–09 global financial crisis. Economic growth averaged more than 9 percent per year from 2004 to mid-2008. The peaceful regime change of 2003, known as the Rose Revolution, gave an impetus to reforms aimed at reinvigorating economic performance and improving the functioning of the public sector to meet growing social inequities. The tax-to-gross domestic product (GDP) ratio improved, expenditure arrears from the previous administration were cleared as a priority, and minimum pensions were doubled in January 2005. Despite these developments, almost 35 percent of the population still lived in poverty with inadequate public service delivery in 2006.

1.2 During project implementation, Georgia went through economic and political turbulence. In 2008–09, the country was hit by the double shock of the August 2008 conflict with the Russian Federation over South Ossetia and of the global financial crisis. The economy contracted by 6.5 percent during the second half of 2008 and by 3.8 percent in 2009. Georgia found itself with thousands of internally displaced persons, and unemployment rose from 13.3 percent in 2007 to 16.9 percent in 2009. Growth rebounded to 6.3 percent in 2010, 7 percent in 2011, and 6.4 percent in 2012. The unexpected burdens of the conflict with Russia and the financial crisis may have reduced the priority of the public financial management (PFM) reform agenda, thus contributing to delays in project implementation. Fiscal adjustment was implemented in 2010–11 to safeguard sustainability, with the fiscal deficit declining from 9.2 percent of GDP in 2009 to 3.6 percent in 2011. In more recent years, growth remained steady until 2014, although at a slower pace than during the postcrisis recovery. Growth further moderated to 2.9 percent in 2015 and 2.7 percent in 2016, because of the weak external environment and uncertainty, but recovered to 4.8 percent in 2017; it is projected to remain stable in 2018, at 4.5 percent. The fiscal deficit increased to 3.8 percent of GDP in 2015 and further to 4.1 percent in 2016 and 2017.

Project Context

1.3 In 2004 the Georgia Ministry of Finance prepared the Strategic Vision for PFM. This became the cornerstone for public finance reform from 2004 onward. The objectives of this reform were to (i) maintain fiscal discipline; (ii) support a strategic approach to the management of public finances; (iii) ensure that resources are used efficiently and effectively; and (iv) ensure accountability. The World Bank supported the government's reform agenda through the Poverty Reduction Support Operation (PRSO) series implemented from 2005 to 2009. These operations were a cornerstone of the World Bank's 2006–09 country partnership strategy (CPS), which focused on: (i) enabling income- and employment-generating growth; (ii) strengthening human development and social protection; and (iii) improving efficiency in public services. During the CPS consultations, the government had indicated that addressing governance weaknesses and implementing further policy reforms would require support and technical assistance from the World Bank, especially in the public financial management (PFM) area, which the project aimed to provide. The Public Sector Financial Management Reform Support

Project for Georgia (PSFMR) built on and directly supported the implementation of some of the key reform actions identified in the government's Strategic Vision for PFM Reform. It was designed as a technical assistance and investment grant with a focus on institution and capacity building. The project was appraised in December 2005, approved by the World Bank's Board of Executive Directors in February 2006, became effective in August 2006, and was closed in March 2012 after two restructurings and an extension of the closing date, which was originally set in March 2010.

1.4 The PFM reform agenda was incorporated into a coordinated donor program. The program included the World Bank's PRSO program, the European Neighborhood Policy Initiative, and the PSFMR project. Strengthening public sector accountability, efficiency, and transparency was the first pillar of the PRSO program, which directly linked it to the PSFMR project. Because of the World Bank's comprehensive engagement with the Georgian government and its capacity in the field, other donors relied on the World Bank for leadership in dialogue on public sector management issues and in facilitating collaboration between government and external partners around this reform agenda.

2. Objectives, Design, and Relevance

Objectives

2.1 The development objective of the PSFMR was to enhance governance, particularly in the PFM domain, by

i. Strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources; and,
ii. Improving accountability in the use of public resources.

Relevance of Objectives

2.2 Both project objectives were highly relevant. They were aligned with Georgia's Economic Development and Poverty Reduction Program, elaborated in 2004, which acknowledged the shortcomings in the country's public sector management as an impediment to coherent implementation of the government's reform program. The Economic Development and Poverty Reduction Program recognized the key role of a well-functioning public sector in sustaining the improvements made as a result of the 2003 Rose Revolution and addressing the challenges for growth and poverty reduction. It identified enhancing the efficiency and accountability of public institutions and creating a public service that meets modern demands as priorities in the medium term. Both project objectives were relevant in supporting the commitment of the new government, based on popular mandate, to address past governance failures, especially corruption and a low capacity to implement government programs. Without the strengthening of core PFM functions, the government would have struggled to achieve its growth and poverty reduction objectives and to make effective use of the budgetary support provided through the PRSO series.

2.3 The objectives of the project were highly relevant to achieving the third objective of the World Bank's 2006–09 CPS: improving efficiency in public services. That required building capacity for efficient, accountable, and trustworthy public institutions and processes. Specifically, the CPS reckoned that achieving this objective would call for the following: attention to corruption and governance issues; improved public budgeting and expenditure management; effective local governance and intergovernmental fiscal relations; transparent procurement and financial management; better civil service management; and stronger monitoring and evaluation (M&E) capacity. Both project objectives—strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources and improving accountability in the use of public resources—were highly relevant to the realization of these goals. The objectives remained relevant to the 2014–17 CPS, especially the first pillar: “Establishing the preconditions for growth in terms of a stable macroeconomic environment, effective public sector management, and fiscal efficiency and responsibility.”

2.4 The relevance of the objectives is rated **high**.

Design

2.5 The project, as approved, included four components:

i. **Support for the Medium-Term Expenditure Framework (MTEF) and Budget Management** ($2.27 million). This component consisted of (i) supporting a strategic medium-term budget planning cycle, and (ii) institutionalizing mechanisms that foster accountability in the allocation and use of public funds by engaging civil society and the parliament more effectively in the budget process.

ii. **Treasury Reform and Budget Execution** ($8 million). The intention was to develop a core PFM information system (PFMIS) for the Treasury Service and to set standards for line ministries regarding resource management planning and processes. This component had two subcomponents: (i) support to Treasury, with the focus on implementing international public sector accounting standards (IPSAS) and strengthening Treasury’s cash management, and (ii) support for budget execution, with the main focus on deploying the PFMIS.

iii. **Implementation of a Human Resources Management Information System (HRMIS)** ($2.14 million). The goal was to amass more-comprehensive data on the size, composition, and remuneration of the civil service and to thereby contribute to more-effective use of public resources, to civil service reform, and to the government’s anticorruption strategy.

iv. **Public Accountability and Oversight of PFM** ($1.92 million). This component was aimed at strengthening the operations, structure and auditing capacity of the Chamber of Control of Georgia (CCG).

2.6 In addition to the four main components, $0.67 million was allocated to support project management.

2.7 The project cost, as approved, was estimated at $15 million. A $3 million grant was provided by the International Development Association (IDA), with the balance contributed by other donors: $2.1 million by the Netherlands Ministry for Development Cooperation; $4.5 million by the Swedish International Cooperation Agency; and $4.5 million by the U.K. Department for International Development. The Georgian government was set to contribute $0.9 million, equivalent to 6 percent of the total project cost.

IMPLEMENTATION ARRANGEMENTS

2.8 The deputy minister of finance was assigned to be the component manager responsible for components 1 (MTEF support) and 2 (treasury reform and budget execution). The head of the Public Service Bureau was designated as the component manager responsible for component 3 (implementation of the HRMIS). The Ministry of Finance’s Informational Analytical Department was the technical coordinator of all information technology (IT) activities for components 1, 2, and 3. The deputy chairman of the CCG was assigned as the component manager responsible for component 4 (public accountability and oversight of PFM). A Project Management Committee, consisting of senior government officials from relevant units, was created to provide overall oversight and policy guidance for project implementation and ensure that the project remained linked to the government’s PFM Strategic Vision. The project implementation team was established as the secretariat of the Project Management Committee, to which it reported. The deputy minister of finance responsible for international aid and donor coordination coordinated the project implementation team. It consisted of all project component managers mentioned above, who regularly monitored implementation progress, including procurement and disbursements.

Relevance of Design

2.9 The components of the project were relevant for achieving the two project development objectives.

- The objective of strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources was properly anchored in the activities of the first component. These activities (further reviewed in section 4) were designed to facilitate the introduction of the MTEF to achieve more strategic planning of public expenditures within an affordable budget envelope over the medium term. The activities of the second component (supporting treasury reform and budget execution, by implementing IPSAS and strengthening the treasury’s cash management) were also relevant for achieving this objective. Developing an integrated PFMIS was equally relevant to ensure the transparent and efficient use of public resources with real-time information and tracking of treasury transactions.
- The objective of improving accountability in the use of public resources was also well covered by the components. The first component (support for the MTEF and budget management) included relevant activities to improve the format and information in the budget to foster accessibility by citizens and

scrutiny by the parliament. The third component (developing an HRMIS) was highly relevant for achieving this objective. The absence of comprehensive data on the size, composition, and remuneration of the civil service was considered a major impediment to transparency and proper cost accounting in the budget and in the MTEF, thus constraining the formulation of a feasible medium-term strategy for civil service reform. The fourth component (public accountability and oversight of PFM) was highly relevant, as it supported strengthening the State Audit Office (SAO; originally the CCG) to make it an independent government auditor delivering audit services aligned to international best practices. However, after the cancelation of the PFMIS subcomponent and the restructuring of the HRMIS component to cover only the needs of the Ministry of Finance, the relevance of the components for achieving the two project objectives diminished.

