



# Ministry of Finance of Georgia

## Budget Tagging in PFM

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PFM Reform

Policy Classifier

CBT

PIM

Challenges

# Linking Policy with the Budget

## PFM Reform

Government Program

Basic Data and Direction (BDD)  
Document (MTBF)

Medium-term (4-year) Action Plans  
/Activity level and costed/

- Policy Planning and Coordination Reform
- Performance Based Budgeting (PBB)
- Financial Management and Control (FMC)
- Public Investment Management (PIM)
- Integrating SDGs, Gender, Climate, etc, into the PBB
- Electronic PFM systems

State Budget  
Law

Sector Strategies

# Public Financial Management Reform Coordination

PFM Reform



## PFM Coordination Council Under MOF

MOF (policy departments/agencies)

Parliament – Financial and Budgetary  
Committee

State Procurement Agency (SPA)

Parliament – Budget Office

State Audit Office

*Preparation of 4-year PFM strategies  
and annual Action Plans;*

International Organizations (Donors)

*Reporting (quarterly and annually).*

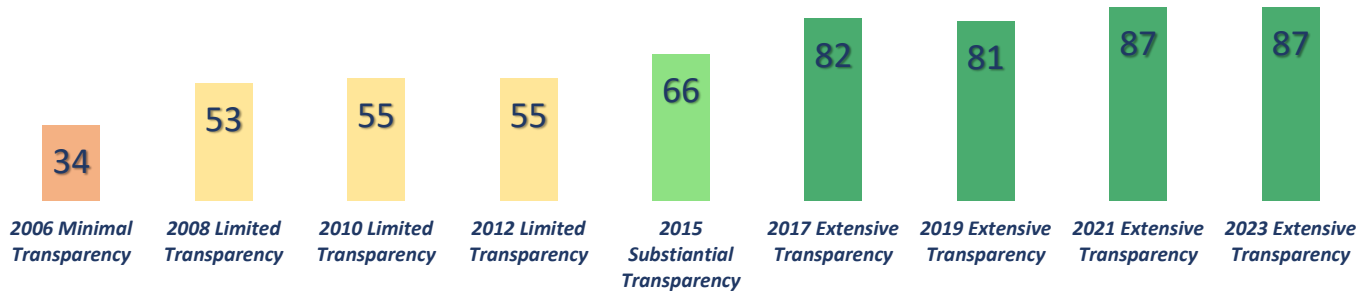
Civil Society Organizations

*PFM Reform Strategy for 2023-2026*

# Public Financial Management Reform

## PFM Reform

### Georgia - Open Budget Index (2006-2023)



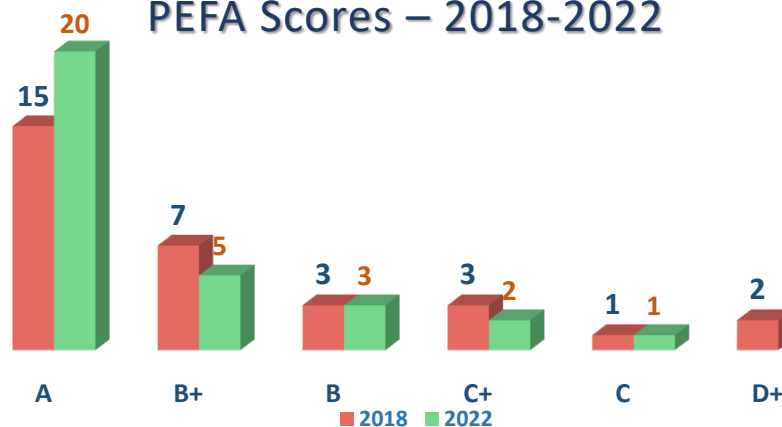
PFM reforms in the budgeting area are based on the following assessment results:

- PEFA (WB, EU) – Public Expenditure and Financial Accountability
- FTE (IMF) – Fiscal Transparency Evaluation
- PIMA (IMF) - Public Investment Management
- IMF – Fiscal Rules Assessment
- OBS – Open Budget Survey
- Government Program
- Sectoral Reform Agendas

- Budget Transparency - 87 (1<sup>st</sup> place among 125 countries)
- Budget Oversight - 74 (5th in the world)
- Public Participation - 44 (4th in the world)

Georgia is the only country among the top five globally that scores highly in all three areas: budget transparency, budget oversight, and public participation.

