

ORDER N385
ISSUED BY THE
MINISTER OF FINANCE OF GEORGIA
8TH JULY 2011, TBILISI

**ON ADOPTION OF RULES AND METHODOLOGY OF PROGRAM
BUDGETING**

On the grounds of Article 9.3 of the Budget Code of Georgia, I order the following:

1. The following documents to be approved: *(11.07.2012 N 244)*

A) Main Essence and Principles of Methodology to be applied to Program Budgeting (Annex N1);

B) Methodology for the Compilation of the State Budget in the Format of Program Budgeting (Annex N2);

C) Methodology for the Compilation of Republican Budgets of the Autonomous Republics in the Format of Program Budgeting (Annex N3);

D) Methodology for the Compilation of Local Budgets of Local Authorities in the Format of Program Budgeting (Annex N4).

2. Relevant structural units of the Ministry of Finance of Georgia to be instructed:

A) Prepare a Draft Law of Georgia on Amendments to the Budget Code of Georgia by 31st August, 2011 for the introduction of Program Budgeting;

B) Develop a Methodology for Budgeting of the Autonomous Republics and Local Authorities in the Format of Program Budgeting by 1st March 2012.

3. The present Order shall be enforced from 11th July 2011.

Minister of Finance

D. Gvindadze

Enclosure: Methodology of Program Budgeting; Retrieved *(11.07.2012 N 244)*

MAIN ESSENCE AND PRINCIPLES OF PROGRAM BUDGETING

Main Essence and Principles

Key role in the development of the country and performance of the authorities rests inter alia on the budgeting process, as it involves the preparation, planning, endorsement, execution and reporting on the budget, while the budget itself is a main fiscal document which is applied in the funding of major programs and initiatives implemented by the authorities in any given year.

Budgetary process of Georgia does not have a long history, though it needs to be mentioned that it has been streamlined and substantially improved in the past years.

Program Budget gives a clear presentation of the achieved results, rather than only the spent allocations. Respectively, performance measurement of a Program Budget should be focused on the deviations between the planned and actual outcomes, rather than differences between the budget earmarkings approved and verified for spending institutions and their budgetary organizations versus the actual execution.

Planning of a program budget is a goal-driven exercise, with a focus on the output and outcomes, rather than budget funds distributed to agencies implementing the programs. Respectively, outcomes and performance indicators are planned in parallel to measure the attainment of aims and goals assigned to programs. At the same time, budget calculates costs associated to the achievement of the desired results. Budget correlates the resources required and available for individual programs.

Methodology describes issues, procedures and information related to the preparation of mid-term action plans by line ministries.

Expected results of the program budget and key performance indicators are not adopted within an annual budget and are rather presented in the documents enclosed to it. Methods for the definition of performance indicators need to be improved significantly and information presented in the program budget needs to be most realistic, precise and effective measurement tool.

Present Methodology covers methodic guidance, terms and definitions, program budgeting methodology for a state budget, budgets of the Autonomous Republics and Local Authorities with respective examples.

Terms and Definitions

1. **Program** – set of measures to be carried out for the achievement of priorities defined in the budget, which are grouped by common features, and are carried out for the achievement of a common ultimate result. Spending institutions share the responsibility over the implementation of the program. It may be implemented only by a spending institution or by a budgetary organization subordinated to the control (i.e. operating within the system) of such spending institution;
2. **Sub-Program** – program may be further divided into sub-programs. Sub-program is a set of measures with a specific direction, which in most cases may be aimed at the achievement of a program output;
3. **Activity** – activity is an initiative of a relatively small scale within a sub-program. Implementation of an activity facilitates the implementation of a sub-program and achievement of respective results.

For your information:

Annual Budgets mostly involve programs and sub-programs, while measures that are essential for their achievement tend to be narrow in scope and detail. Hence the latter need to be captured in the action plans of the respective spending institutions/sector strategies.

4. **Basic Data and Directions (BDD) Document** – Key-note development plan of the country, which covers the information on mid-term macroeconomic and fiscal projections, along with the major directions of development conceptualized by central, autonomous republican and local authorities of Georgia. Key rules of drafting and submission of the BDD Document are defined in the Budget Code of Georgia;
5. **Budget/Annual Budget** – set of revenues to be collected for the execution of duties and functions assigned to central, autonomous republican and local authorities of Georgia, along with expenditures and changing balances that are adopted by respective bodies of the central, autonomous republican and local authorities of Georgia;
6. **Mid-term Action Plan** - document on the measures to be implemented in a mid-term period (of 4 years) within the priorities defined in the budget for the achievement of results set for programs/sub-programs to be carried out, which covers the description of such measures and information on the implementing agency, deadlines, volume of the available and/or required funding, expected results and key performance indicators;

7. **Costing** – costing of the measures to be carried out under the mid-term action plan, definition of the resources available for the implementation of such measures and volume of possible funding;
8. **Expected Outcome** – result of programs. It is a global concept by its substance. It is a condition that should emerge as a result of a pre-defined and analyzed policy implemented in real life.
9. **Expected Output** – is a product obtained as a result of measures to be implemented within a program/sub-program? It is much more specific than the outcome and is not a sign of completion in view of a program, but rather a result of steps made towards the outcome, measuring the progress achieved on the way towards it;
10. **Spending Institution** – tier one budgetary organization under the classification of program budgeting for the state and autonomous republican budgets, while a local authority for the local budgets;
11. **Budgetary Organization** – organization incorporated by central, autonomous republican or local authorities and/or accountable towards or controlled by such, also a legal entity of public or private law (if applicable), provided it is entitled to manage the allocations under the program/sub-program within the budget of the relevant level;
12. **Institution/Organization** – for the purposes of the present methodology it may be applied with a meaning of both spending institution and budgetary organization;
13. **Fiscal Unit** – structural unit of a spending institution, which is kept responsible for the planning of the system budget and monitoring over its execution. Structural unit of the said function may operate differently (e.g. as a department, division, service, unit, etc.) in individual institutions and may be differently titled (e.g. Economic Department, Administrative Service, etc.), though for the purposes of the present Methodology it should be guided in line with the rights and obligations defined for Fiscal Units in the present Methodology.

METHODOLOGY FOR THE COMPILATION OF MID-TERM PLANS AND STATE BUDGETS IN THE FORMAT OF PROGRAM BUDGETING

1. Basic Data and Directions (BDD) Document

Basic Data and Directions (BDD) Document of the country is a fiscal framework, defining the program financing volumes of spending institutions within the major priorities of the budget in a mid-term period. If and when new policies or commitments are made by line ministries and public institutions within their action plans/sector strategies, the document sets a framework within which the respective institution should take resources into account to finance the liabilities assumed by them.

First phase of state budgeting in Georgia starts by March 1 of every single year, when the Government Resolution is issued to define the list of those spending institutions that need to be engaged in the preparation of the BDD Document of the planning years.

Apart from defining the spending institutions, Government Resolution sets the list of information and submission deadlines for the Ministry of Finance of Georgia to use in the preparation of the BDD Document.

In line with the Government Resolution, at least the following information needs to be submitted to the Ministry of Finance of Georgia:

- Funds used for the programs and measures implemented within the priorities set for the past two years, along with the results achieved with such funding;
- Funds allocated for the programs and measures planned within the priorities of the current year, along with the results expected of them;
- List of priorities set by the spending institutions for the year of planning, along with their short descriptions, expected results and key performance indicators;
- Mid-term budget of priorities for the years to plan, which need to be further broken down into programs;
- Targeted threshold number of employees at spending institutions for the year to plan’
- Targeted threshold budget allocations requested in the years to plan.

After receiving the above information, Ministry of Finance of Georgia prepares information on the grounds of consultations with line ministries of the country on the major directions and macroeconomic projections, which are ultimately submitted to the Government of

Georgia.

After discussions at the Executive Government Meeting the said information is sent to the Parliament of Georgia. By taking the Expertise Opinions of the respective Parliamentary Committees, line ministries of the country approve their mid-term action plans and send them over to the Ministry of Finance of Georgia.

On the grounds of the mid-term action plans of the line ministries, information submitted by spending institutions, macroeconomic projections and planned financial resources, Ministry of Finance of Georgia prepares the first draft of BDD Document.

Information indicated in the Tax Code of Georgia is presented in the BDD Document with the following structure:

- Document should present aims and goals defined by the Government of Georgia anticipated in a mid-term period, along with the key action plans made for their achievement;

- Document should convey a short analysis of the macroeconomic position of the country, actual and projected major macroeconomic indicators along with their descriptions;

- After describing the macroeconomic position of the country, document should present the final results of budget execution for the past two years, along with the actual revenues and major activities financed from the budget;

- In other segments, document should present the consolidated and aggregate indicators of the State Budget for the current and immediately following year to plan, along with a short description of the projected financial resources;

- Key priority directions to be planned in the year to come within the Government Program, within which the spending institutions carry out individual programs and sub-programs;

- Document should also present the number of organizations to be financed from the State Budget and targeted threshold allocations for the years to plan. Donor-financed programs should not be included in such targeted threshold allocations. Allocations required for the state co-financing and co-participation within such donor-financed programs should neither be covered.

In calculating the threshold amount Ministry of Finance of Georgia takes into account the special rule defined in the legislation of the country for some spending institutions and the following considerations:

- Allocations envisaged in the relevant Resolutions of the Parliament of Georgia in the threshold amounts of the Parliament and Chamber of Control of Georgia;

- In calculating the allocations for the constitutional and common judiciary of

Georgia, volume of spending to be incurred by the referred organizations in the following year should not be decreased from the past one in line with Article 42 of the Budget Code of Georgia;

- In the case of the Ministry of Justice of Georgia, it shall be taken into account that volume of funding to be allocated for the General Prosecutor's Office of Georgia should not be less in the following year than in the previous one;

- In calculating the threshold allocations for the Ministry of Culture and Protection of Monuments and Ministry of Sports and Youth, requirements laid out in Article 44 of the Budget Code of Georgia should be taken into account;

- In calculating the funding for the Public Broadcaster, requirements laid out in Article 33.5 of the Law of Georgia on Public Broadcaster should be taken into account by all means;

- Number of employees envisaged in the staff listing and their annual payroll is to a greater extent considered by the staff list existing in the current year;

- Payroll fund of the contracted staff is to a greater extent considered with a cap on the number of contracted staff existing in the current year;

- Current expenditures for the business trips, office expenses, transportation, hardware maintenance (except for the Ministries of Defense and Interior) and other operating costs of budgetary organizations are defined by taking into account the statistical data of the past and current years. At the same time, these expenses should not exceed the projections of the current year. Funds required for programs, along with sub-programs and activities to be implemented within such programs are defined by taking into account the budget execution in the past year, current statistical information and projected financial resources. In addition, results anticipated and actually materialized in the past years within the respective program should be taken into account in defining the budget of a program;

- In addition, data obtained through the above-mentioned sources, are for guidance of the Ministry of Finance of Georgia and other factors may also be taken into account while defining the targeted thresholds, thus setting such thresholds at a higher or lower levels;

- Priority directions planned for the achievement of the aims and goals of the Government of Georgia should be presented in the following part of the document, along with a short description of each of them, programs planned by spending institutions within them with an indication of expected results.

Significance of each program should be presented in this part of the document, along with their main essence, aims and goals to illustrate the significance for the allocation of funding

to the institution within the mid-term period.

Descriptions of the programs indicated in the document should create a wide framework context for the ministries to plan the detailed mid-term action plans for each ministry, along with specific measures, which will in turn be presented in the program annex of the Budget Law in a relatively amalgamated manner.

- Last part of the document presents the amount of funding for each programs planned by spending institutions within the priorities defined by the Government of Georgia for the budget years to plan. This part of the document should present information on total funding earmarked for the implementation of the program;

- Document should be attached with relevant annexes to present the macroeconomic projections.

BDD Document is not endorsed and has no legally binding power. Updated draft of the BDD Document is a significant part of the Annual Budget Law submitted to the Parliament of Georgia and its final draft is prepared within 1 month from the start of the budget year. It is ultimately submitted to the Fiscal Committee of the Parliament of Georgia.

2. Mid-Term Plans of Line Ministries

Each line ministry is required to prepare and adopt their Mid-Term Action Plans within the deadlines defined in the law.

Mid-Term Action Plan should by all means emerge from the BDD Document and should serve as a basis for the budget application to be submitted to the Ministry of Finance of Georgia for the preparation of an Annual Budget Law.

Action Plan by its substance should be broken down into a more detailed list of activities those indicated in the BDD Document or the Annual Budget Law. Each program implemented by a line ministry should be presented in the form of the activities that are required for the achievement of program aims and goals. It is possible to group the activities within the Action Plan into programs and sub-programs, which are then conveyed into the Annual Budget Law or be presented by the implementing institutions and get united as programs or sub-programs into the application for budget allocations.

