



# MINISTRY OF FINANCE OF GEORGIA

## Public Finance Management Reform

### Action Plan

2010

# I

## PFM Background

The foremost purpose of the Public financial management is the efficient use of the public resources. In order to achieve this objective fiscal policy should be focused on strategic allocation of the government resources, i.e. resources should be directed towards government's priorities and at the same time providing stable financing envelope for these priorities.

Enhancing PFM requires, moving to the multiyear planning system instead of one year planning practice. This move will strengthen planning and reliability of medium term expenditure financing in the long run perspective. Further sophistication of the PFM includes performance oriented budgeting, thus providing funds from the budget for the activities and targets prescheduled in the programs on different levels.

The core part of the PFM is existence of the effective accountability system, which in the fiscal policy framework will enable to compare the real results with the planned outcomes. The efficient management of the public finances ensures the macroeconomic stability of the country and the strategic budgeting will increase disciplinary level in budget sector.

## II

# PFM Systemic Framework

The PFM system can be characterized as involving a number of distinct elements. These comprise with:

- **Strategic Budgeting** – provides the policy-budget connection, a credible resource envelope and budget ceilings against which ministries and other budget users can prioritize their activities involving national and sectoral level strategies review developing process,
- **Budget Preparation & Approval** – process through which resources are allocated to priority activities,
- **Resource Management** – covers the management of: (i) financial resources (revenue mobilization, public debt and cash); (ii) procurement; (iii) personnel; and (iv) capital assets,
- **Internal Control** – covers: (i) financial regulations and control procedures; (ii) effectiveness of the resource management procedures; and (iii) systems and procedures for monitoring budget performance,
- **Accounting & Reporting** – covers the recording, aggregation and reporting of the financial transactions,



- ***External Audit & Accountability*** – provides the independent review of government operations by both the supreme audit institution and civil society.

An effective PFM system requires strong links with a government's policy-making and strategic planning processes. It also requires that each of the individual elements is characterized by: (i) well-elaborated and robust internal processes; and (ii) strong links with the other elements.



### III

## PFM Reform

The Public Finance Management Reform Policy Vision 2009-2013 document was presented by the Ministry of Finance (MoF) during the PEFA workshop in February. Policy Vision document was finalized and adopted by the MoF in April 2009. Reform is intended to further develop and strengthen Public Finance Management. The overall objectives of a PFM reform can be characterized as follows:

- *To maintain fiscal discipline and thereby facilitate macroeconomic stability and predictability of the budget system,*
- *To promote a strategic approach by ensuring that resources are directed toward key policy and strategy priorities,*
- *To deliver value for money by ensuring that resources are used effectively and efficiently,*
- *To ensure accountability in the use of public resources.*

## IV

# Monitoring Public Finance Management Reform

In order to facilitate implementation of the 2009-2013 Strategy for Public Finance Management Reform, the Coordination Council has been set up at the Ministry of Finance in March 2010. The following are the main tasks of this Council:

- to develop relevant proposals related to reform strategy,
- develop draft annual action plan of reform strategy,
- facilitate preparation of the annual report on the progress of action plan,
- in the course of implementing the action plan coordinate the activities of structural units within the Ministry,
- monitor implementation of reform strategy and annual action plan.

Besides the representatives of the Ministry, Members of the Parliament of Georgia, NGOs and international organizations, private sector representatives also take part in the work of Coordination council.



## V

## Action Plan

Development of the Strategic Framework is a crucial aspect of the reform, as well as the existence of the relevant and realistic plan of actions. Along with the Policy Vision document, MoF has elaborated and successfully accomplished 2009 Action Plan. Annual report highlights the main results of the reform and defines future actions for further enhancement of the PFM. These achievements were presented to the public and relevant stakeholders during meeting organized with the MoF's initiative in October 2009.

This document provides the brief introduction of the PFM Reform. Introduces to the publicity and relevant stakeholders Action Plan for 2010 which takes a holistic view of the entire PFM process, defines major priorities and activities for each structural unit of the MoF. Subsequently, timely accomplishment of each task is the key factor for the overall successful implementation of the reform.