### PEFA Scores – 2018-2022



# New “Policy Classifier”

## Policy Classifier

To enhance the alignment between country’s strategic directions and policy documents and the budgetary framework, the "tagging" tool was introduced and incorporated into the e-budget system. The "**Policy Classifier**" component enables all spending units to link their programs/sub-programs with the relevant policy classifier, including Sustainable Development Goals (SDG), Gender Equality, Climate Change, Sectoral Strategies, etc.

The information about these linkages is reflected in the Program Budget;

According to the policy classifier, the budget documentation will identify and reflect relevant expenses.

Enhancing the quality of performance budgeting in the light of modern challenges related to gender, climate change, SDGs etc.

- Sustainable Development Goals - SDG;
- Human Capital Goals
- Gender Equality
- **Climate Change**
  - Climate Change - Mitigation;
  - Climate Change - Adaptation;
  - Climate Change - Mitigation and Adaptation;
- Rural Development
- Human Rights
- Energy Efficiency
- Sector Strategies
  - Vision 2030.

# Program Budget Structure



Program Name and Program Code	
Implementing Agency	
Policy Classifier	
Description and Goal of the Program	
Program Outcome	

## Indicator of Program Outcome

N	Name of Indicator	Baseline Indicator	Targeted Indicator	Possibility of Deviation (%/Description)	Potential Risks
1					
2					
3					
4					
5					

# Coordination Mechanism



## Gender Equality

- Human Rights Secretariat (AoG)
- UN WOMEN

## Climate Change

- Ministry of Environment Protection and Agriculture
- EU
- WB

## Government Sector Strategies

- Administration of Government
- Ministry of Finance

*Government Decree on BDD preparation*

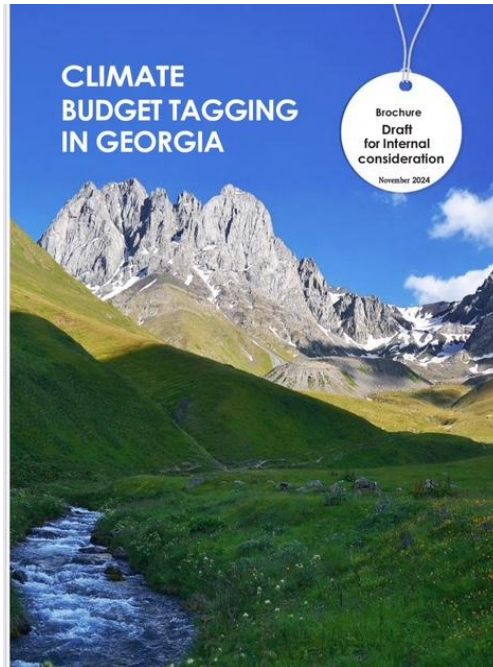
# Climate Budget Tagging

CBT

CBT Methodology

Capacity Building

E system of tagging



✓ Trainings/workshops in CBT with MOF and 7 Line Ministries:

1. Ministry of Environmental Protection and Agriculture;
2. Ministry of Regional Development
3. Ministry of Infrastructure;
4. Ministry of Economy and Sustainable Development;
5. Ministry of Internal Affairs;
6. Ministry of IDPs, Labour, Health and Social Affairs;
7. Ministry of Education, Science and Youth.

- ✓ Linking Programs/ subprograms with climate change adaptation/mitigation through e-Budget system.
- ✓ Concept of electronic system of CBT tagging is under development.

# Climate Budget Tagging



## 2024 State Budget

- ✓ 3 pilot line ministries were screened (20% of total budget expenditure).
- ✓ 3 pilot line ministries tagged their 36 program/subprogram.

## 2025 State Budget

- ✓ 6 line ministries were screened (65% of total budget expenditure);
- ✓ 6 line ministries tagged their 63 program/subprogram with Climate Change.

- **Fiscal Risks Assessment Report** (November 2024) – describes and analyses climate change related risks *(part of State Budget package each year submitted to the Parliament)*.