2.1. What should be covered in the Mid-term Plans?

In developing a Mid-Term Action Plan (document encompassing the following 4 years and subject to updates on an annual basis), line ministries should be guided with a BDD Document in terms of their threshold funding volumes and separately indicate if there is a need to raise additional funding for their activities.

It is desirable to present the following for each activity covered in the Action Plan:

- a) Essence of measures/activities;
- b) Implementing agency/unit;
- c) Baseline indicator of the activity and targeted indicator of its implementation;
- d) Source of funding;
- e) Costing required for the implementation of the activity in the current conditions of funding and entirety (if the activity can be developed in a different manner if additional funding is solicited);
- f) Adjustment of targeted indicator if the additional source of funding is solicited;
- g) Information on the type of activity: whether it is an extension of the program under the current route or is related to a reform, new policy or program.

A) Essence of the Measure/Activity

Descriptive part of the document presents information on the meaning of the activity. It conveys information on what should be carried out within the specific activity. By its essence, activity should be laid out in the priorities, programs and sub-programs of the line

ministry, further zoomed down into details of the implementing agency/unit (structural unit within the line ministry).

B) Implementing Agency/Unit

Unit subordinated to the control of the line ministry, which is directly responsible for the implementation of the activity.

Office of the line ministry, structural unit (department/division) of its territorial subsidiary or legal entity of public or private law is most commonly perceived as an implementing agency. One structural unit will be the implementing agency of an activity in majority of cases, though it is also possible to have several or the entire structure of the line ministry implement an activity. In such cases it is desirable to still split the descriptive part of the document into individual competences of various structural units.

C) Baseline and Targeted Indicators

Targeted indicators should present specific products or results to be obtained from the implementation of an activity in a mid-term period. They should be further broken down into the progress to be obtained at a tentative level by each year of the mid-term period.

Targeted indicators should demonstrate the product to be obtained as a result of the implementation of a specific activity. It may be expressed in quantitative or quantitative indicators.

Example (1)

If a targeted indicator of an activity is quantitative and implies 100% of the beneficiaries to be covered in a mid-term period as a result of the activity with a quality service, it should indicate what percentage of the beneficiaries will be covered in the first, second and following years of the implementation. Alternatively, it should indicate which segment of beneficiaries will be covered with a basic package in the first year, improved package in the second year, much greater package in the third year and full package in the fourth year.

If the activity indicator is not quantitative and implies the introduction of a new regulation, its mid-term indicator may be the enforcement of such regulation, while it can be prepared as a draft law and submitted for consideration by the end of the first year, agreement on the final draft and endorsement by the second year, piloting in the third year and enforcement of the law in the fourth year.

Indicator demonstrating the actual reality, i.e. baseline indicator should be reflected in the document for each activity by the moment it is launched.

Example (2)

Baseline indicator for the above case (2) may imply that presently covered 5, 0 per cent or all beneficiaries get the low level of the basic package.

In the second case, current indicator may imply that no regulation exists or there is no draft law that could regulate the issue, or even there is a regulation that does not comply with international standards, etc.

It is important that relevant source of data required for the measurement of indicators is indicated.

D) Source of Funding

Source of funding should indicate which program of the Mid-Term Plan of the line ministry will finance the activity, also whether additional sources are available from a donor or fees charged by the institution for various services. It may also indicate whether there is a need to solicit additional sources of funding.

E) Costing

Each activity should be supported with a costing to define the expenses to be incurred for individual activities. Methodology of costing is individual in most cases, though the following need to be considered:

- o When an activity is related to intellectual work carried out by the Office of the Ministry (other agency) costing will use man/hours as a unit of measurement;
- o If a program cost depends on the number of beneficiaries, costing will use the number of beneficiaries as a unit of measurement;
- o If a program envisages creation of a new infrastructure or making of a product, rather than intellectual work only, costing will use the expenses required for creation of the product (with intellectual work calculated in the first clause, provided it is not part of another activity or if it can be separated);
- In preparing the costing, it is also possible to use alternative ways, whereby an average cost of maintenance of an institution/unit is used as a unit of measurement (can be calculated from total expenses of several past and current years), which may then be broken down into agency/unit competencies and respective percentages in such total expenses. This approach is easier to use in cases when staff competences at

an institution are not clearly divided and all of them work on common duties at different periods of time. Hence, it is difficult to calculate the cost of time spent on tasks of various complexity.

F) Additional Funding

If an activity should be costed by the current reality, on the grounds of the available funding for the respective years (same activity may be implemented differently in the conditions of different volumes of funding, e.g. carried on for more years, planned with lower scope, covering less beneficiaries, with a varied degree, etc.) in drawing cost tables and when indicating the sources of funding. Nevertheless, it is desirable for a cost table to indicate the full amount of funding required for a wholesome implementation of an activity, along with the number of beneficiaries and target indicators. Such information is essential for general planning and in possible discussions with donor agencies to clearly demonstrate the needs.

G) Activities for Current and New Policies

Each activity indicated in the Action Plan needs to indicate whether it is implemented within the current policy, is its extension or falls under a new policy and reform.

It is essential as focus in the Action Plans is primarily made on the activities and allocation of funding for the current liabilities and programs/sub-programs (if a program/sub-program did not exhaust itself and is required to maintain it in the current form), while the actions of new programs/sub-programs and projects are costed and sources of funding defined in the Action Plan for the maintenance of the current policy.

It is desirable see information obtained as a result of analysis of plans from previous years in the introduction of the Mid-Term Action Plan adopted by line ministries in the introduction of the plans, along with the opportunities of their incorporation in the new Action Plans.

2.2. Development of Mid-Term Action Plans

Development of Mid-Term Action Plans required a comprehensive approach. On the one hand it should envisage the application of “top down” approach of planning and it should thereby involve the “bottom up” principle.

Mid-Term Action Plan of any institution should emerge from priorities of more global strategies. Such global documents are deemed to be the Government Program for Strong, Democratic, Unified Georgia, Socio-Economic Development Strategy – Georgia 2020, Basic Data and Directions Document, various sector development strategies, along with aims and goals defined by the line ministry in its Statutes.

By taking into account the abovementioned, it is essential to have senior management of the line ministry/public institution engaged in the development of the Action Plan who have the best vision of the activities laid out in the Action Plan within a common policy context.

Along with the abovementioned, it needs to be noted that in contrast with strategies, Action Plans define specific activities rather than define a framework. They are the so called Operation Plans, according to which these institutions will function within a mid-term/respective period of time. Respectively, these activities by essence describe rather specific and detailed activities. This task requires the engagement of staff who actually implement them, i.e. individuals who are positioned closest and have a detailed knowledge of the current process, see their challenging sides and opportunities of improvement.

The above implies that development of a Mid-Term Action Plan cannot be a competence of a single structural unit of an institution. Process should engage the entire institution as a necessity. Responsibility over each activity indicated in the Action Plan should rest with the respective structural unit that implements it not only at the level of implementation, but also during planning.

It is desirable for line ministries to have a specialized work group, which will be engage every Deputy Minister, Directors of all Departments and managers of all the subordinated and system institutions. The said workgroup should be coordinated by a Fiscal Unit and managed by a respective Deputy Minister/Minister (if s/he is the line manager of the segment). Nevertheless, it does not imply that the Action Plan is to be developed by the Fiscal/Finance/Budget/Economic Unit/Department. The referred unit is responsible for the compatibility of the activities laid out in the Action Plan with the targeted threshold allocations from the Budget. It should also supervise the process of costing for the said activities. Mid-Term Action Plans should be planned directly by the units that implement policies. They should make sure that assumed duties, functions and actions are carried out in line with various strategic document, plan the specific aims and goals for a mid-term period, along with measures to achieve them in a realistic manner – both in terms of human and financial resources. With this aim in mind it is essential that Fiscal Unit of a line ministry

defines so called ceilings for each direction by taking into account the tentative volumes of funding defined in the BDD Document. Also, it is desirable that sub-groups are established within the above-referred Work Group to cooperate with the Fiscal Unit of the line ministry on the development of their segments of the Action Plan within their competences. Each such sub-group should include the official of the lead department, officials from the agency (legal entity of public or private law) implementing the activity, officials of the Fiscal Unit, Legal Department, HRM Department and other general profile departments. It is also possible for the officials of the Ministry of Finance of Georgia to be present in various groups.

Preparation of a Mid-Term Action Plan for the year to plan and the following 3 years is desirable to start from January of the current year. For the purposes of BDD Document, programs suggested to the Ministry of Finance of Georgia should emerge from the Action Plans of such type. They should be readily available by June 30, when line ministries are required to adopt their Action Plans, while aims and goals of the line ministries laid out in their Mid-Term Action Plans need to be considered in the development of programs and sub-programs while working on their budget claims after the first draft of the BDD Document is prepared.

Also, the above described approach is possible to be applied in the preparation of Action Plans for Sector Strategies by an institution responsible for the strategy.

Example (3)

Coordination Council has been established with an Order of the Minister of Finance of Georgia for the implementation of a Public Finance Management (PFM) Reform Strategy (covering 4 years) with the following aim: for the stimulation of implementation of a Public Finance Management (PFM) Reform Strategy, coordination of subjects operating within the system of the Ministry of Finance of Georgia, also for the development of a draft Action Plan of the respective year, suggestions and expertise opinion. It is chaired by the Minister of Finance and includes Deputy Ministers, managers of subordinated institutions, legal entities of public law, structural units operating within the system of the Ministry of Finance, along with the invited officials (from the Parliament of Georgia, public institutions, respective international and non-government organizations).

Work Group(s) are established for the development of topics and recommendations within the competence of the Council.

Coordination Council Meetings are held once in every three months and as required.

Coordination Council develops proposals for the PFM Reform Strategy, prepares a draft Action Plan

for the respective year within the Reform and submits it to the Minister of Finance of Georgia for approval. It also develops proposals and recommendations to update and improve the Strategy; facilitates the preparation of quarterly and annual reports on the execution of Action Plans; coordinates the operation of subjects functioning within the system of the ministry within the process of execution of the Action Plan in the respective year; monitors the implementation process of the PFM Reform Strategy and Action Plan of the respective year.

Structural unit responsible for each activity prepares relevant information (by taking into account the essential human/time/material/other resources) for the preparation of the activities laid out in the Action Plan.

2.3. Evaluation of Mid-Term Action Plans

Mid-Term Action Plans are adopted on an annual basis for a period of 4 years, which implies that they are subject to updates every single year.

Every stage of standard process: planning, implementation, evaluation and reporting needs to be used to turn the mid-term planning into a regular practice.

It is particularly essential to evaluate the plans so that they do not remain as mere plans. It needs to be assessed to what extent they were executed and thus they need to be compared with the original plans. Main purpose of the said evaluation is not to “punish” anyone for a failure in the execution of such plans. Primary goal of the evaluation and reporting is to analyze what affects the difference between the plans and actual execution, whether problems arise at the stage of planning or execution, what can be done for better planning or for a better implementation of the original plans.

Internal mechanisms need to exist to ensure the above. Prior to the development of new Action Plans within the same Work Group on an annual basis it is desirable to report and analyze the plans and results attained in previous years. Also, it is desirable to analyze the actual execution of the past 4 years in every 2 years against the Mid-Term Action Plan covering the respective period.

Monitoring of the operation results should be based not only on financial reports (which implementing agency spends the resources by economic classifiers), but rather linkages between the plans, attained results and their effectiveness. It is essential to define the

assessment (performance indicators) and related goals for the monitoring of operation results. The latter leads to the validation of achievement or failure of the anticipated results by applying the available resources. After analyzing the reasons it is possible to ultimately adjust the program policies and implementation mechanisms.

3. Program Budgeting

3.1. Recommendation on Planning the Program Budget and Coordination of the Reporting Process

Planning of the program budget involves the planning of programs/sub-programs in a mid-term period as envisaged in the annual budget. Mid-term planning and reporting of the budget allocations is a process and it is essential for line ministries to adopt a proper approach to facilitate this process and ensure the engagement of every party for their contributions in the mid-term planning and budgeting.

Some Work Groups that are referred in the paragraph on the Development of Mid-Term Action Plans (Chapter 3.2) may be used for this goal also. Their meetings are held by the budgeting calendar to take relevant decisions.

Engagement of the comprehensive Work Group in the preparation of an annual budget will facilitate the creation of a more appropriate approach towards the budgeting process in the management of the institution and will ultimately lead to the introduction of a goal-driven budget system.

Work Group considers various options of cost allocation and adopts the final plan of expenses after the spending institution is finished with a definition of budget allocation and number of employees by a spending institution in line with the legislation. At this stage it is justified to define threshold volumes (so called sub-ceilings) for programs and sub-programs. Subordinated organizations, legal entities of public law and structural units of line ministries are required to present their budget claims in the format defined by the Work Group and within the pre-defined thresholds, but when additional allocations or increased number of staff are requested Work Group considers the justification and arguments to make a final decision on the distribution of budget allocations and number of staff and/or decision on submitting the budget claim to the Ministry of Finance above the pre-defined thresholds. Final draft of the budget claim with a consent issued by the Work Group is ultimately submitted to the Ministry of Finance of Georgia.