## VI 2010 Action Plan

### Budgeting

#### Further Develop MTEF

	Period	Resource*
Develop program budgeting implementation plan	March	BD
Develop new format of BDD containing information on spending agencies ceilings for the next 4 years	July	BD
Develop electronic budget system for budget organizations	July	BD, TS, FAS
Budget Management System – develop budget planning model	September	BD, TS, FAS
Prepare program budget for additional 3 ministries	November	BD
Prepare capital budget for additional self-governing city - Tbilisi	November	BD

#### Improve Budget Execution and Control

Update and extend LEPL's database	Permanently	BD
Draft new legal acts and prepare amendments to the existing ones for the "Budget Code" enforcement	January	BD





Develop special forms reflecting information about state procurement	February	BD
Develop budget execution reporting forms	February	BD
Prepare report on budget execution for Large LEPL's and self-governing, along with 2009 budget execution report	March	BD
Ensure awareness of autonomous republics and self-governing units about planned changes in Budget Legislation through workshops and meetings	April-May	BD
Conduct workshops and meetings on program and capital budget implementation	April-May	BD
Develop program and capital budget reporting forms for the pilot ministries	November	BD

*\* BD - Budget Department TS - Treasury Service FAS – LEPL Financial-Analytical Service*

## Resource Management

### Increase Efficiency in the Ministry's Activities

Ratify and sign already initiated double taxation treaties

January

FPD

Introduce automated case management system of tax appeals in Regional Offices of the Revenue Service

May

OTA

Study the capability of macro and fiscal forecasting model integration into treasury and budget management systems

November

FPD, FAS

### Improve Taxpayer Awareness and Public Outreach

Publish tax policy related leaflets and brochures:

- Pocket Tax Book,
- International Finance Company,
- Free Industrial Zones,
- Granting the Status of Residence to a Person Secured with a Significant Property
- Establishing Free Warehouse,

Permanently

FPD

### Improve Legal Framework

Inventory of the tax disputes - investigate loopholes in the tax legislation identify repetitive tax dispute cases

April

OTA

Enhance, unify and simplify legal acts regulating procedural aspects of tax appeals system

April

OTA

Simplify and modify regulations related to tax debt restructuring

April

FPD



Prepare draft fees code	June	FPD
Reform Tax and Customs legislation through introducing:		
- Transfer Pricing Rules,		
- Small and Macro Business regulation norms, and	September	FPD
- Improving International Cargo Transportation norms		
<b>Simplify Services for Taxpayers</b>		
Simplify procedures for imported goods through improving declaration forms and declaring process	January	RS
Simplify export procedures - goods up to 10000 GEL is free from declaring	January	RS
Issue of the certificate of origin by Customs Authorities	June	RS
Simplify customs procedures for goods being under temporary import regime (The Istanbul convention on temporary admission)	August	RS
Establish preliminary customs decision and customs declaration institute	September	RS
Establish personal tax agent system for the large taxpayers	November	RS
<b>Further Develop E-services for Taxpayers</b>		
Establish electronic information exchange system between the Public Register and RS	March	RS, FAS
Develop unified electronic database for the issuance of the certificate of origin	May	RS, FAS
Introduce system allowing electronic processing of customs inventory format for pharmaceutical goods	May	RS, FAS
Implement and apply „ASYCUDA World” at Customs processing sites	May	RS, FAS



Incorporate phytosanitary, veterinary and sanitary control procedures in the electronic database system	August	RS
Implement “Tracker System” software for licenses and permits	August	RS
Introduce system which allows paying taxes electronically (debit cards)	August	RS, FAS
Tax invoice e-filing	August	RS, FAS
Activate transit module risk criteria of the “ASYCUDA World” within Customs Check Points	November	RS, FAS
Enhance administering by creation of module on non-filers and non-payers	December	RS
E-Requests on:		
- Submission of tax appeals electronically	August	RS, FAS
- Supply of excise stamps	August	RS, FAS
- Supply of standard and special V.A.T forms	August	RS, FAS
- Refund of overpaid amounts	October	RS, FAS
- Restructuring of tax arrears	December	RS, FAS
<b>Enhance Tax and Customs Procedures - Implement Common Standards</b>		
Develop procedure manuals for all Customs Check Points	May	RS
Finalize developing of the procedure manuals for Tax Authorities	July	RS
Develop technological schemes for all custom check points	November	RS

