



BCoP REPORT TO PEMPAL: STUDY VISIT IT SYSTEMS FOR BUDGET PLANNING IN GEORGIA,

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Distribution: PEMPAL website, PEMPAL Steering Committee, participants' governments, presentation to be delivered at next BCOP plenary meeting. .

Each participating country provided inputs for the Report, which was collated and consolidated into one Draft Report by the BCoP Resource Team (Naida Čaršimamović Vukotić).

Background

a. Purpose of Study Visit

Based on interest expressed by several countries during Bohinj 2012 BCoP Plenary meeting and subsequent discussions by the BCoP Executive Committee, a study trip was requested to examine Georgian IT System from the budget planning perspective.

The participants were interested in getting an overview of the entire budget planning process and the public financial management information system reform in Georgia, including the demonstration of the Georgian IT system in budget planning process throughout the whole budget process (annual budget calendar) in the IT system – from the budget instructions entered by the Ministry of Finance, through Spending Units¹ entering budget requests, and to the Ministry of Finance analyzing budget requests, preparing budget documentation to be sent to the Government and Parliament and entering budget amendments.

b. Participants

Participants from six PEMPAL countries took part in this Study Visit – Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro and Serbia. A total of eleven participants visited Georgia, along with the two interpreters, one Resource Team expert and one PEMPAL Secretariat member.

c. Overview of Agenda

The first day of the workshop was devoted to getting to know Georgian budget planning system. Following welcome speech by First Deputy Minister of Finance of Georgia, the representative from the Budget Department presented in detail budget system in Georgia, including all of the elements of public finance management reform (since 2004), accounting principles, budget calendar and procedures, program budgeting introduction and specificities, and budget documentation preparation process and contents. Following this presentation, an outside view of the Georgian PFM system and reform was given by the

¹ Spending units refer to ministries, apparatus and units of ministries (may be referred to as budget holders/budget users in different countries depending on terminology used).

representative of the World Bank Office in Georgia, who presented the findings of the on-going PEFA assessment for Georgia and comparison to the results (including major improvements in the budget planning system and in particular IT solutions in public finance management) from the previous PEFA assessment for Georgia. Final presentation of the first day of the workshop was given by the representative from the Treasury Services of Ministry of Finance of Georgia on the treasury system, including flow of funds, accounting and reporting, and overall PFMS model in Georgia in detail.

The second day of the workshop was devoted to in-depth analysis of Georgian IT system through live demonstrations, given by the representatives of the Financial and Analytical Services of the Ministry of Finance of Georgia (with Budget Department representatives also present and explaining the content from the budget planning perspective as needed). This represented the main part of the Study Trip and it included a demonstration of the IT system for the whole budget process (annual budget calendar) – from the budget instructions entered by the Ministry of Finance, through Spending Units’ entering budget requests, and to the Ministry of Finance analyzing budget requests, preparing budget documentation to be sent to the Government and Parliament and entering budget amendments. Participants had an opportunity to visit and see on-the-job processes in the Ministry of Finance of Georgia - Financial and Analytical Services, Treasury Services, Budget Department, and Tax Revenue, as well as the Academy of the Ministry of Finance.

The final day of the workshop began with the detailed presentation of Croatian participants on the IT system for budget planning and execution in Croatia. Given that Croatia is the most advanced among the countries participating in this Study Visit in terms of IT system for budget planning, the remaining participants were given the opportunity to hear about the Croatian system too. In addition, the session was also attended by the representatives from Georgia (from Budget Department, Financial and Analytical Services, and Treasury Service), who were also interested in learning about the Croatian case and exchanging experiences. Following the session in which Croatian system was presented, closing meeting of the Study Visit was held for the participants to discuss on lessons learnt in Georgia and to agree on the process of preparation of this report (written input was collected from all participants).