2.10 Despite the relevance of the components, the project design was unrealistic, as it overestimated the government's capacity to implement such a comprehensive reform program.

- First, at the design stage, the World Bank had recognized that institutional capacity was uneven across government agencies—a factor that could hinder implementation. The World Bank had also acknowledged the fragmented approach to civil service reform and the uncoordinated initiatives at the individual agency level, which could be counterproductive for the continuation of reforms. The project design was nonetheless complex, and that exacerbated capacity challenges, as the Implementation Completion and Results Report (ICR) recognized. Multiple project activities were designed to occur in parallel, which led to capacity bottlenecks that were not overcome. The deployment of IPSAS, an important activity of the second component, was postponed because of such bottlenecks and is now expected to occur by 2020. Similarly, the implementation of the fourth component was initially hindered by multiple changes in the leadership of the implementing agency (SAO). The involvement of multiple implementing agencies also blurred lines of accountability.
- Second, the project design did not properly consider Georgia's dynamically evolving agenda for public sector reform. That agenda warranted pragmatism and flexibility in the design of activities to support institutional development; instead a less flexible approach to PFM reform was adopted. As a result, the project suffered a setback when the government reorganized the Public Service Bureau, which was the intended beneficiary of the third project component (deployment of a comprehensive HRMIS). The reorganization suddenly made an important part of the project design irrelevant and forced the implementation team to scale back component 3 significantly, deploying the HRMIS only for the Ministry of Finance.

2.11 Another design shortcoming was the excessive emphasis on commercial off-the-shelf (COTS) IT solutions. This was a critical flaw because it neglected the need for flexibility in the future deployment of the systems. COTS purchases are alternatives to custom software or one-off developments funded by the government. COTS products may offer significant savings in procurement, development, and maintenance costs. In practice, however, these products must be configured and integrated into existing organizational systems to achieve the needs of the customer. Extending their functionalities via custom development is an option. However, this decision should be carefully considered because such customized functionality is often not supported by the COTS vendor, making upgrades costly.

2.12 Regarding the PFMIS, the government's main concern was that rapid changes in information and communication technologies and systems would make it difficult to identify the right solution up front. In Georgia, the PFMIS had to be built from a very low level of institutional capacity, and the country's future needs were hard to assess. In such circumstances, according to government officials consulted, opting for a COTS PFMIS may at first seem cost-effective. Over time, however, the system must be tailored to the country's evolving needs, and the cost of upgrading and customizing a COTS PFMIS would grow, with a possibly excessive burden on the budget. In view of the existing local IT capabilities, which the government deemed sufficient but which were not properly assessed at the design stage, an alternative would have been to develop a PFMIS in house. That would have allowed for more flexibility in making future upgrades and tailoring the system to the government's evolving needs. As further explained in sections 3 and 4 below, the government did eventually opt for in-house PFMIS (and HRMIS) development, which led to the cancellation of part of component 2 of the project. In comments on the ICR, the government flagged the lack of effective coordination on this issue between itself, the World Bank, and other donors, noting that several years were lost trying to identify implementation methodology. The government also stated, "At the very starting point we questioned the relevance of commercial software for our context, after the demonstration of proposed systems our skepticism even increased, but it took couple of years to convince the donors to change the methodology defined in the original project appraisal document. Should the MOF [Ministry of Finance] have started in-house development of PFMIS earlier, the project resources would have been used more efficiently."

2.13 An alternative design option could have been a two-stage technical assistance project. The first stage could have consisted of a much smaller effort focusing on the strategically most important areas of PFM reform, with substantial technical assistance for assessing in-house capacity for integrated PFMIS development. Depending on the outcomes of this first-stage activity, a second stage could have been designed, with funding either for purchasing a COTS PFMIS or for training and building further capacity for in-house PFMIS development. With hindsight, as further explained in section 4, Georgia's experience developing the PFMIS in-house after the project's closure suggests that option of in-house development from the outset would have been possible and could have led to better results.[1]

2.14 Despite the broad relevance of the project's components for the achievement of the development objectives, owing to the shortcomings of design noted above, the relevance of design is rated **modest**.

3. Implementation

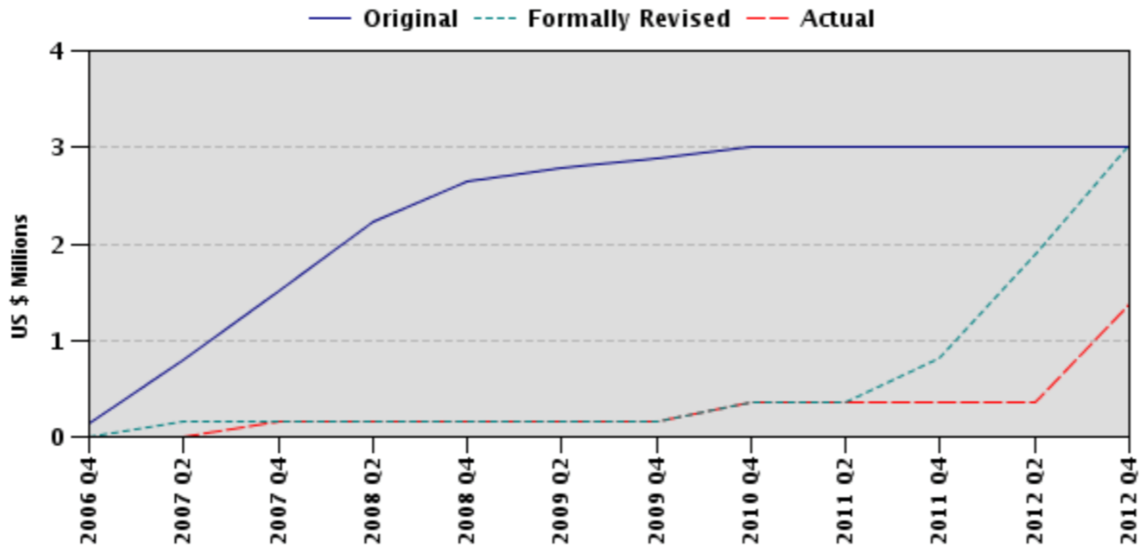
Planned versus Actual Expenditure

3.1 The World Bank's Board of Executive Directors approved the project in February 2006, and implementation was initially planned over a four-year period, until March 2010. The project underwent multiple changes, including reductions in scope and scale, extension of the closing date, and partial cancellation of the funding.

3.2 After the midterm review, in January 2009, the project closing date was extended for two years, to March 2012. The rationale for extension was to enable completion of the biggest project activity, the implementation of the PFMIS (component 2). Owing to the concerns already mentioned (see paragraph 2.12), the government subsequently decided to cancel the international competitive bidding process for the PFMIS and moved to develop the new information system with its own resources. It was agreed that part of the funds allocated for PFMIS development would be redirected to other needs—in particular, to equipment for the Finance Academy (which provided training to CCG staff) and the Procurement Agency. The scope of the third project component (implementation of the HRMIS) was also reduced and refocused on the internal HRMIS needs of the MOF, because the reorganization of the Public Service Bureau in 2006 made it impossible to develop a governmentwide HRMIS as initially planned. Because of these changes, the project work plan and budget estimates were revised and reduced from an initial $15 million to $11.78 million.

3.3 The disbursement of IDA funds was considerably delayed compared with the original and the revised disbursement profiles (figure 3.1). The reason a significant part of the funds was undisbursed until almost project closure is that several activities were financed by other donor contributions in the initial stages of implementation. In particular, the U.K. Department for International Development was eager to disburse committed funds early on because of the upcoming closing of its operations in Georgia. Given the sizeable balance in the treasury single account as of September 2011, and the major part of the IDA contribution still undisbursed, the Dutch government and the Swedish International Cooperation Agency decided to cancel their respective final disbursements of $0.73 million (out of $2.1 million total funding) and $1.3 million (out of $4.5 million total funding). In February 2012, $1.87 million of the IDA grant funds (out of $3 million total funding) was also canceled per the MOF's request, with the funds recommitted to other projects in the Georgia portfolio.

Figure 3.1. Project Disbursement of International Development Association Funds Profile



Source: Project Implementation Completion Report

Implementation Experience

3.4 **Project implementation challenges.** The implementation progress during the first two years was slow, and the project was classified as "at risk" during the midterm review. The implementation progress rating was downgraded to moderately satisfactory in November 2006, and further to moderately unsatisfactory in May 2009. The midterm review conducted in January 2009 noted unsatisfactory progress in project implementation; lack of effective management of the project's components; unsatisfactory project monitoring and reporting; and a shift of focus away from the PFM reform agenda. The latter must be put in context, as the review was conducted amid the double crisis (economic and political) of 2008–09 and the ensuing shift of policy focus to managing the consequences of the crisis. The project was restructured in February 2010 with an extension until March 2012. After the extension, the Annual Working Plan activities began to be monitored and evaluated more effectively, with most activities on track by July 2010. The rating for the project development objectives was downgraded to moderately satisfactory in June 2008 and to moderately unsatisfactory in May 2009 but upgraded to moderately satisfactory at project closure by the ICR.