**Manage Property Under the State Ownership**

Register of the property under the State Ownership	January	SA
Introduce e-auction system	April	SA
Establish e-shop	May, June	SA
In order to ensure transparency organize showroom	July	SA
Managing property under the state ownership - Inventory, Storing, Assessing	December	SA

**Training Centre**

New “Orkhevi” training centre starts functioning	April	SA
Develop and implement software for learning process management	January, September	SA
Develop distance learning program	January, September	SA
Introduce and prepare new procedures for standard learning	January, December	SA
Implement “ADDIE” learning procedures	January, December	SA

*\* FPD – Financial Policy Department FAS - LEPL Financial-Analytical Service RS – LEPL Revenue Service*

*OTA – Office of Tax Appeals SA – LEPL Service Agency*





## Accounting & Reporting

<b>Adopt International Accounting Standards in Public Sector</b>	<b>Period</b>	<b>Resource*</b>
Identify and agree Pilot Organizations for modified cash IPSAS implementation	March	TS
Prepare forms and guidelines for the pilot organizations	March	TS
Establish Georgian Public Sector Accounting Standards Board	March	TS
Apply modified cash IPSAS in Pilot Organization	December	TS
Prepare regulations on modified cash IPSAS implementation for the entire Public Sector	December	TS
<b>Improve Risk Management Mechanisms</b>		
Establish internal control mechanisms in the Treasury	March	TS
Approve liquidity management guidelines	July	TS
<b>Integrated Public Finance Information System Implementation</b>		
Initiate PFMS procurement, publish EOI and announce tender	May	TS, FAS
Develop and implement e-treasury service	July	TS, FAS
Modernize current informational systems of the Treasury Service	December	TS, FAS