3.2 Budget Structure

Planning with a program budgeting methodology implies the focus in the State Budget to be

made on the expected results of the planned programs and their performance indicators, rather than budget allocations for budgetary organizations, which should be taken into account in the Draft Law on State Budget with the following structure:

Major Indicators of the State Budget (Chapter One)

Balance Sheet of the State Budget by budget classifiers is presented in this chapter. Data should be presented for past and current years, while the information on the year to plan should be divided into those that are to be financed from the budget and others to be financed by donors. Also, this chapter should include information on the total actual revenues and expenditures of the State Budget, along with the balance adjustments.

State Budget Revenues (Chapter Two)

Revenues in the referred chapter should be further broken down into budget classifiers and data should be presented for the year to plan, as well as for the past and current years.

State Budget Expenses, Non-Financial Assets and their Functional Classification (Chapter Three)

Total volume of expenses should be presented in this chapter, along with the total increase of non-financial assets broken down into spending institutions, total reduction of non-financial assets broken down into main categories of budget classifiers and functional classification of expenditures and increase of non-financial assets.

Total Balance of State Budget, Adjustments of Financial Assets and Liabilities (Chapter Four)

Following information is to be presented in this chapter:

- Total balance of the State Budget;
- Volume of increase and reduction of financial assets broken down into the budget classifiers for past, current and following (budgeted) years;
- Increased volume of the public debt, including those owed toward international financial institutions (IFIs) and governments of foreign countries by the Government of Georgia through long-term investment, concessional loans broken down into projects of past, current and following (budgeted) years;
- Reduced indicator of liabilities for past, current and following (budgeted) years;
- Targeted threshold amount of the sovereign debt by the end of the respective year broken down by creditors (except for the Sovereign Securities).

State Budget Priorities and Programs (Chapter Five)

Priorities of the State Budget are presented in this chapter, along with programs (sub-programs/activities) to be implemented by spending institutions with State Budget allocations during the respective year within such priorities, along with their descriptions, aims and goals.

Each program should be related to the priorities of the country and be implemented for the achievement of such priorities, though State Budget may also finance such activities that do not serve to specific priorities, but sub-programs and activities planned within them may play a crucial role in the execution of state duties and their implementation is essential for every priority.

- **Program**

Program is a set of activities to be implemented for the achievement of priorities defined in the State Budget, which are grouped by common substance and are implemented for attaining a single ultimate result in a long run. Blanket responsibility over the implementation of the program rests with the spending institution and its implementing agency may be the spending institution only or a budgetary organization subordinated to its control/system.

It is essential to have allocations from the State Budget for programs indicated in the State Budget for the respective year and have an applicable program code.

Programs should be elaborated by the competence of the spending institution. Blanket responsibility over the implementation of a single program rests with one spending institution.

In majority of cases programs by essence are long-term and permanent, though it is possible to have programs by their specific nature that may generate a final result within one or several years.

Description of each program is presented in Chapter 5 of the Law on State Budget of Georgia, along with their aims and goals, activities planned within such programs and anticipated achievements.

Program may be of several types, however all of them should represent a set of such activities that serve to the attainment of common ultimate results, i.e. priority aim and goal. Program should have its goal and budget.

Program by its substance may in principle be for:

- **Management and Regulation**

Program belongs to this type if and when it covers activities that are of administrative nature and facilitate the proper operation of the system and/or is related to the development of a state policy in the respective sector and regulation of various issues. Program of this type may be purely administrative and management, when it covers only those activities that relate to the maintenance expenses of the office. But if apart from the administrative issues a program includes activities implemented by policy-making structural units, they fall under the category of policy regulation programs.

Majority of ministries have departments working both on technical issues of operation and policy-making in the relevant sector. By taking this into consideration, Central Offices of ministries if not falling under any specific program should be formulated as a policy-making and management program in the applicable sector. In such conditions, programs belong to the type of management and regulation, while if a Central Office of the ministry covers only expenditures required for administration and operation, they also fall under the Management and Regulation type.

Calculation/costing of expenditures for a Management and Regulation Program is an individual exercise. Nevertheless, it is possible to consider the following circumstances in its calculation: description and goals should be elaborated for a program (e.g. Central Office/Administration of the Ministry or LEPL). Expenses incurred on the administration of a program in past of current years may be used for costing the required activities to achieve the referred goals. It may lead to the calculation of man/hour or man/day rates.

Tentatively cost of human labour a day/hour is defined – actual administrative (office, telecom and others) expenses (apart from remuneration) are divided by the total number of staff, which leads to the expenses incurred on a person per day/hour, net of remuneration. Afterwards we calculate the average remuneration per day/hour and total for a man a day. Cost of activities are calculated afterwards by taking into account the number of people performing the activity during a required number of hours/days.

If any specific service delivery or procurement of a certain hardware or inventory is planned within a program, cost required for the relevant activity should be taken into account.

- **Service Delivery**

Program of this type is aimed at certain long-term results and/or serve to the needs of a permanent aim and goal. Activities that render services directly to beneficiaries without requiring subsidies fall under such programs. Short-term results of its sub-programs are defined by specific qualitative and quantitative indicators. State funding in such conditions is allocated for activities that directly benefit the population or non-for-profit institutions.

Calculation/costing of expenses for programs of this type is possible by the number of beneficiaries. Also, if required cost of man/hours for people employed within the program should be added to the calculation, similar to the calculations for Management and Regulation Programs.

- **Subsidy**

Sub-programs and activities for programs of similar type are aimed at various social/citizen or institution subsidies in the form of support and co-participation by the state. Performance indicators of sub-programs within the Subsidy Programs are also presented in quantitative indicators, while the ultimate result of the program in most cases will manifest in the improved living standards or social condition of population, which is also measured with applicable indicators.

In such cases costs are calculated by quantitative indicators (number of beneficiaries, number of individual institutions). Also, if and when required calculations should be added with costs envisaged in the program for employees by man/hours, which are calculated in the case of Management and Regulation Programs.

- **Infrastructure/Capital Expenditure**

Sub-programs implemented within such programs mainly serve to the need of various infrastructure development, construction, rehabilitation or refurbishment. Output of programs in most cases will be the streamlined infrastructure of large institutions and facilities, while the outcome will be the effect served by such infrastructure. Majority of performance indicators of such programs are presented as quantitative indicators. Most programs of this type will also be capture in the Annex of the Capital Budget.

Program costs will be calculated for the implementation of specific activities (construction, rehabilitation and refurbishment) by the required financial resources. If the implementation of a program is related to intellectual work, costs by man/hour will be added.

Program durations may be as follows:

- **Current (Permanent)** – when a program covers issues that are the core functions of a spending institution in line with the law and are implemented on a permanent basis;
- **Multiple Years** – when a program serves to the need of a problem solution, new policy-making, introduction of a new system or service, etc. Most programs should be implemented for multiple years, as they should serve to the need of achieving global outcome. Activities implying the achievement of outcome in a short run (within a year) should mostly be formed as sub-programs, which thereby fall under a program.

- **Annual (Short-Term)** – in rare and specific cases, when outcome of a program may be achieved within a single reporting year, program may even be short-term. Such programs may be the ones that lead to the attainment of ultimate results upon the completion of a program implementation and it will not be part of another process.

Apart from programs, State Budget may finance such spending institutions that do not submit programs and sub-programs in the Law on State Budget within their competencies, but bear essential importance for the operation of the country. If the spending institution is not captured in the Law on State Budget by the program structure, Chapter 5 should by all means elaborate on the aims of its functions.

Spending institution should take into account the following factors in identifying the programs:

- Program should comply with any of the priorities of the country defined by the Government of Georgia;

- If it is impossible for a spending institution to identify the cost of its major functions and administration, main program of the spending institution should include the cost of administration;

- Only one spending institution is kept responsible for the program implementation and achievement of final results, while the implementing agency of sub-programs within programs may be several budgetary organizations subordinated to the control of such spending institution;

- We need to take into account that a program is the main category of a program budget, which will have a plan endorsed with the Annual Budget Law.

- **Sub-Programs**

It is possible to divide a program into main directors, i.e. sub-programs after identifying the programs (as it happens in most cases). They will have an implementing budget organization subordinated to the control of the respective spending institution in majority of cases and will deem to be a set of activities required for the achievement of a specific outcome. Sub-programs are by substance divided into the same types as programs.

Sub-program is related to outputs. Implementation should lead to specific conditions that facilitate the achievement of program outcomes. Sub-program by essence should be elaborated within the scale of the budgeted year. It should have a specific result, which may be achieved within one reporting year.

Description of individual sub-programs may be presented in the State Budget, along with

their aims, goals and volume of funding. It is not essential to indicate the volume of funding for sub-programs of such programs that by substance are categorized as Management and Regulation.

Considering its substance and volume, a sub-program may be further broken down into sub-programs (at a technical level), majority of which may not be captured in Chapter 5 of the endorsed Annual Budget, though their division at this level is essential by taking into account the substantial or technical goals of implementation and proper accounting of programs/sub-programs.

- Substantial goals imply the identification of accounting of any specific activity from a general sub-program (for more transparency and information purposes). Sub-programs of such type in frequent cases may coincide with activities envisaged in Mid-Term Action Plans;
- Technical goals imply the break-down of programs/sub-programs at the level of an implementing agency, e.g. budget allocations for the sub-program on Access to Vocational Education and Quality Improvement are managed by respective vocational education institutions. Hence, break-down of the sub-program at the technical level is essential with the degree of detail that falls within the competence of a single vocational education institution.

Line ministries and other spending institutions need to formulate their sub-programs so that one budgetary organization (or its structural unit) is kept responsible for the implementation of each of them. At the same time, it is possible for one budgetary organization to carry out several sub-programs.

Programs that are mainly related to the implementation of infrastructure projects may be divided into various capital projects, rather than sub-programs. Though by their substance, these capital projects would constitute to sub-programs.

Every program/sub-program is broken down at the level of sub-programs in the Annual Budget for the purposes of technical implementation of a program. This is to make such sub-programs (activities) have one budgetary organization as an implementing agency.

Allocations and Program Financing (Chapter Six)

Allocations of the State Budget for a program to be implemented within a budgeted year should be presented in the referred chapter, along with volumes of funding of the spending institutions that are not presented in the budget with a program structure. Also, this chapter should include the allocations for general expenses of various categories of sovereign importance as provided in the legislation of the country.

Programs and their funding should be grouped into spending institutions. Total volume of funding for each spending institution, all programs, sub-programs and activities indicated in the referred chapter should be broken down into by Tier One Economic Classification of Expenses of Budget Classifiers, while the Non-Financial Assets and their Transactions, Financial Assets and Liabilities, Classification of their Transactions need to be presented as Tier Two. In addition, category of Expenditures by budget classification should indicate allocations for Remuneration. Same chapter should also present the staff listing of the spending institutions.

Funding of a program in the Annual Budget Law should be presented for future, past and current years. In addition, allocations for the future (budgeted) year should be singled out into budget allocations and donor funding.

Transfers to Autonomous Republics and Local Authorities (Chapter Seven)

This chapter should present a detailed information on the transfers envisaged in the Annual Budget Law for the Autonomous Republics and each Local Authority, along with their break-down and type – equalization, targeted or special transfers.

If and when a targeted transfer is allocated, it needs to indicate which delegated activity will be financed with these funds.

Regulation Norms (Chapter Eight)

This chapter should present the major line items that are to regulate the issues related to the state budget execution throughout the budget year.

3.3 Materials Enclosed to State Budget

In line with the Budget Code of Georgia, BDD Document and Draft Annual Budget Law are submitted to the Parliament of Georgia together with the enclosed materials including the following:

- Explanation Note on the Draft Budget Law, presenting the major macroeconomic indicators and fiscal projections with their descriptions covering the main programs and activities with volumes of funding elaborated in the Draft Budget Law;
- Short overview of budget execution in the current year;
- Set of legislative amendments required for the enforcement of the Annual Budget Law.

In parallel with the introduction of program budgeting, two sets of enclosures will be added

to the attachments to the Draft Budget Law:

1. Annex to the Program Budget, presenting detailed information on each program included in the State Budget;
2. Annex to the Capital Budget, presenting information on capital projects financed from the State Budget.

Annex to the Program Budget

Main information about the programs should be presented in Chapter 5 of the State Budget Law and namely full information is laid out in the main part of the law specifying the purpose of the program, main sub-programs and activities included in such programs and aim of their implementation.

Information will be presented in the Annex of the Program Budget in relation of the program that will not be approved by the Parliament of Georgia and no legally binding power will be granted to it. Main reason of it is that it will be rather hard to accurately define the expected results and performance indicators at the inception phase of program budgeting. If they were to be approved in the law, charges could have been brought against the agencies implementing some programs and/or sub-programs in case of their failure. This would not fall under the best practice of program budgeting. Expected results and performance indicators should be brought forward to the legislative level gradually, when the implementing agencies of programs and sub-programs will gain relevant experience and program management practice.