3.5 There was substantial complementarity and continuity in the reform agendas supported by the PSFMR project, the 2005–08 PRSO series, and the 2009–11 development policy operation series prepared by the World Bank. The PRSO series supported reforms in program budgeting and the MTEF, as well as in budget transparency and in the CCG, that were directly linked to the technical assistance provided by the activities of the PSFMR project. The MTEF and strategic budgeting reforms were continued by the 2009–11 development policy operation series, which placed additional emphasis on program budgeting and management of the public investment program according to a multiyear plan. Technical assistance and capacity building provided by the project is acknowledged to have contributed to the reforms supported by these two series of World Bank policy-based operations.

MONITORING AND EVALUATION

Design

3.6 The six project development objectives indicators adopted after project approval, in replacement of the original ones that drew on the PRSO series indicators, were broadly aligned with the project development objectives, despite some weaknesses. Public Expenditure and Financial Accountability (PEFA) indicators were used to measure progress toward the first objective of "strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources." The PEFA indicators of "existence of costed sector strategies" (PI-12, iii) and "multiyear perspective in fiscal planning, expenditure policy, and budgeting" (PI-12) measured progress toward this objective through the deployment of the MTEF and the strategic management of public expenditures supported by the first component of the project. Both indicators were also linked to the activities in the first component of the project. The PEFA indicator on the quality and timeliness of annual financial statements (PI-25) was relevant for the achievement of the first objective but remotely related to the activities in the project components. The PEFA indicator on the development of a comprehensive personnel database for the MOF was an output indicator, which was used after the revision of component 3 for HRMIS development. The PEFA indicator on "the scope, nature, and follow-up of external audit" (PI-26) was appropriate for measuring progress toward the objective of improving accountability in the use of public resources under the activities of component 4. The PEFA indicator on "the publicity of key fiscal information" (PI-10), used in the results matrix, was also relevant for measuring progress toward this second project objective based on the activities of component 1 for improving citizens' access to budget information.

Implementation

3.7 Project monitoring was to take place through quarterly performance reports, prepared by component managers and submitted to the project implementation team. An annual progress report was also to be prepared within five months of end of the financial year. However, according to the ICR, the use of M&E was seriously compromised by protracted delays in completing periodic and annual reports during the period 2007–09. Delays in submitting the Annual Work Program began in 2007. Over the course of project implementation, the M&E framework improved, but it remained insufficiently strong and underused through project closure.

Use

3.8 Because of the sound design, the M&E framework allowed for comprehensive reporting of results in the ICR. However, the reporting delays led to the underuse of M&E findings during project implementation.

3.9 M&E is rated **modest.**

SAFEGUARDS COMPLIANCE

3.10 No safeguard policies were triggered.

FINANCIAL MANAGEMENT AND PROCUREMENT

3.11 The financial management (FM) arrangements, including accounting and financial reporting, funds flow, and external audit, were satisfactory and acceptable to the World Bank and were rated "satisfactory" through project completion. According to the ICR, the internal control procedures were also adequate. The level of government counterpart funding reached the agreed percentage (6 percent) of total project cost at project completion. All payments were made through the treasury single account and closely monitored by the World Bank. The quarterly unaudited financial reports were generally received on time and were acceptable to the World Bank, as were the audited project financial statements.

3.12 There were no major procurement issues during project implementation. However, according to the ICR, three issues arose regarding IT procurement: (i) Not all bid submissions were technically sound. For both large and small procurements subject to internationally competitive bidding, technical specifications were sometimes copied directly from specific manufacturers. (ii) Technical specifications were prepared by the purchaser with specific solutions, equipment, or vendors in mind, including requests for specific brands and direct contracting. (iii) Bid evaluation was not fully documented for technical compliance, requiring additional clarification.

4. Achievement of the Objectives

Objective 1

4.1 Objective 1 was strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources

4.2 The program's success in achieving objective 1 is assessed according to its efficacy on two fronts: (i) supporting budget reforms, through deployment of the MTEF and strategic budget planning; and (ii) supporting treasury reforms, through implementation of IPSAS, improved cash management, and implementation of the PFMIS.

SUPPORTING BUDGET REFORMS

Outputs

4.3 Georgia introduced a MTEF in 2005 with the objective of adopting a more strategic and multiyear approach to budget planning and management. To support the MTEF, the PSFMR project provided the following assistance:

- Helped integrate the MTEF into the budget planning process by developing an ex post annual review of the MTEF that would feed into the revision of the MTEF for the following year.
- Helped the MOF's Financial Policy Department upgrade its modeling and forecasting capabilities to provide a robust macroeconomic and fiscal framework for planning the MTEF and analyzing debt sustainability.
- Helped the MOF's Budget Department develop capacity for multiyear strategic budgeting and, in 2008, introduced an improved program classification, with the aim of eventually implementing results-based budgeting.
- Helped the MOF's Budget Department develop capacity and procedures for monitoring budget implementation to initiate appropriate adjustments during the annual implementation of the budget.
- Helped line ministries develop capacity for budget planning and management by developing guidelines for line ministries; strengthening links between the sector desks at the MOF and the budget departments of line ministries; introducing strategic budgeting in line ministries and an improved program classification; strengthening line ministry capacity for review of budget planning and management; and assisting in the reorganization of budget offices.
- Built capacity to introduce an internal public expenditure review process.

Outcomes

4.4 The MTEF is fully operational. It is based on four-year fiscal projections and expenditure plans and is subject to renewal every year. It includes medium-term expenditure plans for central government entities by administrative unit as well as by program. It also presents four-year plans for expenditure by economic classification at the aggregate level. The *Basic Data and Directions* (BDD) is a MOF document, prepared at the beginning of the MTEF process, that gives guidelines to help line ministries prepare their medium-term budgets. It also contains information about budget ceilings for spending units; priorities and programs of spending units, including financing means; and funding from development partners and other revenue allowed by legislation. According to Georgia's budget code, the BDD must be endorsed by the government before July 10 of every year. Following this endorsement, the spending units start preparing their budget proposals within the respective provisional thresholds set forth in the BDD. The MOF aggregates the programs prepared by the line ministries and spending units into the final BDD submitted to the parliament three months before the end of the fiscal year.

4.5 Capabilities for developing a macro/fiscal framework, underpinning the MTEF, have been strengthened. The budget documentation includes four-year forecasts for the main macroeconomic variables, their components, and underlying assumptions. Forecasts are also included in the BDD and updated, if necessary, in subsequent iterations of the BDD, which are presented alongside subsequent drafts of the budget. The forecast tables include outcomes for the three previous years, along with forecasts for the current year and three following years. However, according to the International Monetary Fund's

Fiscal Transparency Evaluation for Georgia (IMF 2017), although the BDD discloses the key assumptions underpinning the forecasts, the explanation accompanying them, including description of the main drivers and relationships, is limited.

4.6 Despite technical assistance provided under the project, Georgia's macroeconomic forecasts have been relatively inaccurate, whereas actual fiscal developments have deviated from the medium-term plans. The average absolute real GDP forecast error over 2005–15 has been 3.9 percentage points, partly reflecting high economic volatility (IMF 2017). The average real GDP forecast error adjusted for volatility over the same period has been 1 percent of GDP (IMF 2017). In recent years, real GDP forecasts have had an optimistic bias, in contrast to periods before the 2008–09 crises. Revenues were consistently and significantly underestimated prior to 2009. This resulted in larger than expected revenues and sizeable increases in spending above original budget plans. More recent revenue projections have been more realistic, and expenditure outturns have been more in line with medium-term plans. The revenue forecast error over 2005–15 has been estimated at 2.4 percentage points of GDP (IMF 2017). The budget balance has been slightly better than expected in recent years, with an average budget year forecast error of 0.6 percent of GDP for 2010–15 (IMF 2017).

4.7 Program budgeting was introduced as planned in 2009. As a first step, results-oriented budgets were piloted for at least one program, in three ministries: the Ministry of Education and Science; the Ministry of Labour, Health, and Social Affairs; and the Ministry of Justice. The number of pilot ministries was gradually increased. In 2011, five ministries were formulating program budgets. This process involved the submission to the parliament of results-oriented budgets with a new program or subprogram structure and measurable performance indicators, with reporting on actual performance as tracked against the indicators of the prior year.

4.8 The program budget structure has been applied in all central government spending units since 2012. Budget assignments are allocated to ministries and other spending agencies according to their programs and subprograms, and descriptions of the programs and subprograms are defined under appropriate government priorities. The preparation of local budgets in accordance with the program budget structure began in 2013. The share of public expenditures covered by program budgets increased over time, with improved performance indicators and reporting on actual performance. A reform of internal management and control in line ministries and spending units has followed the introduction of program budgeting.