Georgian IT System for Budget Planning

a. Budget System in Georgia

Georgian budget planning process starts with the Budget preparation by the Basic Data and Directions Document (BDD) which basically represents Georgian Medium Term Expenditure Framework (it was introduced in 2005 for the first time). It provides a multi-year framework for the Budget preparation and it is based on the Ministries’ action plans previously adopted by the Government in agreement with the Parliament (thus, overall commitment to the defined priorities by all branches of government is secured, as well as complete consistency between the strategic planning and budgeting). The Document includes macro-fiscal projections, analyses of the past and current year, budget ceilings, and descriptions of the programs of the Spending Units.

Based on the ceilings defined in the BDD in early July, Spending Units start working on the Budget proposals, which are fully prepared in the E-Budget system and submitted to the MOF within the System before September 1st each year. In the next step, the Ministry of Finance starts preparing Annual Budget Law, again using the same software, and it submits Annual Budget Law to the Parliament.

In Georgia, the State Budget is being prepared in Program Budget format since 2011 (2012 State budget was adopted in program format, while currently the work is undergoing to also introduce program budgeting at local government level), which means that budget allocations are prescribed to the Programs/subprograms of the spending units and not to the Budget organizations and the programs/subprograms are themselves part of the State Budget priorities.

Budget documentation accompanying Annual Budget Law includes the following chapters: Main parameters of the State Budget; State Budget Revenues; State Budget Expenditure and Functional Classification; Total Balance, Financial Assets and Liabilities; State Budget Priorities and Programs; State Budget Assigned Expenditure; Transfers; and Regulative Norms. This described Georgian budget planning process is broadly in line with the systems of the visiting countries in terms of budget calendar and main documents produced.

b. Electronic Budget System of Georgia (from the perspective of MoF and Spending Units)

In terms of the IT solutions in budgeting and public finance reform, Georgian Ministry of Finance uses web-based software E-Budget (www.ebudget.ge) which is available for every Spending Unit for preparing the draft of their components of the State Budget Law. The E-Budget (activated in 2011) was updated respectively and it allows preparing the draft law as well as its annexes including the descriptions of the programs, their expected results/outputs/outcomes and performance measurement indicators as well as information on medium term financing. The program allows the Spending Units to fill in the form and submit a budget proposal to the Ministry of Finance. The Management Side of the Program allows Ministry of Finance to make consolidated reports necessary for the State Budget preparation. Reports can be obtained in Excel, Word or PDF files.

Georgian web-based information system manages the quantitative side as well as the qualitative (textual) side of the Budget including descriptions of the Programs/Subprograms/Activities of the Spending Units and the Budget Priorities, and the result indicators. This software allows preparation of the quarterly allocation of the Annual Budget Plans after Parliament adopts the Law (budget execution phase) and the quarterly plans of the allocations are directly imported in the E-Treasury System.

The system:

- simplifies and systemizes budget planning process by providing flexible and mobile data flow
- automates budgeting process steps
- increases effectiveness and productivity of users
- decreases the error rate during the budget development process
- enables advanced data analysis by providing multifunctional analytical support
- provides customized sets of reports for various user categories, and
- provides data storage into the unified database.

The system is used by 51 budget spending units for budgeting of 861 organizational codes. Budgeting portals are: Spending Units (for planning expenditures), Fiscal Forecasting Department (for planning revenues), Electronic Debt Management System (for planning investment projects and debt), and Management (for managing configurations, classifiers, planning of financing, approval of notes and consolidated budget version which uses data from all four budgeting portals). Development of the system is ongoing with a new version planned for October 2013.

The E-Budget is harmonized and fully integrated with the E-Treasury system (since January 2012, Treasury Information System is completely redesigned and web-based and fully integrated with Budget Planning and Appropriation Management System) and all the allocation changes in the Budget Plan are automatically depicted in the Treasury Electronic System. Vice versa, data from the E-Treasury system about the remaining available resources after allocations is depicted in the E-Budget System. Overall, all PFM information are linked via web system – budget planning and management, budget execution, debt and aids management, human resource management, accounting and reporting, and public procurement. All of these IT systems have been developed in-house by Georgian Ministry of Finance (so, these are not off-the-shelf solutions).

Participants of this PEMPAL BCoP Study Visit had an opportunity to see demonstration of the electronic budget system of Georgia both from the perspective of Ministry of Finance (setting up template for budget requests, analyzing budget requests, setting ceilings, preparing budget documentation, managing amendments) and from the perspective of spending units (filling our budget requests, communication with MF).