Information should be presented by priorities in the annex of the program budget and it should include the funding of all programs and respectively, total sum of funds allocated to priority, along with the expected outcome of the program implementation and performance indicators of this outcome, expected output of sub-programs/activities implemented within such programs, with their respective performance indicators.

Annex to the program budget should be presented in the following structure:

- Part One should present information on priority funding by programs included in them and namely:

Program Code	Name	Year	o/w Budget Funding	o/w Own Resources	Budgeted Year +1	Budgeted Year +2	Budgeted Year +3
Total Priority Funding							

Afterwards, following information should be indicated for each program:

- Program Classification Code;
- Program Name;
- Implementing Agency;
- Program Description;
- Expected Outcome of the Program;
- Performance Indicators of the Expected Outcome of the Program (by indication of the Baseline and Targeted Indicators).

Program Name (Program Code)				
Implementing Agency				
Program Description and Goals				
Expected Outcome				
Performance Indicator of the Program Outcome:				
Nº	Baseline Indicator	Targeted Indicator	Possibility of Deviation (%/Description)	Potential Risks
1.				
2.				
3.				
4.				
5. (Gender, if applicable)				

Afterwards, information should be presented on the sub-programs/activities included in them and namely:

- Program Classification Code, in line with Chapter 5 of the State Budget Law;
- Name of the Sub-Project/Activity;
- Implementing Agency (or its structural unit);
- Description of the Sub-Program/Activity;

- Expected Output of the Sub-Program/Activity;
- Performance Indicator of the Expected Output of the Sub-Program/Activity (by indication of the baseline and targeted indicators).

Name of the Sub-Program (Program Code)				
Implementing Agency				
Description and Goal of the Sub-Program				
Expected Output				
Performance Indicator of the Expected Output:				
Nº	Baseline Indicator	Targeted Indicator	Probability of Deviation (%/Description)	Possible Risks
1.				
2.				
3.				
4.				
5. (Gender, if applicable)				

Output and Outcome

Main purpose of the program budget being a result-oriented budget is to present the outcome well of the program it is aimed at. Program budget uses output and outcome to measure its performance.

Outcome by substance is a global aspiration and mainly presents results of the program. This is a condition, when a pre-defined and analyzed policy is implemented to reach it. Outcome implies full eradication of a certain problem, establishment of an essentially new condition, introduction of new rules, substantial improvements in the respective area, which affects the country priorities. Outcome is in most cases achieved through efforts made throughout multiple years and when it is reached it implies that the program is terminated entirely or in the current form. Nevertheless, programs that are permanent by nature and serve to the needs of main affairs of the country, outcome tends to be general also, aimed at the maintenance or improvement of the situation in a stable manner. Thus achievement of an anticipated result in this particular case may not signal at the completion of a program.

In contrast with the outcome, output by its sense is a product developed as a result of a

specific sub-program/activity implemented within a program. It is much more specific than the outcome. In most cases it is expressed in specific numbers or other quantitative manner and does not signal at the completion of a program, but rather a set of steps made towards the ultimate goal. Therefore, it measures the progress made towards such goal.

Respectively, outcome is defined for a program, while the output – for its sub-programs. Their performance indicators also differ.

Deadline for the achievement of an outcome is a timeframe allowed for the program implementation, while for an output – it is mostly annual (linked with the budgeted year).

On the other hand, output may be used as an indicator of a progress towards the outcome.

Annual Budget Law should elaborate on the description and goals of programs (sub-programs) to be implemented within the country priorities, while the output and outcome will be described in the materials attached to the State Budget.

Spending institutions should pay great attention to the accurate formulation of outcome and output in defining their program budgets. Results should reflect those future conditions, which are aimed by the program and sub-program. Results should be formed clearly and specifically, while ways leading to them should be presented in the program (sub-program/activity) descriptions. Proper and clear formulation of output and outcome will enable a correct and easy measurement of the achieved results, thereby identifying and analyzing the reasons for deviations between the planned and achieved results if any. It will ultimately help in the consideration and adjustment of such faults in sector strategies and mid-term action plans of line ministries and public institutions.

Spending institution as a whole and its management is kept responsible for the achievement of program outcome, as they plan and manage the programs, while the budgetary organizations (or structural units within them that are mandated to implement the sub-program/activity) implementing sub-programs and activities within such programs should be kept responsible for the achievement of their goals.

Outcome of a program in most cases is single. Sometimes several outcomes may be defined, though by taking into account the current volume of programs and practices (programs are mainly global by nature and outcome is respectively global) it is justified to have no more than 3 outcomes defined for each program should.

Performance Indicators

Description of programs, sub-programs and activities to be implemented within them is a foundation for the formulation of performance indicators. The latter serve as a measurement of the achieved goals, defining the degree of progress made in achieving the program goals. It

is essential to conceptualize on the differences between the outcome of the program and sub-program output while defining the performance indicators. Program outcome is the desired condition, which will benefit the society at large, while the output achieved by implementing sub-programs is the information presented in specific and measurable units, such as: number of obtained products, quality of the service delivered, number of beneficiaries, etc. Performance indicators of outcomes measure the achievement of the core mission of the program and often it is impossible to fit the measurement within a year. Respectively, performance indicator of the program outcome covers multiple years or the entire period of program implementation. Indicators of progress may be used to assess the performance of the program within a year, i.e. part of activities implemented to achieve the program outcome by the end of the reporting period. Performance indicators of the program outcome may not be one-off and short-term. Process of assessment is continuous and should be aimed at the permanent control of quality. Excess use of performance indicators also lead to ineffective results. Hence, each expected result should have no more than 5 performance indicators assigned to it.

In addition, by taking into account the specific nature of programs and needs, it is essential that programs sensitive to gender issues include one performance indicator among others to assess the performance of the program in this area.

It needs to be taken into consideration that Management and Regulation Programs and Sub-Programs, which tend to be purely administrative, it is not essential to present performance indicators.

Performance indicators should measure the goals, which is realistic and achievable. Following criteria need to be taken into account while defining the performance indicators:

- **Specific** – clear and easily understood for every stakeholder to conceptualize;
- **Measurable** – assessment should be made possible;
- **Achievable** – possible to implement and expected results should not be assessed in an overly optimistic or overly pessimistic manner;
- **Relevant** – indicator should be selected as being most relevant to the expected result.

It should adequately measure it and be realistic;

- **Termed** – assessment of the achievement should be made possible at different periods of time.

Performance indicators may be quantitative, cost-based, qualitative, relating to effectiveness and/or efficiency and all of them should be verifiable.

- Quantitative indicators describe the results to be obtained within the programs/sub-

programs under the category of “how much/many”;

- Qualitative indicators assess the quality of delivered service and achieved results;
- Cost-based indicators measure the program/sub-program results by the cost incurred on their implementation;
- Effectiveness indicators provide information on the justification of the achieved result against the utilized resources;
- Efficiency indicators assess the impact of the achieved result in contrast with the prior condition.

At the same time, at least one qualitative indicator should be indicated along with quantitative ones while assessing the programs (especially in the case of service delivery program/sub-programs).

By taking into account the aforesaid, increase, improvement, refinement are not the performance indicators by the above criteria. It is especially true as they do not imply a measurement unit and it is impossible to monitor them. This issue may be regulated by collecting the required data so that most realistic and measurable indicators are formulated. Initially it is possible to plan the relevant activities for the creation of essential database to define the system of performance indicators in a mid-term period.

Example (3)

One of the goals of the Criminal Justice Reform is to establish a system of prisons and penitentiary institutions of international standards.

One of the outcomes of the program may be the creation of conditions for prisoners complying with international standards. Performance indicator in this case will be the creation of 100% of relevant standards to prisoners or compliance of all the penitentiary institutions (100%) with international standards. In addition, it is essential to indicate the situation existing at the beginning of the budgeted year in the baseline indicators. It is desirable also to refer to the verification means (e.g. study carried out with a specific method, Ombudsman’s Report, findings of an assessment made by an international organization).

Establishment of Prisons and Penitentiary Institution Complying with International Standards within the referred program is an aim of its sub-program with an aim of introducing international standards at prisons and penitentiary system institutions by improving the conditions and living standards of inmates and by maintaining their legal guarantees.

Output of the sub-program may be the improvement of conditions and living standards of the prisoners.

Performance indicator of the sub-program output should be the number of prisoners by the end of the specific budgeted year that has their living standards improved (in nominal or percentage terms) and/or the number of

penitentiary system institutions (in nominal or percentage terms) that will be approximated to the aspired standard. In addition, baseline data should include the situation existing at the beginning of the budgeted year. It is also desirable to refer to the verification means (e.g. study carried out with a specific method, Ombudsman's Report, finding of an assessment made by an international organization).

3.4 Appendix to the Capital Budget

Budget Code of Georgia envisages the formulation of a Capital Budget along with the Program Budget from 2012. By nature, it is a Program Budget of an investment type. Hence, it is part of a program budget and will be presented as an Annex to the State Budget Law.

All the projects indicated in the Capital Budget represent the programs of the Annual Budget Law, thus being an integral part of it. Though, Capital Annex will collate all the capital projects financed from the State Budget and activities carried out within them. Projects laid out in the Annex will be grouped by their substance, rather than by their spending institutions.

It needs to be taken into account in the formulation of a Capital Budget that all those funds that are presented in the Annual Budget Law as an Increase of Non-Financial Assets are not a capital project and components of a capita project may be a cost item in the budget allocations. Also, earmarking under the Increase of Financial Assets in the Annual Budget Law may be capital projects by taking into account that allocations from the referred line item are often channeled to crediting and/or capital increase of state-owned enterprises to carry out large capital projects.

Besides, it is possible to have various capital projects implemented with a shared funding of the public and private sectors. In this case, State Budget and its annexes will present only the public funding allocated from the State Budget, though the project description should by all means indicate the cash contribution of the private sector and thereby refer to the obligations assumed by both public and private sectors.

Capital projects with no funding allocated from the Annual Budget Law should not be presented in the Annexes of the Budget either.

Capital Budget mainly implies large projects that are for investments by nature, i.e. outcome reached within the project should become part of an economic activity or significantly incentivize the economic development. Capital Projects imply the creation of large infrastructure or substantial and essential improvement of the existing one. In addition, there may be such capital projects that are not directly related to the economic development of the country, but fall under a government priority (e.g. rehabilitation of school buildings, upgrades of agricultural hardware, etc.). All capital projects that have funding allocated from the State Budget should be related to any of the priorities defined by the Government of

Georgia.

Capital Project should meet the following terms and conditions:

- Construction-rehabilitation costs should not be less than 50 000 GEL and life span of the created product should not be less than 5 years;
- Machinery and other equipment (except for the military hardware, weapons and other ammunition), also software acquisition, total or item cost should not be less than 150 000 GEL, while their life span should not be less than 3 years;
- Cost of a project should cover all the expenses related to the project, including the design, making, transportation and taxes envisaged in the legislation.

It is possible for a spending institution to have several small capital projects of the similar type and none of them complying with the above terms and conditions. In such cases the project should be grouped by their substance and formed into one project, while relevantly smaller projects will be presented in the Annex of the State Budget in the form of its Sub-Projects.

It is possible to have projects that do not meet the above terms and conditions, however their significance may lead to their presentation as a capital project.

Capital Annex of the Annual Budget Law will be divided into two parts. First one will present all the projects and their funding volume. The latter should include the total project cost incurred and planned from the State Budget. It should be presented according to the following table:

Code	Name	Tentative Project Cost	Actual Cost, Including Last Year	Projection for the Current Year	Projection for the Budgeted Year	Projections for Budgeted Year +1	Projections for Budgeted Year +2	Projections for Budgeted Year +3
	Project N1							
	Sub-Project N1							
	Sub-Project N2							
	Sub-Project N...							
	Project N2							
	Sub-Project N1							
	Sub-Project N2							
	Sub-Project N...							
	Project N...							
	Sub-Project N1							
	Sub-Project N2							

The table above may collate capital projects planned by various spending institutions and present them as sub-projects for each spending institution.

Second part of the Annex should present the description of each project and sub-project, along with the following information:

- Government Priority, within which the project is implemented;
- Project implementing agency;
- Outcome expected upon completion of the project;
- Total project cost;
- Sources of funding for the project, including the resources allocated from the State Budget, donor financing, grants and loans;
- Main activities envisaged under the project throughout the budgeted year.

Project Name	
Program Code of the Project	
Priority, within which the project is implemented	
Program code and name, which is assigned to the project by program budget classification	
Project implementing agency	
Project description and goal	

As capital projects are part of the program budget and respectively their expected outcome and performance indicators are presented in the description of programs and sub-programs, Annex of the Capital Budget does not include a part on anticipated outcomes and performance indicators.