4.9 There has been progress in setting measurable performance indicators for several programs, but there is still room for improvement. According to the SAO, baselines for the performance indicators are often missing, and 59 percent of the programs and subprograms need additional indicators for a complete assessment of the outputs and the outcomes attained (Georgia, SAO 2017). Moreover, the SAO found that about 11 percent of indicators are irrelevant or do not measure performance, and 41 percent of the programs and subprograms do not have an aim specified. According to the Open Budget Survey 2015, the presentation of verifiable (quantitative) output and outcome indicators in the program budget appendix could be enhanced. These could help measure deliverables in the subprograms and their impact over the MTEF period. Improving the definition and setting the value of performance indicators has been work in progress, as in many other countries that have implemented results-based budgeting. There has been, however, clear government ownership of the reforms since their introduction in 2005, as evidenced by the progress achieved so far and confirmed through discussion with key stakeholders (the SAO, the parliament, and selected ministries) during the PPAR mission.

4.10 Overall, although the budget documentation includes information about the main programs and subprograms as well as output-based indicators, according to information collected by the PPAR mission and information in the International Monetary Fund's Fiscal Transparency Evaluation (IMF 2017), the influence of the reforms on decision making has so far been limited since they are yet to be fully implemented. Budget allocations by program are approved by the parliament for the current fiscal year. There is a detailed parliamentary discussion for each program and subprogram of the spending units, which have the responsibility of presenting them to the parliament. The program allocations in the MTEF for the outer years, and the performance indicators associated with the programs, are presented for information only in the budget annex.[2] They are not approved by the parliament. The SAO has been advocating the inclusion of performance indicators in the annual budget law approved by the parliament. According to MOF officials, although full performance accountability is desirable, at the current stage of the reform process there is a well-known risk that requiring approval of performance indicators in the annual budget law could create incentives for line ministries to make the performance indicators less ambitious.

4.11 Progress toward the outcome targets related to the MTEF and budget management component, under the first objective, was uneven during the life of the project but has been sustained in more recent years (see appendix B). Three targets, as revised in November 2006, after project approval, were related to this component.

- Expenditure priorities should be fully reflected in the budget, and the MTEF should be increasingly based on fully costed, results-based sector strategies consistent with fiscal forecasts. Although progress was achieved during the life of the project, the relevant PEFA rating on the existence of costed sector strategies (PI-12, iii) remained stable at C in the 2008 and 2012 assessments, as recurrent and investment expenditures were not fully costed at project closure. In subsequent years, all ministries prepared medium-term action plans, which included cost estimates and complied with the annual budget law and the BDD. The 2017 PEFA assessment, currently under validation by the World Bank and the other development partners, is expected to upgrade the rating (PI-16, iii).[3]
- Ministry ceilings contained in budget guidelines should be consistent with multiyear function and sector estimates approved in the BDD. Differences between actual estimates and those in the approved BDD should be explained in the annual budget presentation. This was achieved by project closure, as the BDD contained budget ceilings for spending units and outlined the priorities and programs of spending units for the year being planned and the three following years, envisaging budgetary allocations as well as funding from donors and other revenues allowed by the legislation. Reflecting this, the

PEFA rating in the results matrix on multiyear perspective in fiscal planning, expenditure policy, and budgeting (PI-12) improved from C+ in 2008 to B+ in 2012. In the 2017 PEFA assessment, currently under validation, this rating (PI-16) is expected to remain stable.

- Consolidated government financial statements should be published annually, after the receipt of fiscal reports from all major public entities. By project closure, the financial statements were prepared annually. According to the 2012 PEFA assessment, the 2011 consolidated financial statement, as produced by the Treasury Service, included information about revenues, expenditures, and financial assets and liabilities of the budgetary organizations. Although these data were not comprehensive, the omissions were assessed as insignificant. The consolidated financial statement was based on the financial reports submitted by all spending units to the Treasury Service. The relevant PEFA rating in the results matrix on the quality and timeliness of annual financial statements (PI-25) improved from D+ in 2008 to C+ in 2012. The 2017 PEFA assessment, currently under validation, is expected to further upgrade this rating (PI-29).

SUPPORTING TREASURY REFORMS

4.12 The project aimed to support the government's efforts to record, aggregate, and report all financial transactions. The objectives were to support the treasury in (i) leading accounting reforms; (ii) improving cash management; and (iii) developing an integrated PFMIS to support these objectives. In parallel, the project supported improvements in accounting, cash management, and procurement in line ministries.

Outputs

4.13 To support the implementation of accounting standards and cash management, the PSFMR project provided the following assistance:

- Training and professional support to facilitate the implementation of the accounting strategy and the adoption of international accounting standards.
- Capacity building to strengthen treasury rules and procedures for cash management, through the establishment of a facility that could be used for drawing on international consultant support.
- Assistance to line ministries for the deployment of accounting standards and cash management.
- Assistance to the treasury in implementing PFMIS modules constituting the Core Treasury System,[4] including preparation of functional requirements, preparation of technical specifications, and building necessary IT capacity within the treasury.

4.14 To support budget execution, the PSFMR project provided the following assistance:

- Assistance for the treasury's implementation of additional PFMIS modules[5] (except HRMIS, which is discussed separately below), including preparation of functional requirements and technical specifications (with support from international consultants) and building necessary IT capacity within the treasury. The subcomponent would support the development of web-based application software, combining COTS software with modules developed locally using existing IT capacity.
- Assistance in further developing and strengthening information exchange between the State Procurement Agency and the MOF.

Outcomes

Accounting Reforms

4.15 The implementation of IPSAS began in 2009 with support from the project. The aim is to fully introduce IPSAS, based on the accrual method, by 2020, to ensure the transparency and credibility of state finances. At project closure, IPSAS requirements, though taken into consideration, were not yet complied with. The time frame for the alignment of the national accounting standards with IPSAS was revised because the original plan established at project inception was overoptimistic. The main reason, according to government officials consulted, was the lack of qualified accountants and the limited internal capacity, especially of line ministries. With support from the project, the MOF provided all central government spending units with training on implementing IPSAS. Financial statements were prepared by the spending units (the state as well as the autonomous republics and the municipalities),[6] following the instruction of the MOF, which was based mainly on the International Monetary Fund's 2001 Government Financial Statistics Manual methodology and the budget classification of Georgia. This instruction defined the rules and principles for registering financial assets, nonfinancial assets and liabilities, capital, revenues, and expenditures, using both the accrual and the cash (modified cash-basis) methods.

4.16 Since 2008, the state budget units have been following the 2001 Government Financial Statistics Manual methodology both for budget classification and for financial accounting and reporting. Municipalities have been following the manual since 2009. A temporary regulation on financial reporting, aligned with modified cash-based IPSAS, was piloted in 2011 with consolidated cash statements and reports prepared for the pilot entities. The regulation was rolled out to all central budget units starting in January 2012. Despite these efforts, the rating of the relevant PEFA indicator for accounting standards used (PI-25, iii) was downgraded to C in 2012, from B in 2008 (World Bank 2013). This indicator was not, however, included in the results framework.

4.17 Since project closure, significant progress has been achieved in reforming accounting practices in the public sector. The budget-funded organizations are now guided by the instruction in the Accounting and Financial Statements of Budgetary Organizations approved by the minister of finance on December 31, 2014 (Order 429), which defines the rules and principles for recording financial assets, nonfinancial assets, liabilities, capital, revenue, and expenses. So far, 22 IPSAS standards have been implemented, and implementation of all 40 standards is expected to be completed by

2020. In parallel with this, the electronic accounting system based on the accrual method is under development. To ensure full and comprehensive information on public finances, by 2010, IPSAS are planned to be gradually adopted by municipalities by 2020, and the central government plans to publish a unified, audited consolidated financial statement. The 2017 PEFA assessment, currently under validation, is expected to upgrade the rating of the relevant indicator (PI-29-iii, according to the new classification).

Cash Management

4.18 Progress was made in consolidating government cash balances and strengthening cash management procedures. By project closure, all cash resources were deposited in the treasury single account. According to the cash management regulations, the Treasury Service is responsible for preparing monthly cash flow, monitoring cash balances on a daily basis, and preparing monthly reports of budget execution ex ante and ex post. The rating of the relevant PEFA indicator for the extent of consolidation of the government’s cash balances (PI-17, ii) was stable at A in 2008 and in 2012 (World Bank 2013a). This indicator was not included in the results framework of the project.

4.19 Progress on cash management has been sustained since project closure. In addition to the budget revenues, the temporary deposits of the budgetary organizations are also transferred to the treasury single account, and the Treasury Service also has another single account for foreign currency transactions. Consolidated information on cash balances in the account can be obtained in real time. The Treasury Service forecasts and manages cash flows through the Department of Cash Forecasting and Management, established in 2015. The department is responsible for forecasting cash flows on treasury accounts; analyzing the financial market; selecting and monitoring the financial instruments for management of free cash, to generate additional budget revenues; and collecting, processing and analyzing the historical data on cash balances, revenues and expenditures. The cash flow forecast that is prepared for the fiscal year is updated monthly. Monthly financial planning of funds to be transferred to units served by the treasury is carried out based on historical data, forecasts of revenues, and forecasts of expenditures, including information on contract payment schedules, periodic payments, and exceptional expected payments. Further to a decree (Decree 301) issued in June 2017, the treasury has launched liquidity auctions for its free cash balances, with a view to maximizing revenue for the budget.[7] The 2017 PEFA assessment, currently under validation, is expected to maintain the A ratings for the relevant cash management indicators (PI-21, i and ii, according to the new classification).