# Medium-term fiscal impact of Policy classifiers



Thousand GEL

Policy Classifier	Budget Year	Budgeted Year +1	Budgeted Year +2	Budgeted Year +3
<b>Gender Equality</b>				
<b>Climate Change</b>				
Climate Change - Mitigation				
Climate Change - Adaptation				
Climate Change - Mitigation and Adaptation				
<b>The United Nations Sustainable Development Goals - SDG</b>				
<b>Human Capital Goals</b>				
<b>Rural Development</b>				
<b>Energy Efficiency</b>				
<b>Sector Strategies</b>				
Strategy 1				
Strategy 2				
Strategy 3				
---				

<i>% of Expenditure</i>				
<b>Gender Equality</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Climate Change</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Climate Change - Mitigation	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Climate Change - Adaptation	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Climate Change - Mitigation and Adaptation	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>The United Nations Sustainable Development Goals - SDG</b>				
<b>Human Capital Goals</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Rural Development</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Energy Efficiency</b>	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Sector Strategies</b>				
Strategy 1	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Strategy 2	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Strategy 3	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
---	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

# Public Investment Management (PIM) System



PIM

## Public Investment/Capital Project Management Methodology

(Annex to the Government of Georgia Resolution No 65 from February 2023)

N	Category of Project	Value (in Million Georgian GEL)
1	Small	<5
2	Medium	≥5- <20
3	Major	≥20

- PIM Process
- Methodology for financial and economic analyses
- PCN template
- Cost- Benefit Analysis template (Excel)
- Financial Analysis template for small projects (Excel)
- Key indicators to be used for financial and economic analysis (Ministerial Order)
- Climate Risk Assessment Methodology



Pre-selection

Selection

Budgeting

Implementation

Monitoring

Ex-post  
Evaluation

# PIM requirements by project category

PIM

- Climate risk screening
- determination of adaptation measures



Evaluation of GHG emissions (CO<sub>2</sub>e)



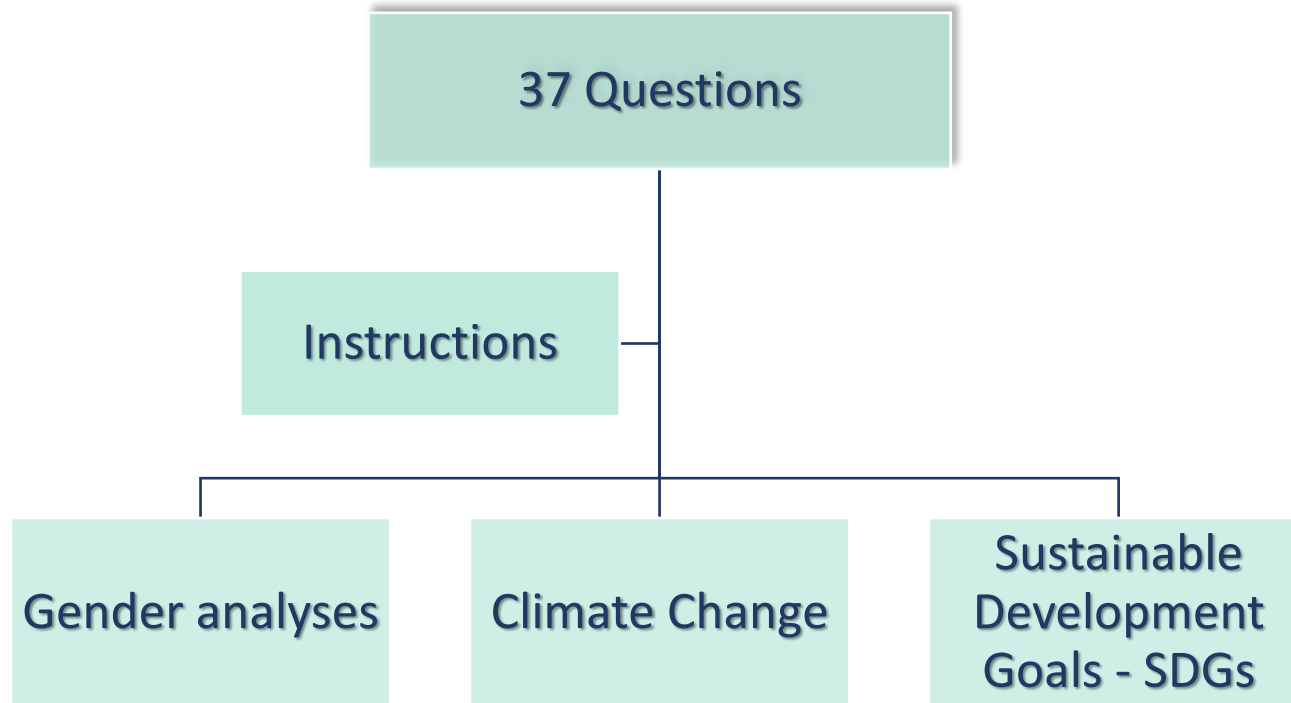
In-depth climate risk analysis in line with preliminary analysis in the PCN