4. Annual Report on State Budget Execution and Quarterly Reviews

In line with the Budget Code of Georgia, Ministry of Finance prepares and submits Quarterly Review of the State Budget Execution to the Parliament of Georgia within one month from the end of every quarter, while the Annual Report on the State Budget Execution of the Past Year is submitted to the Parliament of Georgia within 3 months' time from the end of the budget year.

As the majority of programs and sub-programs envisaged in the State Budget last throughout the year and some of them by their specific nature may start several months after the start of the budget year, it is impossible to analyze the results achieved in the reporting period by the moment of the Quarterly Review. Also, it will be impossible to evaluate the achievements in

a certain period of the year for programs mainly planned for a long-term period and sub-programs spanning for one budgeted year by applying these indicators.

Irrespective of the fact that after the introduction of the program budgeting approach, main focus will be made on achievements made under various programs and sub-programs, Quarterly Overview of Budget Execution should still present information on planned and actual fiscal data. Quarterly monitoring of budget execution should be ensured by internal audit units of spending institutions for the incorporation of internal control mechanisms in the budget cycle and audit by random selection, so that progress achieved towards outcome and output gets assessed.

Semi-Annual Overview of State Budget Execution should present the fiscal data, along with information on the performance of the planned programs.

In addition, Semi-Annual Overview of State Budget Execution should be attached with actual data of semi-annual budget execution of legal entities of public law (LEPLs) as defined by the Government of Georgia.

In contrast with the Quarterly Overviews of State Budget Execution, Annual State Budget Execution Report should present fiscal data and information on programs implemented during the past budgeted year, along with the achievements made.

Annual Report on State Budget Execution should be prepared according to the following structure:

Chapter One

Balance Sheet of the State Budget by budget classifiers is presented in this chapter. Data should be presented for past and current years, while the information on the year to plan should be divided into those that are to be financed from the budget and others to be financed by donors. Also, this chapter should include information on the total actual revenues and expenditures of the State Budget, along with the balance adjustments.

Chapter Two

- Part One should indicate the macroeconomic analysis for the past year and information on the real growth of the Gross Domestic Product (GDP) and nominal indicators, inflation, investments made and other macroeconomic indicators;
- Part Two should indicate the overview of consolidated budget revenues (net of increase in liabilities), projected and actual execution by main categories;
- Part Three should indicate the overview of State Budget Revenues (net of increase in liabilities), their projected and actual execution. These data should be further broken down

into the same level of detail as in the Annual Budget Law. In addition, information on grants should be presented, along with grants and targeted funding received by budgetary organizations throughout the year. This information should be indicated by donor agencies and projects.

Chapter Three

Following information should be presented in this chapter:

- Aggregated data on the expenditures made from the State Budget;
- Significant activities funded from the State Budget;
- Expenditures by main categories of functional classification;
- Execution of spending as envisaged in the Total State Budget Expenditures;
- Data on the transfers made to the Autonomous Republics and Local Authorities indicated by territorial units.

Chapter Four

Following information should be presented in this chapter:

- Total actual balance;
- Increase and reduction in financial assets;
- Amount of freely available opening and closing balance of the State Budget;
- Increase in state liabilities;
- Volume of securities issued during the year;
- External borrowings broken down by donor agencies and projects;
- Reduction in liabilities;
- Funds used for the domestic public debt service and volume of domestic public debt;
- Funds used for the service and repayment of external public borrowings and volume of such external public debt, broken down by creditors.

Chapter Five

Priorities of the State Budget are presented in this chapter, along with programs, sub-programs and activities to be implemented, along with their outcome and output.

Chapter Six

Information should be presented in this chapter on budget allocations and actual execution of expenditures by spending institutions, programs, sub-programs and activities.

Annual Report on the State Budget Execution should be enclosed with information on actual

execution of budgets defined by the Government of Georgia for the Legal Entities of Public Law (LEPLs), as well as on the execution of program and capital projects.

5. Information on the Program Implementation

First part should elaborate on the information on projected and actual fiscal indicators by programs.

Program Code	Priority	Projection		Cash Execution	
		Total Funding	o/w Budget Allocation	Total Funding	o/w Budget Allocation
	Program N1				
	Program N2				
	Program N3				
	Program N4				
	Program N5				
	Program N...				
	Total Priority Funding				

Second part should elaborate on all the programs and sub-programs envisaged in the Annual Budget Law as follows:

- Program Classification Code;
- Name;
- Implementing Agency;
- Expected results as anticipated in the Annex of the Annual Budget Law;
- Results achieved by the year-end;
- Performance indicators (by indicating the baseline, projected and actual indicators);
- Explanation on the deviations from the projections.

Information on Program Implementation

Program Name (Program Code)			
Implementing Agency			
Program Description and Goal			
Anticipated Outcome		Achieved Outcome	
Performance Indicator	Outcome Measurement Indicator	Explanation	

Nº	Baseline Indicator	Projected Indicator	Achieved Indicator	Deviation (%/Description)	
1.					
2.					
3.					
4.					
5. (Gender, if applicable)					

Information on Execution of Sub-Programs

Name of the Sub-Program (Program Code)					
Implementing Agency					
Program Description and Goals					
Anticipated Output				Achieved Results	
Performance Indicator of the Anticipated Output			Performance Indicator of the Achieved Result		Explanation
Nº	Baseline Indicator	Projected Indicator	Achieved Indicator	Deviation (%/Description n)	
1.					
2.					
3.					
4.					
5. (Gender, if applicable)					

6. Information on Execution of Capital Projects

First parts should elaborate on the information on projected and actual fiscal indicators by programs:

Program Code	Name	Total Project Funding from State Budget	Cash Spending including Past Reporting Year (Except for the Reporting Period)	Funds Envisages and Verified in the State Budget for the Reporting Period	Cash Execution of Spending in the Reporting Period	Projections for Next Years	Total Own Resources Allocated for the Project including the Reporting Period (if applicable)	Total Own Resources to be Spent on the Project by the End of the Project (if applicable)
	Project 1							
	Sub-Project 1							
	Sub-Project 2							
	Sub-Project ...							
	Project 2							
	Sub-Project 1							
	Sub-Project 2							

	Project ...							
	Sub-Project 1							
	Sub-Project 2							
	Total Capital Budget							

Second part of the Annex should present information on work conducted within each project and sub-project.

Annex N3 (11.07.2012 N 244)

Program Budgeting Methodology for Autonomous Republics

1. Document of Priorities for the Autonomous Republics

First phase of budgeting cycle in the Autonomous Republics starts by March 1 of every single year, when the Executive Body of the Autonomous Republic issues a relevant Administrative-Legal Protocol defining the list and deadlines of information to be submitted for the development of a Priority Document.

Priority Document of an Autonomous Republic should include at least the following information:

- Aggregated indicators of revenues and expenditures, transactions carried out with financial and non-financial assets and liabilities of the Autonomous Republic for the past, current and future (budgeted) years and the following three years;
- Analysis of ultimate results of the Autonomous Republican Budget Execution for the past year and updated projections for the current budget year;
- For the next (budgeted) year and following three years:
 - Priorities defined by the Executive Body of the Autonomous Republic;
 - Programs and funding volumes, aims and anticipated results of spending institutions of the Autonomous Republic;
 - Aggregated indicators of tentative threshold allocations for each spending institution from the Autonomous Republican Budget;
- Tentative threshold staff lists of spending institutions to be captured in the Autonomous Republican Budget in the next (budgeted) year.

It is justified to define the Priority Document of the Autonomous Republic with the following structure:

- First part of the document should present the aims and goals defined by the Autonomous Republic, aspirations in the mid-term period and main action plans defined to achieve the

pre-defined aims and goals;

- Second part of the document should present the analysis of the Autonomous Republican Budget for the past year and consolidated budget results, along with expenditures incurred in the Autonomous Republic and non-financial assets by functional classification;
- Third part of the document should present the updated projections of the Autonomous Republican Budget for the current year;
- Fourth part of the document should present the Autonomous Republican Budget data for a mid-term period;
- Fifth part of the document should present the number of spending institutions funded from the Autonomous Republican Budget and tentative threshold amount of budget allocations in the next (budgeted) years;
- Sixth part of the document should present the programs planned by spending institutions for the attainment of priorities defined by the Executive Body of the Autonomous Republic, along with their descriptions and anticipated results;
- Last part of the document should present the volume of funding for each program planned by the spending institutions within the priority directions defined by the Executive Body of the Autonomous Republic for the next (budgeted) years. This part of the document should include information on total funding for program implementation.

2. Budget Structure

Planning with a program budgeting methodology implies the focus in the Autonomous Republican Budget to be made on the expected results of the planned programs and their performance indicators, rather than budget allocations for budgetary organizations, which should be taken into account in the Draft Law on the Autonomous Republican Budget with the following structure:

2.1 – Autonomous Republican Budget Indicators (Chapter One)

Balance Sheet of the Autonomous Republican Budget by budget classifiers is presented in this chapter. Data should be presented for past and current years while the information on the year to plan should be divided into those that are to be financed from the Autonomous Republican Budget, allocations from the State Budget and others to be financed by donors. Also, this chapter should include information on the total actual revenues and expenditures of the Autonomous Republican Budget, along with the balance adjustments.

2.2 – Autonomous Republican Budget Revenues (Chapter Two)

Revenues in the referred chapter should be further broken down into budget classifiers and

data should be presented for the year to plan, as well as for the past and current years. Grant financing in the next (budgeted) year should be presented by sources of funding.

2.3 – Autonomous Republican Budget Expenditures, Non-Financial Assets and Functional Classifiers (Chapter Three)

Total volume of expenses should be presented in this chapter (broken down by the Autonomous Republican Budget, State Budget and donor financing (if applicable)), along with the total increase of non-financial assets broken down into spending institutions (broken down by the Autonomous Republican Budget, State Budget and donor financing (if applicable)), total reduction of non-financial assets broken down into main categories of budget classifiers and functional classification of expenditures and increase of non-financial assets (broken down by the Autonomous Republican Budget, funding to be allocated from the State Budget and donor financing (if applicable)).

2.4 – Total Balance, Adjustments in Financial Assets and Liabilities of the Autonomous Republican Budget (Chapter Four)

Following information is to be presented in this chapter:

- Total balance of the Autonomous Republican Budget;
- Volume of increase and reduction of financial assets broken down into the budget classifiers for past, current and following (budgeted) years;
- Reduced indicator of liabilities for past, current and following (budgeted) years.

2.5 – Autonomous Republican Budget Priorities and Programs (Chapter Five)

Priorities of the Autonomous Republican Budget are presented in this chapter, along with programs (sub-programs/activities) to be implemented by spending institutions with the Autonomous Republican Budget allocations during the respective year within such priorities, along with their descriptions, aims and goals.

Each program should be related to the priorities of the Autonomous Republic and be implemented for the achievement of such priorities, though the Autonomous Republican Budget may also finance such activities that do not serve to specific priorities, but sub-programs and activities planned within them may play a crucial role in the execution of autonomous republican duties and their implementation is essential for every priority.

2.5.1 – Program

Program is a set of activities to be implemented for the achievement of priorities defined in the Autonomous Republican Budget, which are grouped by common substance and are implemented for attaining a single ultimate result in a long run. Blanket responsibility over the implementation of the program rests with the spending institution and its implementing agency may be the spending institution only or a budgetary organization subordinated to its control/system.

It is essential to have allocations from the Autonomous Republican Budget for programs indicated in the Autonomous Republican Budget for the respective year and have an applicable program code.

Programs should be elaborated by the competence of the spending institution. Blanket responsibility over the implementation of a single program rests with one spending institution.

In majority of cases programs by essence are long-term and permanent, though it is possible to have programs by their specific nature that may generate a final result within one or several years.

Description of each program is presented in Chapter 5 of the Law on Autonomous Republican Budget of Georgia, along with their aims and goals, activities planned within such programs and anticipated achievements.

Program may be of several types, however all of them should represent a set of such activities that serve to the attainment of common ultimate results, i.e. priority aim and goal. Program should have its goal and budget.

- **Programs by substance may in principle be any of the following:**

- » **Management and Regulation**

Program belongs to this type if and when it covers activities that are of administrative nature and facilitate the proper operation of the system and/or is related to the development of a state policy in the respective sector and regulation of various issues. Program of this type may be purely administrative and management, when it covers only those activities that relate to the maintenance expenses of the office. But if apart from the administrative issues a program includes activities implemented by policy-making structural units, they fall under the category of policy regulation programs.

Majority of Autonomous Republican Ministries have departments working both on technical issues of operation and policy-making in the relevant sector. By taking this into consideration, Central Offices of ministries if not falling under any specific program should

be formulated as a policy-making and management program in the applicable sector. In such conditions, programs belong to the type of management and regulation, while if a Central Office of the ministry covers only expenditures required for administration and operation, they also fall under the Management and Regulation type.