Development of an Integrated PFMIS System

4.20 With regard to budget execution, in 2010, the treasury decided to develop the PFMIS in house. The international competitive bidding for the procurement of the PFMIS was therefore canceled. As already noted (see discussion of relevance of design above), the main concern that led to the government’s decision was that the PFMIS had to be built from a very low level, and, because the country’s future needs were difficult to assess, the cost of customizing an off-the-shelf system and upgrading it periodically could potentially become excessive. The government deemed existing local IT capabilities to be sufficient, and eventually it decided that in-house development of the

PFMIS would allow for more flexibility in future upgrades and tailoring of the system to meet evolving needs. The government's concern with the original approach to PFMIS deployment was not effectively managed, preventing the achievement of that project objective. When the program was extended, in 2010, the World Bank proposed an independent assessment of IT capacity for PFMIS development. The assessment noted that "a system with the level of integration and engineering quality required from PFMIS is unlikely to result from piecemeal building of its parts without guiding data, process and technology architectures." The government did not accept the recommendations made.

4.21 The PFMIS was deployed gradually, relying on internal capacity and resources after the project's closure. In April 2010, the Financial Analytical Service (FAS) of the MOF was established as an IT agency responsible for developing e-government and information and communication technology systems with secure and reliable operations. A key mission of the FAS was the development and support of an integrated PFMIS and ensuring its reliable and secure functioning. The FAS deployed several services that are available online, including the following:

- e-Budget (electronic state budget management system)
- e-Treasury (state treasury electronic service system)
- e-DMS (electronic debt management system)
- e-HRMS (electronic human resource management system)

4.22 The PFMIS deployed by FAS covers key areas of PFM. E-Budget covers the full cycle of budget preparation by the budget spending units. E-Treasury covers the expenditure management process according to budget allocations for each government spending unit. E-DMS covers foreign and domestic debt accounting, management, and reporting. E-HRMS is about to be completed. It will provide, on completion, full functionality of personnel management, including the payroll module. In addition to these key systems, several products have been designed: an electronic auction system for state property (e-Auction); a document flow and task management system (e-Document); and an assistance management information system (e-AIMS). The PFMIS is expected to expand to include Customs and the Georgia Revenue Service. The FAS electronic products are deployed in about 891 budget organizations. The in-house deployment of the PFMIS by the FAS is an example of a successful government endeavor. Nevertheless, an exit strategy could be envisaged, consistent with enhancing the development of the local IT market through the provision of government-related IT services. This is currently happening only indirectly to the extent that FAS-trained staff move to local IT companies, enhancing skills on the market. Formal M&E of the internally developed systems (especially in e-Budget) is also still missing.

4.23 There was progress toward achieving the objectives related to the implementation of the MTEF, but IPSAS had not been implemented by closure (the relevant PEFA indicator was downgraded), and there was little tangible advance of strengthened cash management. Progress in the implementation of IPSAS and in cash management was achieved subsequently. The cancelation of the PFMIS component compromised an important objective of the project. Overall, the efficacy of the project in contributing to achievement of the first development objective is rated **modest.**

Objective 2

4.24 Objective 2 was improving accountability in the use of public resources

4.25 To achieve objective 2, the project supported (i) improved transparency in the budget process, including for intergovernmental transfers; (ii) deployment of the HRMIS; and (iii) strengthening of the SAO

IMPROVING TRANSPARENCY IN THE BUDGET

Outputs

4.26 To improve transparency in the budget, the project undertook efforts to (i) improve procedures for financing territorial budgets, and (ii) enhance the format and content of budget-related documentation and information and facilitate more-informed discussion of budgetary issues by parliamentary committees.

Outcomes

4.27 Despite the provision of technical assistance to help develop criteria for intergovernmental transfers, significant challenges remain. Subnational expenditures represent about 18 percent of consolidated government expenditures, placing Georgia in the middle range of countries in Europe and Central Asia. Public services delivered by subnational governments in Georgia include communal affairs, kindergarten schools, and selected health services. Intergovernmental fiscal transfers have accounted for nearly 70 percent of the total revenues of subnational governments. Since 2008, the only locally "owned" sources of subnational revenues have been property taxes and nontax revenues such as rents, fines and penalties, revenue from the sale of goods and services, and other local government collections. For the rest, the local authorities must rely on transfers from the central government, which may be of three types: equalization transfers, which are not earmarked and help close the gap between the expenditure needs and the revenues of local governments; earmarked transfers to finance implementation of responsibilities delegated to subnational governments; and special transfers mostly targeted toward investments in infrastructure or compensation for damages caused by natural disasters. Equalization and purpose transfers are rule-based. The special transfers are not distributed according to strict rules. The share of rule-based transfers had increased gradually to 53 percent in 2011, from 37 percent in 2009.

4.28 Intergovernmental fiscal transfers are transparent, but the formula for calculating equalization grants is complicated, and there are disincentives for subnational governments to improve their spending efficiency**.** According to the formula for equalization transfers, the volume of transfers for every municipality depends on the difference between the potential revenues and the expenditures to be paid. Expenditure needs are estimated by an index computed for each locality. However, the methodology for calculating expenditure needs is rather cumbersome and could be made more transparent (World Bank 2014). In addition, because the central government provides special-purpose grants, which are used mostly for capital expenditures, there are few incentives for local governments to reduce expenditures, as this would result in lower transfers from the central government. The rating of the relevant PEFA indicator for intergovernmental fiscal relations (PI-8) was upgraded to A in 2012, from B in 2008 (World Bank 2013). This indicator was not included in the results framework of the project.

4.29 With support from the PSFMR project, steps were taken to provide more-accessible information about the budget to citizens. Fiscal information is accessible on a number of websites maintained by the relevant government bodies: the MOF, the SAO of Georgia, the Competition and State Procurement Agency, and the parliament. The National Bank of Georgia publishes comprehensive fiscal information, including monthly updated statistics on public external debt, net claims on central and local governments, and treasury securities. Several line ministries and central government bodies also publish their annual budgets on the respective websites. In addition, with support from the project, the MOF produced citizens' guides to the 2009, 2010, and 2011 state budgets, including updated data on the country's financial and economic indicators. Hard copies were disseminated to the key stakeholders, and digital versions were published on the ministry's website. Also, the summary version of the government's *BDD* document for 2009–12 was made available both in hard copy and electronically. The relevant PEFA rating in the results matrix, on the dissemination of key fiscal information (PI-10), improved to A in 2012 from B in 2008, thus confirming the progress toward achieving this project outcome (World Bank 2013; see also appendix B). The 2017 PEFA assessment, currently under validation, is expected to maintain an A rating for this indicator (PI-9 according to the new classification).

4.30 Since project closure, the government has increased the public availability of budget information by publishing a citizens' guide to the state budget, in-year reports, and a year-end budget report. Georgia's budget transparency score in the Open Budget Survey 2015 (66 out of 100) is significantly above the global and regional average and has improved since 2012 (IBP 2015). Georgia ranks 16th out of 102 countries, up from 33rd in 2012. The citizens' guide to the state budget has been further developed and includes a description of the budget system as well as a summary of the main budget aggregates and main economic indicators the budget is based on. However, although the guide includes a wealth of information about the budget and the measures the budget includes, it does not present detailed information on the implications of the budget for the lives of typical citizens (IMF 2017).

4.31 The project contributed, through technical assistance and improvements in the format presentation of the budget, to facilitating budget scrutiny by parliamentary committees. The draft of the Law on State Budget is submitted by the government to the parliament for review along with the BDD document. The package becomes publicly available immediately on its submission to the parliament.[8] The detailed discussion of the key medium-term development directions of the country, macroeconomic forecasts, fiscal indicators, budget revenue projections and expenditure priorities occurs in the respective sectoral committees, and their conclusions are sent to the Finance and Budget Committee, which sends the consolidated conclusion to the government. The conclusions must be taken in account by the government when finalizing the medium-term action plans of the ministries and, subsequently, the BDD document. The Finance and Budget Committee relies on its Budget Office to provide analysis of the annual budget package throughout the legislative discussions. Parliamentary approval is required for any changes in budget expenditure or revenues, as well as for reallocations among the spending units. Retroactive approvals are not allowed. Procedures for reviewing the draft amendments are similar to those for reviewing the initial draft law, but the review period is shorter. The law finalizing in-year amendments to the state budget law is made publicly available on approval. Reallocations between the spending units' budget classification and codes are allowed with the consent of the MOF but shall not exceed 5 percent. The relevant PEFA rating on legislative scrutiny of the annual budget law (PI-27) was upgraded from B+ in 2008 to A in 2012, thus confirming the progress toward achieving this project outcome (PEFA 2013), although this indicator was not included in the results framework of the project. The 2017 PEFA assessment, currently under validation, is expected to maintain an A rating for this indicator (PI-18 according to the new classification).

4.32 However, in both law and practice, the legislature is not consulted prior to spending contingency funds that were not identified in the enacted budget. Furthermore, although a citizens' guide to the budget has recently started being produced (as noted above), the Open Budget Survey 2015 gives Georgia's a public participation score of 46 out of 100, indicating that the public has limited opportunities to engage in budget processes (IBP 2015).