Lessons Learned

a. Summary of reform lessons learnt as identified by presenters from Georgia

Some of the lessons learnt identified by presenters from Georgia include:

1. Development of in-house budget planning IT system (as opposed to off-the-shelf solution) by the Ministry of Finance (more specifically by the Financial Analytical Service which functions as a Legal Entity of Public Law - LEPL) has many advantages in terms of complete adjustment to the country public finance management (PFM) specificities and flexibility. At the same time, this is pre-conditioned by strong capacity of IT Department of the Ministry of Finance.
2. Harmonization and inter-connectivity of all electronic systems used by public sector is very beneficial. This includes systems used in public finance management (budget planning and management, budget execution, debt and aids management, human resource management, accounting and reporting, and public procurement) and other systems used by public sector (such as eDocument, eAuction, eNatural Resource Management, eHuman Resource Management and electronic system of court cases).
3. Georgian Ministry of Finance chose to develop systems quickly and then continue with improvements and updates continuously based on the needs demonstrated by the users. Similarly, overall approach to budgeting reforms is also gradual, with program budgeting being introduced relatively quickly, with the quality (especially in terms of the performance indicators defined and measures by the spending units, which still need to improve in Georgia), gradually increasing over time (learning by doing approach). The IT system is set up so that it can cater to additional needs as reforms develop further (for example, program budgeting template currently does not have separate fields for quantitative and qualitative data to be entered, but the system would allow for this to develop further in the future as the quality of the program budgeting data entered by spending units improve further).
4. Maximum benefits of the program budgeting reform can be achieved only when it is comprehensively and tightly connected to overall process of strategic planning of government policies. In Georgia, budgeting process is tightly connected to strategic planning process. Each year budget cycle starts with the ministries defining priorities, based on which the Government prepares overall Government priorities. The Government then agrees the priorities with the Parliament, based on which the Medium

Term Expenditure Framework (BDD in Georgia) is prepared. This not only ensures the consistency of the budget with the strategic priorities, but also ensures the ownership of strategic planning and budgeting process by both executive and legislative branch of government.

5. Including local government level in program budgeting reforms is important. Georgia has already starting to work on this with the intensive training of the local government and it is expected that all local government units will have program budget consolidated with the central government program budget next year.

b. Summary of reform lessons learnt as identified by PEMPAL BCoP Participants to this Study Visit

PEMPAL Countries which proposed this Study Visit have all introduced some elements of program budgeting (including performance measures), albeit at different stages in different countries. Given that the budget planning process is much extended with the introduction of program budgeting (including addition of the qualitative data for the performance indicators), the introduction of program budgeting also warrants the adjustments/upgrades of the budget planning IT system/software. This Study Visit to Georgia reflects the interest of the participating countries to see Georgian IT System in order to be able to use good lessons in their process of introducing new IT Systems or adjusting their current IT Systems based on Georgian experience if necessary.

Most interesting characteristics of Georgian budget planning system which were interesting/useful for the participants include²:

1. Horizontal integrity of the IT system (including macroeconomic projections, public debt, public procurement, budget planning, payroll, budget consolidation, and treasury system), as well as vertical integrity of the IT system (widely set up institutional framework from state to local government budget level).
2. Well developed strategic and legislative framework for budget and strategic planning.
3. Commitment to quick introduction of program budgeting and comprehensive MTEF (BDD).
4. Tight connection between process of budget planning and budget execution, which enables efficiency in public finance management and quick data exchange.
5. Through e-budget, Ministry of Finance has comprehensive access to information, including the possibility to add/change and monitor spending units' programs. It is important that the Ministry of Finance of Georgia and its IT system remain flexible in terms of assigning and changing classifications of programs and all other new needs/requests as they appear.
6. Online budget planning by the spending units and by different departments of the Ministry of Finance makes the budget planning process flow smoothly and timely, including the overall budget consolidation (since all functions of the Ministry of Finance are well connected) and multiple report templates. The whole process reduces paper work and needed time, and increases the budget process' discipline by increasing the accountability of the users.
7. Through e-budget, budget planning process is extremely alleviated, since all data, including from previous years, is automatically imported and there are multiple report templates.