» **Service Delivery**

Program of this type is aimed at certain long-term results and/or serve to the needs of a permanent aim and goal. Activities that render services directly to beneficiaries without requiring subsidies fall under such programs. Short-term results of its sub-programs are defined by specific qualitative and quantitative indicators. Autonomous Republican funding in such conditions is allocated for activities that directly benefit the population or non-for-profit institutions.

» **Subsidies**

Sub-programs and activities for programs of similar type are aimed at various social/citizen or institution subsidies in the form of support and co-participation by the Autonomous Republic. Performance indicators of sub-programs within the Subsidy Programs are also presented in quantitative indicators, while the ultimate result of the program in most cases will manifest in the improved living standards or social condition of population, which is also measured with applicable indicators.

» **Infrastructure**

Sub-programs implemented within such programs mainly serve to the need of various infrastructure development, construction, rehabilitation or refurbishment. Output of programs in most cases will be the streamlined infrastructure of large institutions and facilities, while the outcome will be the effect served by such infrastructure. Majority of performance indicators of such programs are presented as quantitative indicators. Most programs of this type will also be capture in the Annex of the Capital Budget.

● **Program durations may be as follows:**

» **Current (Permanent)** – when a program covers issues that are the core functions of a spending institution in line with the law and are implemented on a permanent basis;

» **Multiple Years** – when a program serves to the need of a problem solution, new policy-making, introduction of a new system or service, etc. Most programs should be implemented for multiple years, as they should serve to the need of achieving global outcome. Activities implying the achievement of outcome in a short run (within a year) should mostly be formed as sub-programs, which thereby fall under a program;

» **Annual (Short-Term)** – in rare and specific cases, when outcome of a program may be achieved within a single reporting year, program may even be short-term. Such programs may be the ones that lead to the attainment of ultimate results upon the completion of a program implementation and it will not be part of another process.

Apart from programs, which are implemented under the republican priorities by spending institutions funded from the Autonomous Republican Budget, it is possible to finance such general expenditures of the republican importance from the Autonomous Republican Budget as the Reserve Funds, transfers to local authorities, debt service and other.

It is possible that some spending institutions are not represented as programs or sub-programs in the Autonomous Republican Budget by their functional specification, though in such cases it is important to note the purpose of their operation in Chapter 5 of the Autonomous Republican Budget

Spending institution should take into account the following factors in identifying the programs:

- Program should comply with any of the priorities of the Autonomous Republic defined by the Executive Body of the Autonomous Republic;
- If it is impossible for a spending institution to identify the cost of its major functions and administration, main program of the spending institution should include the cost of administration;
 - Only one spending institution is kept responsible for the program implementation and achievement of final results, while the implementing agency of sub-programs within programs may be several budgetary organizations subordinated to the control of such spending institution;
 - We need to take into account that a program is the main category of a program budget, which will have a plan endorsed with the Autonomous Republican Budget Law.

2.5.2 – Sub-Programs/Activities

It is possible to divide a program into main directors, i.e. sub-programs after identifying the programs (as it happens in most cases). They will have an implementing budget organization subordinated to the control of the respective spending institution in majority of cases and will deem to be a set of activities required for the achievement of a specific outcome. Sub-programs are by substance divided into the same types as programs.

Sub-program is related to outputs. Implementation should lead to specific conditions that facilitate the achievement of program outcomes. Sub-program by essence should be elaborated within the scale of the budgeted year. It should have a specific result, which may be achieved within one reporting year.

Description of individual sub-programs may be presented in the Autonomous Republican Budget, along with their aims, goals and volume of funding. It is not essential to indicate the volume of funding for sub-programs of such programs that by substance are categorized as Management and Regulation.

Considering its substance and volume, a sub-program may be further broken down into sub-programs (at a technical level), majority of which may not be captured in Chapter 5 of the endorsed Annual Budget, though their division at this level is essential by taking into account the substantial or technical goals of implementation and proper accounting of programs/sub-programs.

Ministries and other spending institutions of the Autonomous Republic need to formulate their sub-programs so that one budgetary organization (or its structural unit) is kept responsible individually for their implementation. At the same time, it is possible to have one budgetary organization implementing several sub-programs.

Programs that are related to the implementation of infrastructure projects may be broken down into various capital projects, rather than sub-programs, however by their substance such capital projects actually represent sub-programs.

2.6 – Budget Allocations and Program Funding (Chapter Six)

Allocations from the Autonomous Republican Budget in a given year for programs to be implemented need to be presented in this chapter, along with the volumes of funding earmarked for spending institutions that are not represented in the budget by their program structure. This chapter will also elaborate on general expenditures of the republican importance, such as the Reserve Fund as defined in the legislation, transfers to local authorities, debt service and other.

Programs and their funding should be grouped into spending institutions. Total volume of funding for each spending institution, all programs, sub-programs and activities indicated in

the referred chapter should be broken down into by Tier One Economic Classification of Expenses of Budget Classifiers, while the Non-Financial Assets and their Transactions, Financial Assets and Liabilities, Classification of their Transactions need to be presented as Tier Two. In addition, category of Expenditures by budget classification should indicate allocations for Remuneration. Same chapter should also present the staff listing of the spending institutions.

Program financing should be presented in the Annual Autonomous Republican Budget for the future (budgeted), past and current years. In addition, Autonomous Republican Budget Allocations should single out the expenditures incurred from the Autonomous Republican Budget, funds received from the State Budget and donor financing (if applicable).

By taking into account that Autonomous Republican Budgets are first time ever presented in the Program Budgeting format for 2013, it will capture only 2013 year (budgeted period), while Annual Budget for 2014 will cover 2013-2014 years (current and future (budgeted) years).

2.7 – Regulating Norms (Chapter Seven)

This chapter should present the major line items that are to regulate the issues related to the state budget execution throughout the budget year.

3. Annexes to the Budget

In line with the Budget Code of Georgia, Supreme Council of the Autonomous Republic is submitted Draft Budget Law of the Autonomous Republic together with enclosures, including the following:

- Explanation Note of the Draft Law, which presents the projected fiscal indicators;
- Short Overview of Budget Execution for the current year;
- Set of proposed amendments to the legislation as required for the enforcement of the Annual Budget Law of the Autonomous Republic.

In parallel with the introduction of the Program Budgeting principle, Draft Annual Budget Law of the Autonomous Republic should be attached with the following information:

- Annex to the Program Budget, presenting the detailed information on each program as envisaged in the Autonomous Republican Budget;
- Annex to the Capital Budget, presenting the detailed information on the capital projects as envisaged in the Autonomous Republican Budget.

3.1 – Annex to the Program Budget

Main information about the programs should be presented in Chapter 5 of the Autonomous republican Information will be presented in the Annex of the Program Budget in relation of the program that will not be approved by the Representative Body of the Autonomous Republic and no legally binding power will be granted to it. Main reason of it is that it will be rather hard to accurately define the expected results and performance indicators at the inception phase of program budgeting. If they were to be approved in the law, charges could have been brought against the agencies implementing some programs and/or sub-programs in case of their failure. This would not fall under the best practice of program budgeting. Expected results and performance indicators should be brought forward to the legislative level gradually, when the implementing agencies of programs and sub-programs will gain relevant experience and program management practice.

Annex to the Program Budget will present such information in relation with programs that are not approved at the inception phase of the introduction of Program Budgeting by the legislative body of the Autonomous Republic and neither bear a legally binding power. Main reason for this is that at the inception of Program Budgeting it is quite hard to accurately define the anticipated results of programs and their performance indicators. If they were to be approved in the law, charges could have been brought against the agencies implementing some programs and/or sub-programs in case of their failure. This would not fall under the best practice of program budgeting.

Expected results and performance indicators should be brought forward to the legislative level gradually, when the implementing agencies of programs and sub-programs will gain relevant experience and program management practice.

Irrespective of the fact that information presented in the Program Budgeting Annex will not be approved at the inception phase and will have no legally binding power, it will still be of high importance, as the Budget Execution Reports will mainly focus on such information.

Information should be presented by priorities in the annex of the program budget and it should include the funding of all programs and respectively, total sum of funds allocated to priority, along with the expected outcome of the program implementation and performance indicators of this outcome, expected output of sub-programs/activities implemented within such programs, with their respective performance indicators.

Annex to the program budget should be presented in the following structure:

- Part One should present information on priority funding by programs included in them and namely:

Program Code	Name	Budgeted Year	Budget Funding	Own Resources	Budgeted Year +1	Budgeted Year +2	Budgeted Year +3
	Name of Program N1						
	Name of Program N 2						
	Name of Program N 3						
Total Priority Funding							

Afterwards, following information should be indicated for each program:

- Program Classification Code;
- Program Name;
- Implementing Agency;
- Program Description;
- Expected Outcome of the Program;
- Performance Indicators of the Expected Outcome of the Program.

Name of the Program (Program Code)	
Implementing Agency	
Program Description and Goals	
Anticipated Outcome	
Outcome Performance Indicators	
1. 2. 3. 4. 5.	

● Afterwards, information should be presented on the sub-programs/activities included in them and namely:

- Program Classification Code, in line with Chapter 5 of the Autonomous Republican Budget Law;
- Name of the Sub-Project/Activity;
- Implementing Agency (or its structural unit);
- Description of the Sub-Program/Activity;
- Expected Output of the Sub-Program/Activity;

- Performance Indicator of the Expected Output of the Sub-Program/Activity (by indication of the baseline and targeted indicators);
- Measurement indicators of the Sub-Program Output.

Name of the Sub-Program (Program Code)	
Implementing Agency	
Description and Goals of the Sub-Program	
Expected Output	
Output Performance Indicators	
1. 2. 3. 4. 5.	

3.2 – Output and Outcome

Main purpose of the program budget being a result-oriented budget is to present the outcome well of the program it is aimed at. Program budget uses output and outcome to measure its performance.

Outcome by substance is a global aspiration and mainly presents results of the program. This is a condition, when a pre-defined and analyzed policy is implemented to reach it. Outcome implies full eradication of a certain problem, establishment of an essentially new condition, introduction of new rules, substantial improvements in the respective area, which affects the country priorities. Outcome is in most cases achieved through efforts made throughout multiple years and when it is reached it implies that the program is terminated entirely or in the current form. Nevertheless, programs that are permanent by nature and serve to the needs of main affairs of the country, outcome tends to be general also, aimed at the maintenance or improvement of the situation in a stable manner. Thus achievement of an anticipated result in this particular case may not signal at the completion of a program.

In contrast with the outcome, output by its sense is a product developed as a result of a specific sub-program/activity implemented within a program. It is much more specific than the outcome. In most cases it is expressed in specific numbers or other quantitative manner and does not signal at the completion of a program, but rather a set of steps made towards the ultimate goal. Therefore, it measures the progress made towards such goal.

Respectively, outcome is defined for a program, while the output – for its sub-programs. Their performance indicators also differ.

Deadline for the achievement of an outcome is a timeframe allowed for the program implementation, while for an output – it is mostly annual (linked with the budgeted year). On the other hand, output may be used as an indicator of a progress towards the outcome.

Annual Budget Law should elaborate on the description and goals of programs (sub-programs) to be implemented within the country priorities, while the output and outcome will be described in the materials attached to the Autonomous Republican Budget.

Spending institutions should pay great attention to the accurate formulation of outcome and output in defining their program budgets. Results should reflect those future conditions, which are aimed by the program and sub-program. Results should be formed clearly and specifically, while ways leading to them should be presented in the program (sub-program/activity) descriptions.

Spending institution as a whole and its management is kept responsible for the achievement of program outcome, as they plan and manage the programs, while the budgetary organizations (or structural units within them that are mandated to implement the sub-program/activity) implementing sub-programs and activities within such programs should be kept responsible for the achievement of their goals.

3.3 – Performance Indicators

Description of programs, sub-programs and activities to be implemented within them is a foundation for the formulation of performance indicators. The latter serve as a measurement of the achieved goals, defining the degree of progress made in achieving the program goals. It is essential to conceptualize on the differences between the outcome of the program and sub-program output while defining the performance indicators. Program outcome is the desired condition, which will benefit the society at large, while the output achieved by implementing sub-programs is the information presented in specific and measurable units, such as: number of obtained products, quality of the service delivered, number of beneficiaries, etc. Performance indicators of outcomes measure the achievement of the core mission of the program and often it is impossible to fit the measurement within a year. Respectively, performance indicator of the program outcome covers multiple years or the entire period of program implementation. Indicators of progress may be used to assess the performance of the program within a year, i.e. part of activities implemented to achieve the program outcome by the end of the reporting period. Performance indicators of the program outcome may not be one-off and short-term. Process of assessment is continuous and should be aimed at the permanent control of quality. Excess use of performance indicators also lead to ineffective results. Hence, each expected result should have no more than 5 performance

indicators assigned to it.

It needs to be taken into consideration that Management and Regulation Programs and Sub-Programs, which tend to be purely administrative, it is not essential to present performance indicators.