DEPLOYMENT OF THE HRMIS

4.33 The project supported (i) establishing a mechanism to collect, process, and update comprehensive information on the size and composition of the civil service; (ii) establishing an automated payroll for the civil service and ensuring that the wage bill is properly reflected in the budget and the MTEF; and (iii) making decisions about civil service reform with improved management of personnel performance.

Outputs

4.34 Technical assistance and capacity building were provided in the following areas:

- Assistance to the Public Service Bureau, with the use of international consultants, for the preparation of the HRMIS component of the PFMIS, based on a comprehensive and accurate database of all staff employed by the government.
- In parallel to the development of the HRMIS, assistance for the development of another module for payroll calculations.
- Assistance for improved access to accurate and timely information about workforce size and the cost of personnel in each budget unit.
- Assistance for improving remuneration management by simplifying the payroll calculation through the harmonization of the remuneration methods and pay scales in the civil service.

Outcomes

4.35 The reorganization of the Public Service Bureau in 2006 made it impossible to develop a governmentwide HRMIS as initially planned. The MOF opted for an interim solution to cover its needs while the PFMIS was being developed: it decided to create its own HRMIS, including a payroll calculation module. The ministry's system was not comprehensive; thus, the original project objective was not achieved. However, the revised objective of making measurable improvement in the MOF's human resources management functions (according to indicator 4 of the results framework; see appendix B) was achieved.

4.36 After project closure, the HRMIS module of the integrated PFMIS developed in-house by the MOF addressed the need for centralized management of the government's payroll. The HRMIS, introduced in January 2012, comprises payroll, personnel management, benefits administration, and manpower analysis modules. The personnel management module allows each budgetary unit to maintain and manage its own personnel database and records, covering the number of positions, the names of appointed staff, and information about each individual (appointment and separation dates, ID number, residency, salary, amounts payable, and bank data). The staffing lists are reconciled monthly with the payroll module under the e-Treasury system. The Treasury Service, with monthly salary payments made directly to employees' bank accounts, operates the payroll centrally. The payments are made in response to payment requests submitted by each budget unit. The validation mechanism built into the payroll module will automatically block the payment for a person not included in the personnel database under the e-Treasury system, which is connected to the database of the Civil Register. This allows for automatic generation of employees' personal information and strengthens the internal control system. The rating of the relevant PEFA indicator for the degree of integration and reconciliation between personnel records and payroll data (PI-18, i) was A in 2012 (World Bank 2013).

PUBLIC ACCOUNTABILITY AND OVERSIGHT OF PUBLIC FINANCIAL MANAGEMENT

4.37 The project aimed to facilitate strengthening of the operations and structure of the Chamber of Control of Georgia—subsequently rebranded as the SAO— and the development and implementation of a training program on external audit. The activities drew on the five-year corporate development and reorganization implementation plan prepared by the Chamber of Control, endorsed by the parliament.

Outputs

4.38 Technical assistance and capacity building were provided in the following areas:

- Support to the chairman of the State Audit Office and his deputies to advance the SAO's reorganization and restructuring, to ensure that the new institutional set-up reflects the desired new service delivery culture and that the support structures in the SAO are responsive to the organization's needs.

- Development of appropriate secondary legislation to support the changes to the legal framework governing the activities of the SAO, with the aim of clarifying its powers and scope of action.
- Advice on the SAO's human resources policies, procedures, and management, along with development support (advice on training policies, procedures and management; provision of training materials; delivery of training) to help SAO staff effectively fulfill their roles.
- Creation of audit manuals, staff manuals, quality control procedures, and a technical library to help establish professional working practices in the SAO.
- Strengthening of the SAO's information and communication policies, procedures, and management; interaction with the parliament; and strategic alliances with civil society.

Outcomes

4.39 With support from the project, the Chamber of Control was transformed into the SAO, and its capacity to implement an audit methodology consistent with international best practice was enhanced. The SAO is independent financially, functionally, and organizationally, per article 97 (2) of Georgia's constitution. The SAO independently plans audit activities and determines the terms of audit. The general auditor is appointed by the parliament for a five-year term. The general auditor may be dismissed only after impeachment by the parliament, in accordance with article 64 of the constitution. In 2010, with support from the project, the SAO adopted and implemented auditing standards and an audit methodology that approximate the International Standards of Supreme Audit Institutions and that are both risk- and systems-based. In 2011 the SAO developed and approved a performance audit manual based on international standards of public audit.

4.40 Throughout the year, the Supreme Audit Office submits several audit reports to the parliament, with adequate follow-up from parliamentary committees. The following reports are submitted: (i) the opinion on the state budget execution report; (ii) the opinion on the draft budget; and (iii) the annual activity report. The SAO's audit activities cover all government entities, including local and autonomous government agencies and public enterprises where the state's participation exceeds 50 percent. By project closure, SAO reporting was deemed timely. According to Georgia's budget code, the government has to submit the annual report on state budget performance to the SAO within three months from the end of the budget year. Once the SAO has received the report, it must submit its own report to the parliament within 45 days. These deadlines have been met so far. The SAO reports are regularly reviewed by the parliamentary working group on State Audit Service reports and, if necessary, by the Finance and Budget Committee, which issues recommendations and monitors their implementation. The committee meetings, during which the audit reports are reviewed, are attended by SAO representatives and representatives of the audited institutions, whereas the committee session is open and is transmitted on the parliamentary website. The 2017 PEFA assessment, currently under validation, is expected to upgrade the rating of the PEFA indicator for the review of audit reports at the legislative level (PI-31 according to the new classification) to A, from D+ in 2012. This indicator was not included in the results framework of the project.

4.41 Results indicators suggest progress in achieving the project objectives. According to the Open Budget Survey 2015, the SAO provides adequate budget oversight. The relevant PEFA rating in the results matrix, on the scope, nature, and follow-up of external audit (PI-26), was upgraded from D+ in 2008 to B+ in 2012, thus confirming progress toward achieving this project outcome (World Bank 2013; see also appendix B). The 2017 PEFA assessment, currently under validation, is expected to maintain the B+ rating for the indicator (PI-30 according to the new classification) or possibly further upgrade it to A. Nonetheless, the International Monetary Fund's Fiscal Transparency Evaluation reports that although the SAO publishes an assessment of the annual budget execution report, with comments on the reliability of some of its financial data, the SAO does not provide an overall conclusion that the report is a true and fair reflection, in all material respects, of the cash flows according to specified accounting standards, subject to stated qualifications (IMF 2017).

4.42 By closure, project activities had contributed to improving the public accessibility of budgetary information, parliamentary scrutiny of the budget, intergovernmental fiscal relationships, and the robustness of external audit, as indicated by the progress in relevant PEFA indicators. The revised objective of deploying the HRMIS for the MOF was achieved, even though the initial more ambitious goal of an integrated HRMIS for the civil service was not. Overall, the project's contribution to the second development objective is rated **substantial.**

5. Efficiency

5.1 Because this project aimed to promote institutional development, standard cost-benefit analysis and computations of economic and financial rates of return were not performed. However, the "value for money" associated with the project was affected by inefficiencies related to delays in project implementation. There were three main areas of inefficiency. The first, and most important, concerned the attempted investment in an off-the-shelf IT solution for the PFMIS, while the assessment of in-house capacity to develop the system was postponed. The two-year extension of the project to enable implementation of the PFMIS proved inefficient, as the government finally opted for in-house development of the system. The extension led to time-consuming and eventually fruitless international competitive bidding, which eventually resulted in the cancellation of the bulk of project funding destined for investment. Second, the functionalities of the HRMIS covered only the needs of the MOF instead of covering all government units as initially expected. Third, there were delays in the development of IPSAS, which was postponed as the administrative capacity for IPSAS implementation was initially overestimated.

5.2 These shortcomings outweighed the project's contributions to greater efficiency, consisting mainly of decreased transaction costs thanks to pooling of donor resources and improvements in treasury cash management, albeit after project closure. Efficiency is rated **modest.**

6. Ratings

Outcome

6.1 The relevance of the project objectives is rated **high,** as both objectives were well aligned with Georgia's Economic Development Poverty Reduction Program and with the World Bank Group's country strategy documents. Relevance of the program design is rated **modest,** reflecting the overestimation of government capacity to implement such a comprehensive reform program. Another design shortcoming that hindered the project's success was the excessive emphasis on commercial, off-the-shelf PFMIS solutions, coupled with inadequate assessment of the government's ability to develop the system in house.

6.2 The efficacy of the objective of "strengthening the institutional capacity of key agencies to more effectively and efficiently use public resources" is rated **modest.** Although there was some progress in implementing the MTEF, there was little advancement in implementing IPSAS. The efficacy of the second objective of "improving accountability in the use of public resources" is rated **substantial.** The project enhanced citizens' access to budgetary information and strengthened parliamentary scrutiny of the budget, intergovernmental fiscal relationships, and the robustness of external audit. Efficiency is rated **modest,** reflecting the considerable delays in project implementation, especially those associated with the attempted investment in an off-the-shelf IT solution for the PFMIS.