Requirement	Small (GEL 0 –5 m) (\$0-1,83 m)	Medium (GEL 5 -20 m) (\$1,83 - 7,3 m)	Large (> GEL 20 m) (>\$ 7,3 m)
Project Concept Note	No	Yes	Yes
Financial analysis	Yes (upon WG request)	Yes	Yes
Economic analysis	No	Upon request	Yes
Feasibility Study	No	Upon request	Upon request



# PCN – Project Concept Note

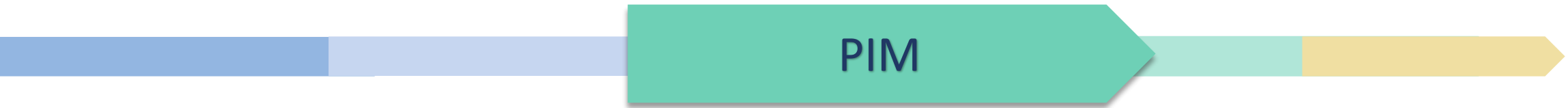
PIM



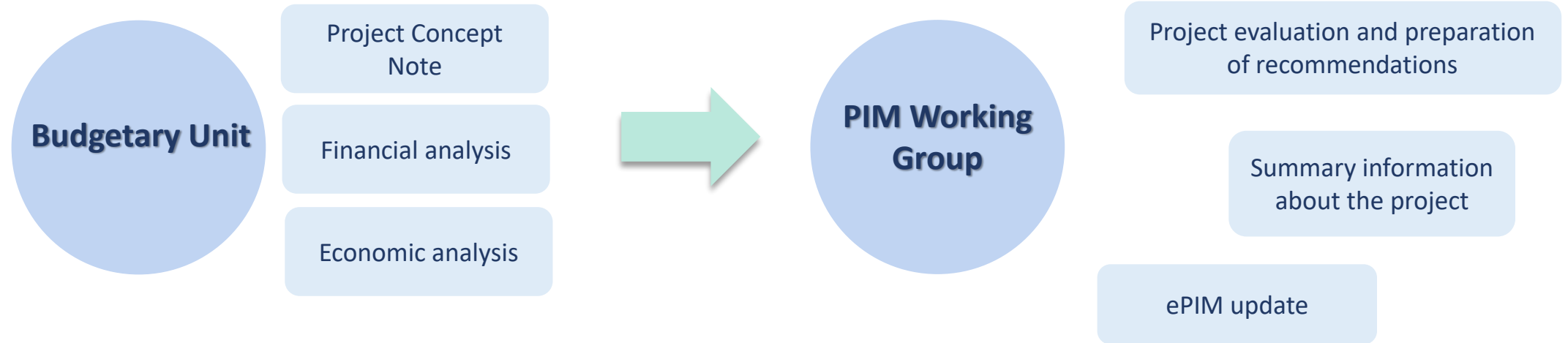
## 3 Questions need to be answered in PCN:

1. Describe the significant risks expected to impact the project's economic efficiency and identify any necessary mitigation measures. Ensure that climate change-related risks are identified, indicating potential hazards that may affect the project's implementation or subsequent operation.
2. Identify the required climate change adaptation measures or outline the steps that will be taken to enhance the project's resilience to anticipated climate change threats, as per the risk analysis.
3. Please specify the measures that will be implemented to mitigate the project's impact on climate change.