Performance indicators should measure the goals, which is realistic and achievable. Following criteria need to be taken into account while defining the performance indicators:

- Beneficial – policy makers should be thus given substantial and valuable information;
- Goal Oriented – should refer to the anticipated results;
- Clear and Measurable – easily understood and comprehensive, drafted in a clear manner so that all the stakeholders manage to comprehend, use and evaluate them;
- Relevant and Attainable – indicator should be selected in relevance with the expected result. It should adequately measure it and be realistic, so that the anticipated results are not overly optimistic or overly pessimistic either;
- Comparative – should enable for the assessment of the achieved results at different periods of time.

Performance indicators may be quantitative, cost-based, qualitative, relating to effectiveness and/or efficiency and all of them should be verifiable.

- Quantitative indicators describe the results to be obtained within the programs/sub-programs under the category of “how much/many”;
- Qualitative indicators assess the quality of delivered service and achieved results;
- Cost-based indicators measure the program/sub-program results by the cost incurred on their implementation;
- Effectiveness indicators provide information on the justification of the achieved result against the utilized resources;
- Efficiency indicators assess the impact of the achieved result in contrast with the prior condition.

3.4 – Annex to the Capital Budget

Budget Code of Georgia envisages the formulation of a Capital Budget along with the Program Budget from 2013 for the Autonomous Republics of the country. By nature, it is a Program Budget of an investment type. Hence, it is part of a program budget and will be presented as an Annex to the Budget Law.

All the projects indicated in the Capital Budget represent the programs of the Annual Budget Law, thus being an integral part of it. Though, Capital Annex will collate all the capital

projects financed from the Autonomous Republican Budget and activities carried out within them. Projects laid out in the Annex will be grouped by their substance, rather than by their spending institutions.

It needs to be taken into account in the formulation of a Capital Budget that all those funds that are presented in the Annual Budget Law as an Increase of Non-Financial Assets are not a capital project and components of a capital project may be a cost item in the budget allocations. Also, earmarking under the Increase of Financial Assets in the Annual Budget Law may be capital projects by taking into account that allocations from the referred line item are often channeled to crediting and/or capital increase of state-owned enterprises to carry out large capital projects. In some cases, increase in the financial assets presented in the Annual Autonomous Republican Budget may also be capital projects.

Besides, it is possible to have various capital projects implemented with a shared funding of the public and private sectors. In this case, Autonomous Republican Budget and its annexes will present only the public funding allocated from the State Budget, though the project description should by all means indicate the cash contribution of the private sector and thereby refer to the obligations assumed by both public and private sectors.

Capital projects with no funding allocated from the Annual Budget Law should not be presented in the Annexes of the Autonomous Republican Budget either.

Capital Budget mainly implies large projects that are for investments by nature, i.e. outcome reached within the project should become part of an economic activity or significantly incentivize the economic development. Capital Projects imply the creation of large infrastructure or substantial and essential improvement of the existing one. In addition, there may be such capital projects that are not directly related to the economic development of the country, but fall under a government priority (e.g. rehabilitation of school buildings, upgrades of agricultural hardware, etc.). All capital projects that have funding allocated from the Autonomous Republican Budget should be related to any of the priorities defined by the Executive Body of the Autonomous Republic.

Capital Project should meet the following terms and conditions:

- Construction-rehabilitation costs should not be less than 50 000 GEL and life span of the created product should not be less than 5 years;
- Machinery and other equipment (except for the military hardware, weapons and other ammunition), also software acquisition, total or item cost should not be less than 150 000 GEL, while their life span should not be less than 3 years;
- Cost of a project should cover all the expenses related to the project, including the design,

making, transportation and taxes envisaged in the legislation.

It is possible for a spending institution to have several small capital projects of the similar type and none of them complying with the above terms and conditions. In such cases the project should be grouped by their substance and formed into one project, while relevantly smaller projects will be presented in the Annex of the Autonomous Republican Budget in the form of its Sub-Projects.

It is possible to have projects that do not meet the above terms and conditions, however their significance may lead to their presentation as a capital project.

Capital Annex of the Annual Autonomous Republican Budget Law will be divided into two parts. First one will present all the projects and their funding volume. The latter should include the total project cost incurred and planned from the Autonomous Republican Budget. It should be presented according to the following table:

Code	Name	Tentative Project Cost	Actual, including for the Past Year	Projections for the Current Year	Projections for the Budgeted Year	Projections for Budgeted +1 Year	Projections for Budgeted +2 Year	Projections for Budgeted +3 Year
	Project N1							
	Sub-Project N1							
	Sub-Project N 2							
	Sub-Project N...							
	Project N 2							
	Sub-Project N 1							
	Sub-Project N 2							
	Sub-Project N...							
	Project N...							
	Sub-Project N 1							
	Sub-Project N 2							

Table above may unite the capital projects planned by various spending institutions and be presented as their Sub-Projects.

Second part of the Annex should present the description of each project and sub-project, along with the following information:

- Autonomous Republican Priority, within which the project is implemented;
- Project implementing agency;

- Outcome expected upon completion of the project;
- Total project cost;
- Sources of funding for the project, including the resources allocated from the State Budget, donor financing, grants and loans;
- Main activities envisaged under the project throughout the budgeted year.

Project Name	
Program Code of the Project	
Priority, within which the Project is Implemented	
Program Code and Name, as presented in the Program Classification	
Implementing Agency	
Project Description and Goal	

As capital projects are part of the program budget and respectively their expected outcome and performance indicators are presented in the description of programs and sub-programs, Annex of the Capital Budget does not include a part on anticipated outcomes and performance indicators.

4. Annual Budget Execution Report and Quarterly Overviews in the Autonomous Republics of Georgia

In line with the Budget Code of Georgia, Executive Government of the Autonomous Republic of Georgia drafts a Quarterly Overview of the Autonomous Republican Budget Execution and submits it to the Supreme Council of the Autonomous Republic within one month from the end of every single quarter, while the Annual Autonomous Budget Execution Report is submitted for the past year within 2 months from the end of such budget year.

As the majority of programs and sub-programs planned in the Autonomous Republican Budget last throughout the year and some of them by their specific nature may start several months after the start of the budget year, it is impossible to analyze the results achieved in the reporting period by the moment of the Quarterly Review. Also, it will be impossible to evaluate the achievements in a certain period of the year for programs mainly planned for a long-term period and sub-programs spanning for one budgeted year by applying these indicators.

Irrespective of the fact that after the introduction of the program budgeting approach, main focus will be made on achievements made under various programs and sub-programs, Quarterly Overview of the Autonomous Republican Budget Execution should still present

information on planned and actual fiscal data. Quarterly monitoring of budget execution should be ensured by internal audit units of spending institutions for the incorporation of internal control mechanisms in the budget cycle and audit by random selection, so that progress achieved towards outcome and output gets assessed.

Semi-Annual Overview of the Autonomous Republican Budget Execution should present the fiscal data, along with information on the performance of the planned programs.

In contrast with the Quarterly Overviews of the Autonomous Republican Budget Execution, Annual Autonomous Republican Budget Execution Report should present fiscal data and information on programs implemented during the past budgeted year, along with the achievements made.

Annual Report on the Autonomous Republican Budget Execution should be prepared according to the following structure:

Chapter One

Balance Sheet of the Autonomous Republican Budget classifiers should be presented in this chapter. Data should be presented for projections and actual fiscal indicators (including the Autonomous Republican Budget allocations, funding allocated from the State Budget and donor financing).

Also, this chapter should include information on the total actual revenues and expenditures of the Autonomous Republican Budget, along with the balance adjustments.

Chapter Two

Information on the projected and actual revenues to the Autonomous Republican Budget needs to be presented in this chapter, along with an overview (net of increase in liabilities) as well as projected and actual execution indicators of its major categories by budget classifiers; these indicators should be broken down at the none less detailed level, as presented in the Annual Autonomous Republican Budget Law. In addition, information on grant funding should be presented by sources.

Chapter Three

Following information should be presented in this chapter:

- Aggregated data on the expenditures made from the Autonomous Republican Budget;
- Expenditures by major categories of functional classifiers;
- Information on the execution of spending of general republican importance;
- Financial support allocated to local authorities by each territorial unit;

- Total actual balance;
- Increase and reduction in financial assets;
- Freely available opening and closing balance of the Autonomous Republican Budget;
- Reduction in liabilities, debt repayment and remaining balance broken down by creditors.

Chapter Four

- Information on the programs, sub-programs, activities and anticipated results as defined in the Autonomous Republican Budget should be presented in this chapter.

Chapter Five

- Information on allocations for programs, sub-programs and activities should be presented in this chapter by spending institutions, along with their actual execution.

Annual Autonomous Republican Budget Execution Report should be attached with information on the program and capital project execution in the form of annexes.

5. Information on Program Implementation

First part should elaborate on the information on projected and actual fiscal indicators by programs.

Program Code	Priority	Projections		Cash Execution	
		Total Funding	o/w Autonomous Republican Budget Allocations	Total Funding	o/w Autonomous Republican Budget Allocations
	Program N1				
	Program N2				
	Program N3				
	Program N4				
	Program N5				
	Program N...				
	Total Priority Funding				

Second part should elaborate on all the programs and sub-programs envisaged in the Autonomous Republican Budget Law as follows:

- Program Classification Code;
- Name;
- Implementing Agency;

- Expected results as anticipated in the Annex of the Autonomous Republican Budget Law;
- Results achieved by the year-end;
- Performance indicators (by indicating the baseline, projected and actual indicators);
- Explanation on the deviations from the projections.

5. Information on Capital Project Execution

Information should be presented in the first part on projected and actual fiscal indicators by programs:

Program Code	Name	Total Project Funding from the Budget	Cash Spending in the Past Year (Net of Reporting Period)	Funds as Projected in the Verified Budget Plans of the Reporting Period	Cash Spending in the Reporting Period	Projections for the Following Years	Total Own Resources Spent on Projects, Including the Reporting Period (if applicable)	Total Project Funding from Own Resources by the End of the Project (if applicable)
	Project N1							
	Sub-Project N1							
	Sub-Project N2							
	Sub-Project N...							
	Project N 2							
	Sub-Project N1							
	Sub-Project N2							
	Project N...							
	Sub-Project N1							
	Sub-Project N2							
	Total Capital Budget							

Second part of the Annex should present information on the works conducted within each project and sub-project.

6. Transition Phase from Organizational to Program Budgeting

It is essential for the transition to the Program Budgeting to pass several stages so that spending institutions manage to formulate main activities from their approved organizational structure into program groupings. Spending institutions should go through several phases of program planning:

- Formulate their main aims and goals from their Charter and competences;
- Review their aims and goals versus priorities of the Autonomous Republic and vice versa –

identify potential tasks to be carried out on the grounds of priorities;

- Formulate such main activities from their organizational structure that are implemented by budgetary organizations subordinated to their control;
- Link their activities and main functions with such tasks;
- Group activities by similar functions or aims, irrespective of their implementing agencies;
- Grouping will lead to the number of programs to be implemented by individual spending institutions;
- Clearly define references of programs with applicable priorities;
- Define program outcome to be achieved within priorities and aspirations;
- After the program identification, spending institutions go retroactive to break down them by sub-programs and activities;
- Define the output of individual sub-programs and ways of their achievement, along with the tentative threshold of funding;
- Identify the current situation database to define the indicators which will lead to the measurement of performance;
- Calculate the volume of required financial resources for the achievement of each sub-program/activity (tentative costing);
- Distribute the budget allocations among the programs within the thresholds assigned to the spending institutions.

Annex N4 (11.07.2012 N 244)

Program Budgeting Methodology for Local Authorities

1. Priority Document of Local Authorities

First phase of budgeting at local authorities start by developing a Priority Document, which is prepared by the Executive Body of the local authority in consultation with the Administration of the Governor – State Representative in the region.

Executive Body of the local authority starts work on its Priority Document from March 1 of every single year. With this purpose in mind, it issues an Administrative-Legal Protocol, which defines a list and deadline for the submission of information required for the development of priorities.

Priority Document of Local Authorities should include at least the following information:

- Aggregated indicators on budget revenues and expenditures, financial and non-financial assets and liabilities for the past, current and future (budgeted) years with the following 3

years;

- Budget execution indicators for the past year;
- For the budgeted and following three years:
 - Priorities defined by the Executive Body of the Local Authority;
 - Programs, volume of funding, aspirations and results for a mid-term period.