**Emission of the Medium Term Treasury Notes**

Prepare amendments to the legislation on securities

January

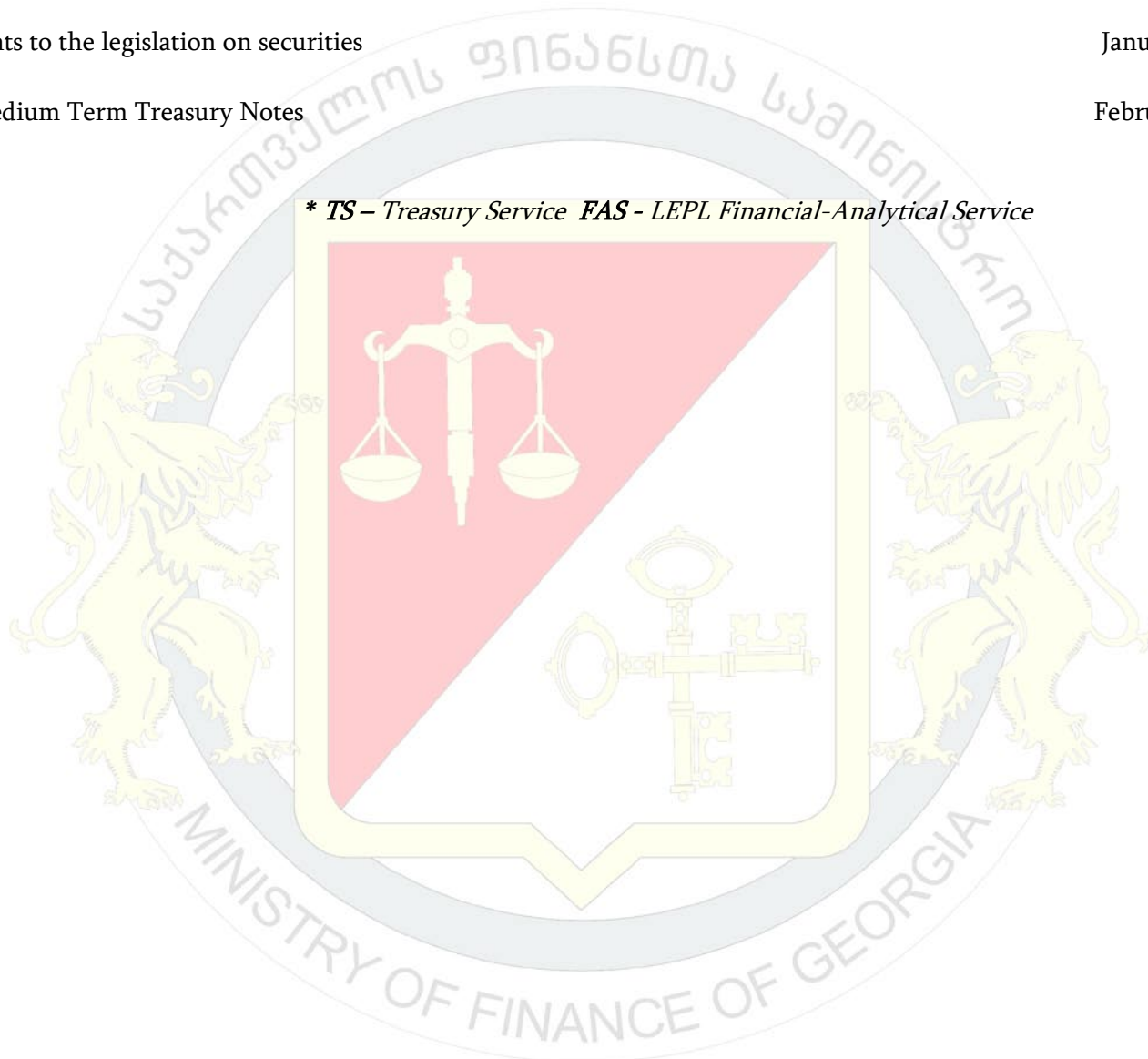
TS

Issuance of the Medium Term Treasury Notes

February

TS

*\* TS – Treasury Service FAS – LEPL Financial-Analytical Service*





## Internal Audit

### Establish Unified Internal Audit Concept and Harmonized System According to the Best International Standards

	Period	Resource*
Prepare and adopt standard charter for internal audit departments according to IIA and EU best practices	May	HC, IAU
Prepare subsequent legal changes to ensure compliance with Financial Management and Control and Internal Audit Law	June	HC, IAU
In scope of IIA develop code of ethics and audit standards for internal auditors	June, July	HC, IAU
Prepare internal audit road maps	August	HC, IAU
Develop and adopt Financial Management and Control(FMC) standards	August	HC, IAU
Prepare and adopt Financial Management and Control (FMC) policy document	August	HC
Prepare risk management manual	September	HC
Develop internal audit syllabus and certification plan	September	HC
Discuss and review internal audit departments annual plans and strategic documents	October	HC
Enhance internal audit standards and guideline principles	October	HC
Develop detailed guidelines and methodology for internal audit departments	October	HC
<b>Enhance and Apply in Practice Internal Audit Procedures</b>		
Establish national centre for state internal control	April	MoF



Conduct trainings for national centre staff	May	HC, EU
Preparatory trainings for local government management in internal audit	July	HC
Assist ministries in implementing internal audit standards	August	HC
Conduct pilot audit training for ministries	September, October	HC, IAU
Conduct pilot audit within MoF	October	HC, IAU
Training in risk management methodology	October	HC, IAU
Prepare and adopt internal audit establishment and development plan for local governments	October, November	HC

*\* HC - Harmonization Centre IAU - Internal Audit Unit*

*MoF - Ministry of Finance EU - European Union*



## e-Technologies

### Improve and Enhance e-technologies

	Period	Resource*
Further develop, optimize and support taxpayers portal, build in the portal new services	During the Year	FAS, RS
Establish Human Resources Management System	February, June	FAS
Establish e-declaration system for the public servants	March	RS, FAS
Plan and start implementing Information Technology Infrastructure Library standards (ITIL)	July	FAS
Elaborate 3 year IT development strategy	August	FAS
Examine the external debt management and financial analysis latest system - DMFAS 6.0	September	FAS, ERD
Within IT strategy develop informational security policy	December	FAS
In order to ensure sustainability of information systems and data design Business Continuity Centre (BCC-DRS)	December	FAS

\* **FAS** – LEPL Financial-Analytical Service **RS** – LEPL Revenue Service

**ERD** – External Relations Department