6.3 Overall, there are significant shortcomings, leading to an outcome rating of **moderately unsatisfactory.**

Risk to Development Outcome

6.4 The decision by the MOF to develop the PFMIS in-house is considered a risk to development outcome in the ICR. Although the initial results of in-house development were promising, the recommendations of the independent assessment that preceded the ministry's decision to cancel the competitive bidding tender were not fully implemented. However, the in-house deployment of the PFMIS by the ministry's Financial Analytic Service now appears to be an example of a successful government endeavor. The system covers key areas of PFM with adequate functionalities customized to the government's needs. Moreover, the HRMIS module of the integrated PFMIS developed in-house by the MOF addressed the need for centralized management of the government's payroll. An exit strategy from in-house management of the PFMIS may need to be designed in the future; the government could increasingly rely on service providers from the local IT market, to reap full benefits from competition in the IT market. Formal M&E of the internally developed systems (especially in e-Budget) would also need to be developed.

6.5 In the other areas of PFM reform covered by the project, the government has demonstrated its commitment to moving the agenda forward. This has been the case especially in the deployment of the MTEF, which has been followed by ambitious steps in program budgeting; more recent progress in the introduction of IPSAS and cash management; and good ratings in budget transparency and scrutiny of the budget—

including by the parliament and by the SAO. The sustainability of the reforms since project closure has been attested by the overall improvement in PEFA ratings according to the PEFA 2017 currently under validation.

6.6 Based on the above considerations, the risk to development outcome is rated **low.**

Bank Performance

QUALITY AT ENTRY

6.7 Bank performance in ensuring quality at entry had two major shortcomings. First, the capacity constraint, flagged by the Project Concept Note and Quality at Entry Review meetings, was not fully addressed in the final design and became an issue in the initial phase of project implementation. The complex and ambitious design did not match the existing capacity in Georgia and was one of the reasons for unsatisfactory progress during the first years of implementation. Second, the World Bank could have been more innovative at the design stage, placing less emphasis on commercial out-of-the-shelf IT solutions for the PFMIS and exploring more options for assessing and improving in-house capacities for system development.

6.8 Quality at entry is rated **moderately unsatisfactory.**

QUALITY OF SUPERVISION

6.9 Supervision missions and the midterm review raised implementation issues with the authorities, but a greater degree of candor in supervision reports would have been helpful. In particular, the implementation progress rating could have been downgraded much earlier to indicate that performance was well below expectations. More proactive consultations in the early years of implementation might have uncovered sooner the MOF's concerns about the PFMIS and addressed them earlier, before carrying out a time-consuming and ultimately fruitless process of international competitive bidding. The external assessment of counterpart IT capacity was a useful suggestion from the World Bank, but it came too late in the project cycle, and its value for the government was limited in view of the successful in-house development of the PFMIS.

6.10 The quality of World Bank supervision is rated **moderately unsatisfactory.**

6.11 Together, the ratings for quality at entry and quality of supervision lead to an overall rating of Bank performance as **moderately unsatisfactory.**

Borrower Performance

GOVERNMENT PERFORMANCE

6.12 The government's Strategic Vision for PFM Reform adopted in 2005 and updated in 2009 was a credible, overarching framework to guide reforms. However, the unexpected burdens of the military conflict with Russia and the regional financial crisis made financial management reform a lower priority and contributed to the delays in project implementation. The government remained focused on PFM reform after project closure and broadened the reform agenda, and the deployment of the PFMIS was successful.

6.13 Government performance is rated **satisfactory.**

IMPLEMENTING AGENCY PERFORMANCE

6.14 There were protracted delays during the first years of implementation and a lack of when action when World Bank supervision missions observed delays in project implementation. Implementing agency performance improved after the midterm review and the extension, and the implementing agencies were able to provide an annual work plan and M&E updates on a more regular basis. However, M&E remained insufficient and continued to be underused.

6.15 Implementing agency performance is rated **moderately unsatisfactory.**

6.16 Overall borrower performance is rated **moderately satisfactory.**

7. Lessons

7.1 Creating a decision-making environment with continuous results monitoring and course correction based on experience would be a more promising approach to complex reforms. Such course correction may be needed due to changes in government priorities, as well as actual results that may be unexpected. This was demonstrated by the project's failure to assess the government's capacity for in-house PFMIS development and the possibility to change course to achieve this subobjective. Institutional development project designs should be adaptable enough to allow for constructive changes while ensuring that the revised targets are as significant and meaningful as the original ones.

7.2 The costs of building and upgrading a PFMIS when a country's needs are evolving should be carefully assessed. When a PFMIS has to be built from a very low level of institutional capacity and the country's future needs are difficult to project, the cost of upgrading and customizing an off-the-shelf PFMIS may grow, possibly placing an excessive burden on the budget. If the local capabilities are adequate, as in the case of Georgia, an alternative would be in-house development of the PFMIS, which may allow for more flexibility in future upgrades and tailoring of the system to the government's evolving needs. Assessing local IT capabilities and, if needed, providing training, are prerequisites for choosing the right option.

7.3 An alternative design option for technical assistance projects related to PFM modernization would be a two-stage approach. The first stage could consist of a much smaller effort, focusing on the strategically most important areas of PFM reform, with substantial technical assistance for assessing in-house capacity for integrated PFMIS development. In the case of the PSFMR project, such a two-stage design might have prevented the unsuccessful international competitive bidding for the PFMIS, strengthening instead the in-house capacity for system development through targeted training. Depending on the outcomes of the first stage, the second stage of the project could involve either the purchase and implementation of an off-the-shelf PFMIS or the provision of training and further capacity building for in-house PFMIS development.

7.4 Project implementation may be hindered by uneven institutional capacity across government agencies. When such is case, the involvement of multiple implementing agencies may cause lines of accountability to become unclear, and uncoordinated initiatives at individual agency level may become counterproductive and impede reforms. That was the implementation experience with this project. Simplicity in project design and activity coordination is in these cases an important requirement for project success.

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[1] Lessons from other World Bank projects supporting public financial management information system reform are summarized in Hashim and Piatti-Fünfkirchen (2018).

[2] A program budget appendix is attached to the budget draft law, which includes expected results of the budget programs and subprograms, performance measurement indicators, and medium-term funding for the programs and subprograms. Performance indicators are defined for the programs, subprograms, and activities of each spending unit. The budget appendix also includes the state budget execution results achievement report with outcomes for the main budget indicators for the two preceding years. The report includes a detailed discussion of performance relative to those targets.

[3] The system of Public Expenditure and Financial Accountability (PEFA) indicators has been revised as of PEFA 2016, with new indicators added and the coverage of existing ones revised (https://pefa.org/sites/default/files/Guidance%20on%20performance%20changes%20from%202011%20or%202005%20versions%20in%20PEFA%202016%20FINAL_Feb%202%202016.pdf). The old PEFA PI-12 indicator corresponds to the new PI-16 indicator. In the remainder of this report, the new PEFA indicators are used to assess the sustainability of reforms supported by the PSFMR project, in line with the indicators included in the results framework.

[4] The modules were as follows: general ledger; accounts payable; purchasing or commitment; accounts receivable; cash or fund management; asset or inventory management; financial reports; budgeting; and workflow management.

[5] The additional modules were as follows: macroeconomic forecasting; budget preparation; internal debt management; external debt and aid management; payroll calculations; auditing; financial management information system; and web portal.

[6] Georgia is a unitary state that includes two autonomous republics, Adjara and Abkhazia, the latter being outside Georgia’s effective control.

[7] The treasury's average idle daily cash balance, estimated at GEL1 million, used to be placed with no interest at the National Bank of Georgia. Since 2017, the treasury has conducted auctions of its free cash balances, with bids placed mainly by commercial banks at the market rate. This is expected to generate annual revenue of about GEL 25 million.

[8] By June 1 of each year, during budget preparation, the government of Georgia submits to the parliamentary committees'information about the main macroeconomic forecasts and key strategic directions of the ministries, for review and endorsement. The parliament's Finance and Budget Committee organizes discussion and review of the documents and is authorized to request additional information, if necessary, from the government, individual ministries, or other agencies and bodies. The committees' comments, if any, are provided to the government no later than June 20.

Appendix A. Basic Data Sheet

PUBLIC SECTOR FINANCIAL MANAGEMENT REFORM SUPPORT PROJECT FOR GEORGIA (P063081)

Key Project Data ($, millions)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs[a]	15.0	10.76	72
Grant amount[b]	3.0	1.38	46
Cofinancing	12.0	9.38	78

Note: a. Total project funds, including all donor contributions.
b. International Development Association funds only.

Project Dates

	Original	*Actual*
Initiating memorandum	09/23/2005	09/23/2005
Negotiations	12/15/2005	12/15/2005
Board approval	02/16/2006	02/16/2006
Signing	03/10/2006	03/10/2006
Effectiveness	08/03/2006	08/03/2006
Closing date	03/01/2010	03/01/2012

Staff Time and Cost

	Staff Time and Cost (World Bank Budget Only)	
Stage of Project Cycle	*No. of Staff Weeks*	*$, thousands (including travel and consultant costs)*
Lending		
FY99	—	12.62
FY00	—	6.37
FY01	—	9.31
FY02	—	14.03
FY03	—	51.52
FY04	—	5.33
FY05	—	83.79
FY06	—	181.64
Total	—	364.61

Supervision/ICR		
FY06	—	24.35
FY07	—	135.93
FY08	—	67.11
FY09	—	134.34
FY10	—	127.55
FY11	—	106.09
FY12	—	80.83
FY13	—	30.00
Total		706.20

Note: ICR = Implementation Completion and Results Report.