Priority Document of Local Authorities should be formulated in the following structure:

- First part of the document should present a short overview of past and current years, including the information on the mobilized and projected revenues, past and planned activities;
- Then it should elaborate on the main budget parameters of the local authority for the past, current and future (budgeted) years with the following 3 years by budget classifiers;
- Part 3 of the Document should present priorities, along with the funding of the representative and executive bodies of the local authority for the past, current and future (budgeted) years with the following 3 years;
- Then it should describe each priority and funding volumes of programs and sub-programs planned within them for the budgeted and following 3 years;
 - » Program is a set of activities to be implemented within the priority of the local authority, which are grouped by a common substance and implemented in a long-term period to achieve an ultimate result;
 - » It is essential to have allocations and program codes under the Annual Budget Law defined for programs of local authorities;
 - » In most cases programs should be long-term and permanent, though it is possible to have programs by their specific nature that will be implemented within a specific year;
 - » Program may be of various types, however all of them are a set of activities that lead to a common outcome with applicable aspirations and budget;
 - » By substance, programs may be for:
 - **Management and Regulation** – programs classify as such if they cover activities that are of administrative nature and lead to the proper operation of local authorities. Management and Regulation Program of Local Authority is the funding of representative and executive bodies of local authorities. Description of such programs is not obligatory, as they mainly fall under the operating expenses of local authorities, reserve fund, service and repayment of liabilities of the local authorities, as well as other activities of a similar substance. Nevertheless, it is desirable to have information presented in the Annex on the destination of funds earmarked for the service and repayment of their liabilities, purpose of loans taken to finance such

activities that led to the emergence of such liabilities, etc.;

– **Service Delivery** – programs of this type are oriented at specific long-term goals and/or serve to the need of permanent goals. Such programs include such activities that directly render services to beneficiaries, rather than their subsidies. Output of their sub-programs are defined as quantitative and qualitative indicators. Funding of local authorities in such cases is used for activities that directly benefit the population or if non-for-profit institutions are the actual beneficiaries;

– **Subsidies** – programs and activities for programs of similar type are aimed at various social/citizen or institution subsidies in the form of support and co-participation by the state. Performance indicators of sub-programs within the Subsidy Programs are also presented in quantitative indicators, while the ultimate result of the program in most cases will manifest in the improved living standards or social condition of population, which is also measured with applicable indicators;

– **Infrastructure** – sub-programs implemented within such programs mainly serve to the need of various infrastructure development, construction, rehabilitation or refurbishment. Output of programs in most cases will be the streamlined infrastructure of large institutions and facilities, while the outcome will be the effect served by such infrastructure. Majority of performance indicators of such programs are presented as quantitative indicators.

» By duration, programs may be any of the following:

- **Current (Permanent)** – when they cover issues that fall under the core operation and functions of local authorities and are carried out on a permanent basis;
- **Multiple-Year** – when they serve to the need of problem-solving, new policy-making, introduction of a new system or service, etc. Majority of programs should be of multiple year, as they need to serve the needs of global outcome for activities that are aimed at the attainment of outcome in a short-run (within a year), which may be formulated as sub-programs as a program component;
- **Annual (Short-Term)** – in rare and specific cases, when it is possible to reach a program outcome within a reporting period, program may even be short-term. Such programs may imply those that lead to the aspirations upon completion of a program. Such outcomes and programs thus are not part of any other process.

● Following information should be presented for each program:

– Program Classification Code (in line with Annex 3 of the Local Authority Budget);

- Name of the Program;
- Description of the Program;
- Description of Sub-Programs and Activities within the Program;
- Anticipated outcome and/or output of the Program.

Output and Outcome

Main purpose of the program budget being a result-oriented budget is to present the outcome well of the program it is aimed at. Program budget uses output and outcome to measure its performance.

Outcome by substance is a global aspiration and mainly presents results of the program. This is a condition, when a pre-defined and analyzed policy is implemented to reach it. Outcome implies full eradication of a certain problem, establishment of an essentially new condition, introduction of new rules, substantial improvements in the respective area, which affects the country priorities. Outcome is in most cases achieved through efforts made throughout multiple years and when it is reached it implies that the program is terminated entirely or in the current form. Nevertheless, programs that are permanent by nature and serve to the needs of main affairs of the country, outcome tends to be general also, aimed at the maintenance or improvement of the situation in a stable manner. Thus achievement of an anticipated result in this particular case may not signal at the completion of a program.

In contrast with the outcome, output by its sense is a product developed as a result of a specific sub-program/activity implemented within a program. It is much more specific than the outcome. In most cases it is expressed in specific numbers or other quantitative manner and does not signal at the completion of a program, but rather a set of steps made towards the ultimate goal. Therefore, it measures the progress made towards such goal.

Outcome and output are defined for a program and represent the main indicator of the anticipated goal over the course of a program on the one hand and for each budgeted year on the other hand for sub-programs/activities carried out within such programs.

Deadline for the program outcome is defined to be the timeframe of the program, while the deadline of an output in most cases is an annual period (linked to the budgeted year). Output may be used as a signal of the progress made towards attaining the program outcome.

Annual Budget of Local Authorities should include the description of programs and sub-programs planed, while the description of output and outcome will be in the Priority Document.

Spending institutions should pay a special importance in developing their program budgets to the accurate formulation of outcomes and outputs. Results attained should reflect the

condition destination, which is aspired by the program and its sub-program. Results should be formulated in a clear and specific manner, while the means of their attainment should be presented in the description of the program (sub-program/activity).

Performance Indicators

Description of programs, sub-programs and activities carried out within them are the foundation for the formulation of their performance indicators.

Performance indicator is a tool of measurement for the attained result and judges whether the program reached its pre-defined goals. It is essential to conceptualize the difference between the program outcomes and outputs when defining the performance indicators.

Program outcome is the desired condition, which will benefit the society at large, while the output achieved by implementing sub-programs is the information presented in specific and measurable units, such as: number of obtained products, quality of the service delivered, number of beneficiaries, etc. Performance indicators of outcomes measure the achievement of the core mission of the program and often it is impossible to fit the measurement within a year. Respectively, performance indicator of the program outcome covers multiple years or the entire period of program implementation. Indicators of progress may be used to assess the performance of the program within a year, i.e. part of activities implemented to achieve the program outcome by the end of the reporting period. Performance indicators of the program outcome may not be one-off and short-term. Process of assessment is continuous and should be aimed at the permanent control of quality.

Excess use of performance indicators also lead to ineffective results. Hence, each expected result should have no more than 5 performance indicators assigned to it.

It needs to be considered that it is not necessary to present performance indicators for Management and Regulation Programs and Sub-Programs that are purely administrative by nature.

Performance indicators should measure the goals, which is realistic and achievable. Following criteria need to be taken into account while defining the performance indicators:

- **Beneficial** – policy makers should be thus given substantial and valuable information;
- **Goal Oriented** – should refer to the anticipated results;
- **Clear and Measurable** – easily understood and comprehensive, drafted in a clear manner so that all the stakeholders manage to comprehend, use and evaluate them;
- **Relevant and Attainable** – indicator should be selected in relevance with the expected result. It should adequately measure it and be realistic, so that the anticipated results are not overly optimistic or overly pessimistic either;

- **Comparative** – should enable for the assessment of the achieved results at different periods of time.

Performance indicators may be quantitative, cost-based, qualitative, related to effectiveness and/or efficiency and all of them meet the principle of verification.

- Quantitative indicators describe the results to be obtained within the programs/sub-programs under the category of “how much/many”;
- Qualitative indicators assess the quality of delivered service and achieved results;
- Cost-based indicators measure the program/sub-program results by the cost incurred on their implementation;
- Effectiveness indicators provide information on the justification of the achieved result against the utilized resources;
- Efficiency indicators assess the impact of the achieved result in contrast with the prior condition.

2. Local Authority Budgets

Resolution of a Representative Body of the Local Authority on the Endorsement of the Local Authority Budget is justified to include 3 Annexes and namely:

Annex N1. Major Indicators and Regulating Norms of the Local Authority Budget

Balance sheet of the Local Authority should be presented in the first part of the Annex by budget classifiers to cover both budgeted and current years by each category of budget classifiers to be divided into two parts desirably and namely as follows:

- Own revenues and transfers earmarked in the Annual State Budget Law, along with the transfers obtained from the Autonomous Republican Budget, if applicable;
- Transfers allocated from the funds envisaged in the Annual State Budget Law.

Information should also be presented on the revenues, expenditures and adjustment of a balance by main categories of budget classifiers;

Third part should cover a detailed information on the revenues of the Local Authority Budget, including the breakdown into expenditures, grants and other revenues;

Information should also be provided on the expenditures, increase and reduction in non-financial assets of the Local Authority Budget by functional classifiers;

In the following parts of the Annex information should be presented on the increase and reduction in the financial assets and liabilities. In addition, if liabilities are increased, it is

justified to present information on the activities to be funded through borrowings, while in the case of reduced liabilities information should be provided on the debt service planned and activities funded through such borrowings in the past.

At the end of Annex N1, information should be provided on the norms regulating the Local Authority Budget, i.e. major provisions required for the execution of the Local Authority Budget, including the volume of the Reserve Fund, rules of spending and activities to be funded with the transfers allocated from the State Budget, along with the rules of spending for various programs, etc.

Annex N2. Priorities and Programs of the Local Authority Budget

Annex should present information on the priorities laid out in the Local Authority Budget, along with a short description and goals of programs and sub-programs within them. It needs to be taken into account that description should be given for the programs and sub-program that will be presented in the Local Authority Budget Allocations with separate program codes.

Annex N3. Allocations of the Local Authority Budget

Annex N3 should include the priorities envisaged in the Local Authority Budget, along with programs and sub-programs to be funded with the budget allocations.

Information on budget allocations should be presented also for past and current years by program classifiers of the future (budgeted) year. In addition, this information should be divided into 2 parts by each category of budget classifiers of the current and future (budgeted) years:

- Own revenues and transfers envisaged in the Annual State Budget Law, along with the transfers obtained from the Autonomous Republican Budget, if applicable;
- Transfers allocated from Funds envisaged in the Annual State Budget Law.

By taking into account that functions and authority of each local authority in Georgia are almost identical, it is justified to make the priorities and main programs falling under such priorities identical also (apart from the self-governing city of Tbilisi) and be formulated as presented below. In addition, in separate cases it is possible for some local authorities to have different programs.

Funding of Representative and Executive Bodies	
Legislative Body of the Local Authority;	
Executive Body of the Local Authority;	
Service and Repayment of Liabilities of Local Authorities;	
Service Costs of Majoritarian MPs;	
Other Activities.	
Priority -	Defense, Public Order and Security
Program -	Management of Emergency Response Operations;
Program -	Facilitated Maintenance of Public Order;
Program -	Ensured Improvement of Defense Potential of the Country.
Priority -	Construction, Rehabilitation and Operation of Infrastructure Facilities
Program -	Construction, Rehabilitation and Maintenance of Road Infrastructure;
Program -	Construction, Rehabilitation and Operation of Utilities Infrastructure
Program -	Logistic Activities of the Local Authority
Program -	Activities Carried out within the Rural Support Program
Priority -	Education
Program -	Pre-School Education
Program -	Support of General Schooling
Program -	Support of Vocational Education
Priority -	Culture, Religion, Youth Development and Sports
Program -	Facilitated Development of Sports
Program -	Facilitated Development of Culture
Program -	Support to Public and Youth Organizations
Program -	Support to Religious Organizations
Priority -	Public Healthcare and Social Security
Program -	Healthcare Programs
Program -	Social Programs

3. Annual Reports on Local Authority Budget Execution and Quarterly Reviews

In line with the Budget Code of Georgia, Representative Body of the Local Authority is presented a Quarterly Overview of Local Authority Budget Execution within 1 month from the end of each single quarter, while Annual Report of Local Authority Budget Execution for the past year is submitted within 2 months from the end of the budget year.

As the majority of programs and sub-programs of Local Authority Budgets last throughout a year and by their specific nature some may start in several months after the beginning of a year, it is impossible to analyze the achievements made within a reporting period by the quarterly review. Also, it is impossible to perform this task by applying the indicators defined mainly for long-term programs, similar to sub-programs casting for a budget year to be

assessed by the achievements in a certain period of time.

Irrespective of the fact that after the introduction of program budgeting focus is mainly made on the achievements of programs and sub-programs, Quarterly Overview of Local Authority Budgets should still present information on projected and actual fiscal data.

In contrast with the Quarterly Overview of Local Authority Budget Execution, Annual Reports should present fiscal data with information on the achievements of programs during the past budget year.

It is justified to prepare the Annual Report on Local Authority Budget with the following structure:

- First part should present the balance sheet of the Local Authority by budget classifiers and it should reflect information on the projected and actual fiscal indicators. It should also include information on total revenues and expenditures and balance adjustment of the Local Authority Budget.
- Second part should present an overview of the Local Authority Budget Revenues with indicators of projected and actual execution. These data should be further broken down into none the less detailed level as presented in the Annual Budget of the Local Authority.
- Information should be included also on the implemented programs, sub-programs, activities and attained results.
- Fourth part of should present information on the programs, sub-programs and activities, budget allocations and cash execution by spending institutions.

Annual Report on the Local Authority Budget Execution should be enclosed with information on program implementation, by indicating the following information on each program envisaged in the Local Authority Budget:

- Anticipated results as envisaged in the Priority Document;
- Achievements by the end of the year;
- Performance indicators;
- Explanation on the deviations from projection.