# Project Pre-Selection/Appraisal – 1<sup>st</sup> stage



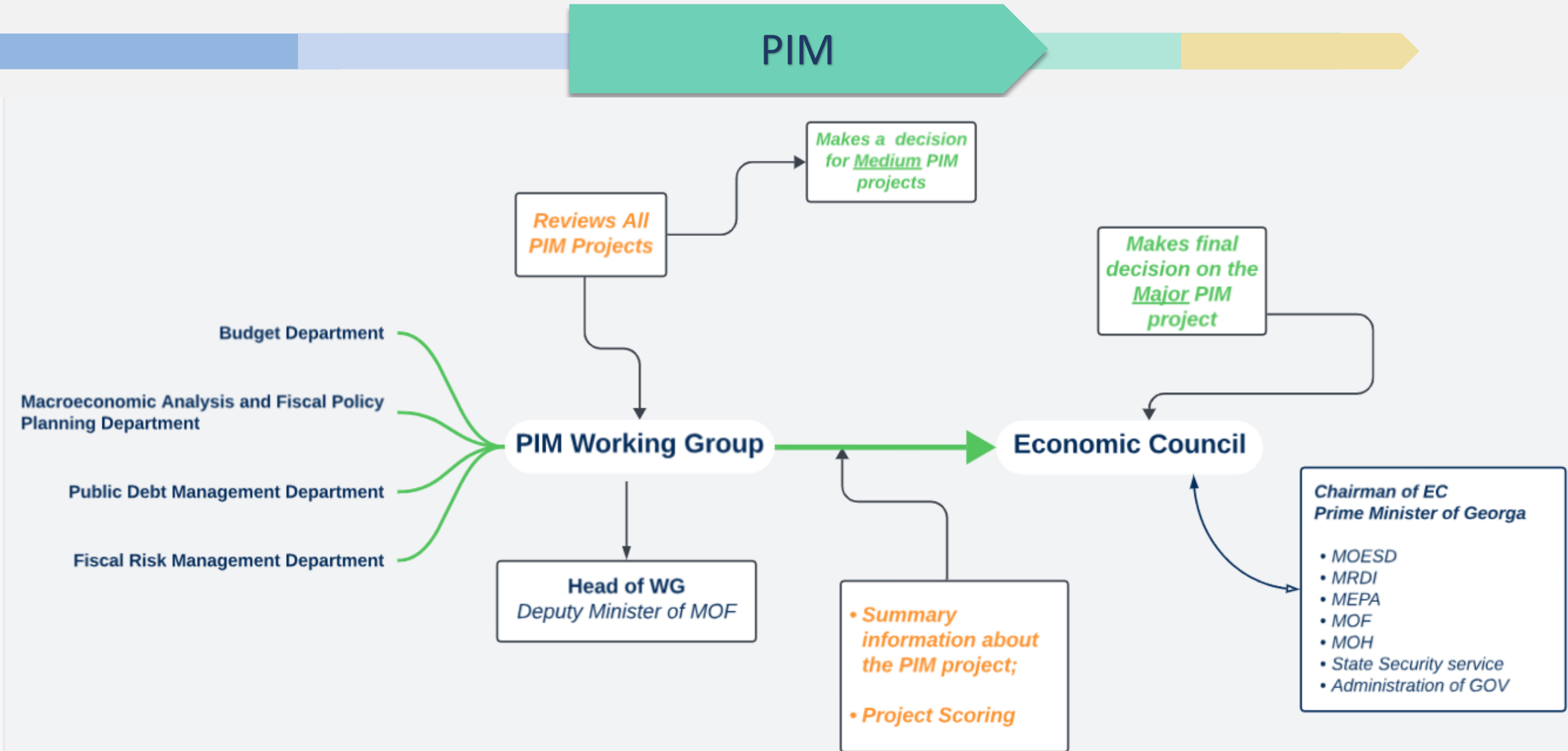
## *Project Pre-Selection / Appraisal*



### **Working Group may:**

1. Approve the project (project advances to the next stage and is included in the summary report);
2. Don't approve the project;  
*In this case, depending on the decision of the spending entity project can be either:*
  - Terminated or
  - Moved to next step (submitted for decision by the Economic Council)