Task Team Members

Name	Title	Unit	Responsibility/
Lending			
Elene Imnadze	Senior Public Sector	ECSP4	Task Team Leader
Matthew Andrews	Consultant	AFTPR	PFM Specialist
Mikhail Bunchuk	Extended Term Consultant	WBIRP	
Sophie Devnosadze	Operations Analyst	ECCGE	
Tamuna Namicheishvili	Program Assistant	ECCGE	
Craig R. Neal	Consultant	MNSEG	IT Specialist
Friedrich Peloschek	Consultant	LEGEC–	Country Lawyer
Gurcharan Singh	Senior Procurement	TWICT	
Petrus Henricus	Senior Program Officer	PRMPS	Public Sector
Arman Vatyan	Senior Financial	ECSO3	
Andrew Bird	Consultant	DFID	MTEF/
Supervision/ICR			
Elene Imnadze	Senior Public Sector	ECSP4	Task Team Leader
Matthew Andrews	Consultant	AFTPR	PFM Specialist
Oleksiy Balabushko	Economist	ECSP4	
Cem Dener	Senior Public Sector	PRMPS	IT Specialist
Sophie Devnosadze	Operations Analyst	ECCGE	
Gurandukht Elashvili	Buyer	GSDPR	Procurement Specialist
Ranjan Kumar Ganguli	Consultant	ECSPE	Accounting and Audit
Ahmet Gokce	Consultant	ECSO2	Procurement
Tatyana Kandelaki	Financial Specialist	ECSF2	
Tamuna Namicheishvili	Program Assistant	ECCGE	
Craig R. Neal	Consultant	MNSEG	IT Specialist

Gurcharan Singh	Senior Procurement	TWICT	Procurement
Petrus Henricus	Senior Program Officer	PRMPS	PFM Specialist
Arman Vatyan	Senior Financial	ECSO3	
Virginia S. Yates	Program Assistant	ECSP4	
Sandro Nozadze	Procurement Specialist	ECSO2	
Irakli Zakareishvili	Consultant	ECSO3	FM Specialist
Ghada Youness	Senior Counsel	LEGLE	Country Lawyer

Note: DFID = U.K. Department for International Development; FM = financial management; PFM = public financial management; MTEF = Medium-Term Expenditure Framework; ICR = Implementation Completion and Results Report; IT = information technology.

Appendix B. Results Framework Indicators

Indicators for the Project Development Objectives

Indicator	*Baseline Value*	*Formally Revised Target Values*	*Actual Value Achieved at Completion or Target Years*
Indicator 1	**National expenditure priorities fully defended in budget. MTEF increasingly based on fully costed, results-based sector strategies consistent with fiscal forecasts (PEFA I-12 (iii))**		
Value (quantitative or qualitative)	All executive branch spending units are currently providing MTEF submissions, but of varied quality and based on varied quality sectoral strategies.	Expenditure strategies for executive branch spending units exist, covering at least 70 percent of executive branch expenditures, including fully costed recurrent and investment expenditures and results indicators, and in line with fiscal framework.	Costed expenditure strategies included in the 2011–14 BDD covered about 88 percent of executive branch expenditures as approved by the 2011 Budget Law; 2012 state budget was prepared following program budget format.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. percent achievement)	PEFA I-12 (iii) rating measuring existence of costed sector strategies remained stable at C in 2012, as in 2008. Rating expected to be upgraded by PEFA 2017, currently under validation.		
Indicator 2	**Ministry ceilings contained in budget guidelines consistent with multiyear function/sector estimates approved by BDD. Differences between actual estimates and approved BDD explained in annual budget presentation (PEFA I–12).**		
Value (quantitative or qualitative)	MTEF process has only recently started so no opportunity for these explanations.	Progressive reduction in variance between BDD function/sector allocations, related ministry ceilings and allocations contained in annual budget. Explanation of variance in BDD and annual budget presentation.	Ministry ceilings for FY11 budget consistent with respective BDD estimates. Starting with the 2012 annual budget law, the appendix to the budget contains multiyear (1+3) estimates per budget program. Annual budget planning is in full compliance with midterm f-work.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. percent achievement)	Multiyear perspective in fiscal planning, expenditure policy, and budgeting improved, as measured by PEFA I-12. The respective rating improved from C+ in 2008 to B+ in 2012. Rating expected to remain stable in PEFA 2017, currently under validation.		

Indicator 3:	**Consolidated government financial statement published annually based on submission of fiscal reports from all major public entities (PEFA I-25)**		
Value quantitative or Qualitative)	Government does not receive regular or complete reports from major public entities for inclusion in the budget or compilation of consolidated government financial statement.	Consolidated government financial statement is published annually based on submission of fiscal reports from all public entities included in the general government sector.	Consolidated government statement is published annually in the form of an annual budget execution report. There are some inconsistencies in presentation and no clarity on the accounting standards used.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. percent achievement)	PEFA I-25 improved to C+ in 2012 from D+ in 2008. The 2017 PEFA assessment, currently under validation, is expected to further upgrade this rating.		
Indicator 4	**Measurable improvement in HR management function of Ministry of Finance**		
Value (quantitative or qualitative)	Inadequate personnel management capabilities, policy, and procedures. Existing computerized HRMIS does not satisfy increasing demand of HR Management Department and is not connected with the payroll.	Revised HR procedures and mechanisms in place. Fully functional automated HRMIS with personnel system updated monthly and reflected in the payroll.	Comprehensive personnel database for all staff of the MOF system (5,000 records) is created and supported through the functioning software. The database is updated monthly and linked to the payroll module.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. percent achievement)		Achieved	
Indicator 5	**External audit share of central government spending on which on-site audits are completed annually and disclosed to legislature within four months of end of period covered (PEFA 1-26).**		
Value (quantitative or qualitative)	On-site annual audits cover 15 percent of central government entities.	On-site annual audits cover 30 percent of central government entities.	For 2011, the financial on-site audits covered 37 percent of the central government annual expenditures.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. % achievement)	The scope and nature of external audit improved, as measured by PEFA I-26. The respective rating was upgraded from D+ in 2008 to B+ in 2012. The 2017 PEFA assessment, currently under validation, is expected to maintain this rating.		
Indicator 6:	**Timely, transparent, and user-friendly provision of public financial information to the public (PEFA I-10).**		

Value (quantitative or qualitative)	Ad hoc publication of public financial information for general public.	Web publication of the annual budget, midyear budget execution reports, the consolidated government financial statement, and Chamber of Control audit reports in a user-friendly format for public information.	All the types of information envisaged are published. The government now discloses to the public five out of six types of fiscal information required by PEFA I-10.
Date achieved	12/19/2005	03/01/2012	03/01/2012
Comments (incl. percent achievement)	Public access to main fiscal information improved, as measured by PEFA I-10. The respective rating was upgraded from B in 2008 to A in 2012. The 2017 PEFA assessment, currently under validation, is expected to maintain this rating.		

Note: BDD = *Basic Data and Directions* document; HR = human resources.

Appendix C. List of Persons Met

Name	*Title*	*Organization*
Vakthang Lezhava Tamara Kovziridze	Former Adviser to the Prime Minister Former Deputy Minister of Economy	Reformatics
Michiel Van der Auwera Giorgi Luarsabishvili	Project Administration Head Economist	Asian Development Bank
Irakli Khmaladze Ada Nardaia	Program Lead/Public Sector Trade Officer	European Union
Tengiz Tsekvava	Deputy Executive Director	GEOSTAT
Jan Van Bilssen	Senior Manager	International Finance Corporation
Nia Sharashidze	Economist	International Monetary Fund
Mariam Gabunia	Head of Department for Foreign Trade Policy	Ministry of Economy and Sustainable Development (Georgia)
Giorgi Kakauridze Eke Guntsadze Tsotne Kavlashvili	Deputy Minister Head of Budget Department Head of Treasury Service	Ministry of Finance (Georgia)
Niko Gagua Pridon Aslanikashvili Ekaterine Mikabadze	Deputy Minister Head of Macroeconomic Forecasting and Fiscal Risk Department Deputy Head of Macroeconomic Forecasting and Fiscal Risk Department	
Giorgi Kurtanidze	Head of Financial Analytics Department	
Davit Gamkrelidze	Head of Department for Forecast and Management of Monetary Resources, Treasury Service	
Noe Kinkladze Maia Gotiashvili	Head of Economic Department Head of Budget Office	Ministry of Health, Labour and Social Affairs (Georgia)
Giorgi Barbakadze	Head of MacroFiscal Forecasting Department	National Bank of Georgia
H. E. Jos Douma	Ambassador	Netherlands Embassy
Tatia Khetaguri	Head of Parliament Budget Office	Parliament
Lekso Aleksivhvili	Director	Policy and Management Consulting Group (PMCG)
Samson Uridia	Head of Foreign Relations Department	Revenue Service (Georgia)
Eka Ghazadze Marika Natsvlishvili	Deputy Auditor General Head of Foreign Relations Department	State Audit Office (Georgia)
Mariam Dolidze	Senior Economist	World Bank
Lire Ersado	Program Leader	
Genevieve Boyreau	Lead Economist and Program Leader	
Mercy Tembon	Country Director	