² Note: This represent a list of separate points provided by each participating country, so not all points are necessarily interesting/useful for all participants. Several listed points were identified by multiple participants.

8. Through e-budget, spending units access a single unique payroll system.
9. Multiple report templates made possible through IT system in Georgia.
10. Institutional framework and budget calendar serve to make budget planning process a strict process where multiple actors including Parliament (even in the early stages of the budget planning process, with the total of three times each year when Parliament gives feedback/approval) collaborate closely, effectively and efficiently.
11. Good practice in Georgia is stable and constant communication of the Ministry of Finance/Government with the Parliament in the budget preparation process, while at the same time making all of the budget process deadlines (however, this is hardly implementable in some other countries, due to long parliamentary procedures).

Main lessons learnt from this learning visit to Georgia identified by the participants include:

1. Ministry of Finance of Georgia made significant improvement in budget planning process, which was possibly also due to strong support and commitment by the Government leadership to this reform. Electronic budgeting (which encompasses budget, execution, procurements, and debt) shows this commitment to the reforms, which yielded good results. Academy of the Ministry of Finance of Georgia (which is expected to also start providing official IMF courses for the Central Asia region) which provides important trainings for the civil servants (including in budgeting) as well for wider community is an important and impressive proof of the extension of this commitment.
2. IT system is a good way to increase transparency of budget process (in Georgia all versions of draft budgets available online, close communication with Parliament).
3. An institutional and legislative framework which outlines close relationship between the spending units, Ministry of Finance, Government, and Parliament in budget planning process ensures high quality of adopted budget and respect of the budget calendar deadlines. Spending units responsibly propose their own priorities and Ministry of Finance prepares detailed analysis when preparing budget ceilings.
4. Commitment and valor of the Ministry of Finance of Georgia to develop its own IT solutions for budget planning and for overall public finance management was crucial for quick and successful implementation of the system.
5. The Ministry of Finance demonstrated effectiveness and efficiency in using foreign aid for the best results, customizing the IT solution to the specific needs of the Ministry of Finance.
6. Orientation to future needs and continuous improvement of the system is an essential part of the the Ministry of Finance approach.
7. Preparation of elaborate and comprehensive budget documentation (which contributes to transparency of the budge process and provides for better communication between the executive and legislative branched in the budget adoption process) is facilitated by the IT system.
8. The IT system is integrated and user-friendly IT system. Spending units enter their inputs via web, which speeds up and alleviates the planning and consolidation process.
9. Real-time connection between the budget planning system and treasury system enhances the quality of budget planning and budget execution process: changes in the Budget Plan are automatically depicted in the Treasury Electronic System. Vice versa, data from the E-Treasury system about the remaining available resources after allocations is depicted in the E-Budget System.

10. Efficient organization of the Ministry of Finance and close cooperation of different sectors.
11. Strong capacity and adequate number of employees in IT department of the Ministry of Finance is a necessary pre-condition for successful implementation of IT system for budget planning.
12. Sufficient time and resources must be devoted to training of the spending units on usage of the IT system for budget planning.
13. The IT system allows efficient and close monitoring of the revenue collection by the Revenue Service of the Ministry of Finance.
14. Impressive capacity of the Academy of Ministry of Finance allows efficient local support to reform implementation through staff training.

Experience of the Georgian Ministry of Finance in PFM reforms and more specifically in developing in-house IT system for budget planning and connecting it to all other IT systems in public finance areas was very useful to the participants of the Study Visit. Participants identified numerous lessons learned from the Georgian system as outlined above.

In the follow-up from the Study Visit, additional materials requested from the Georgian Ministry of Finance during Study Visit were forwarded to the participants – including Program Budget Methodology and examples of parts of budget documentation.

It is suggested that the participants prepare a presentation on this Study Visit to be delivered at next BCOP plenary meeting with the goal of sharing experiences with other BCoP members