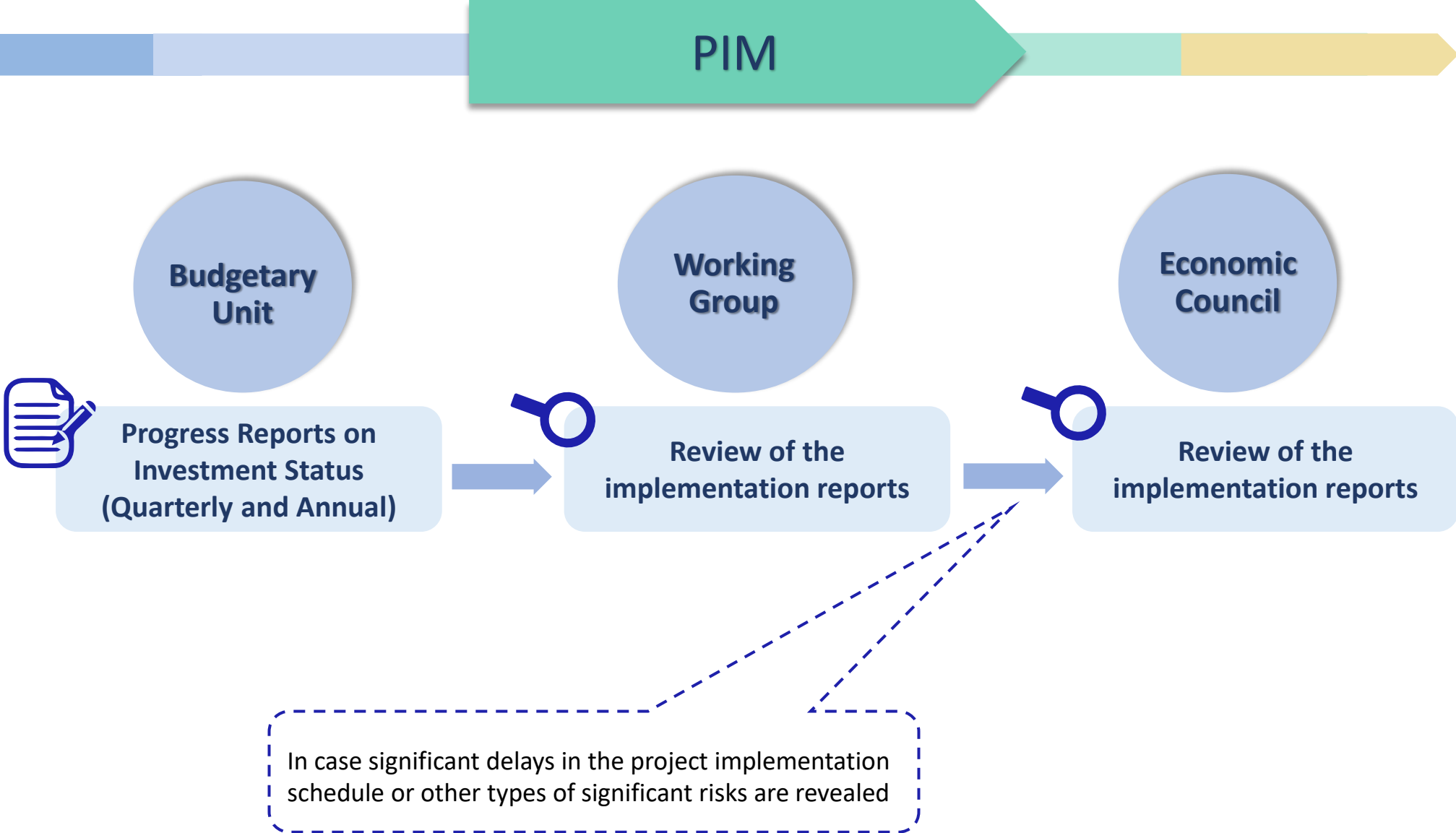
# PIM Process Coordination



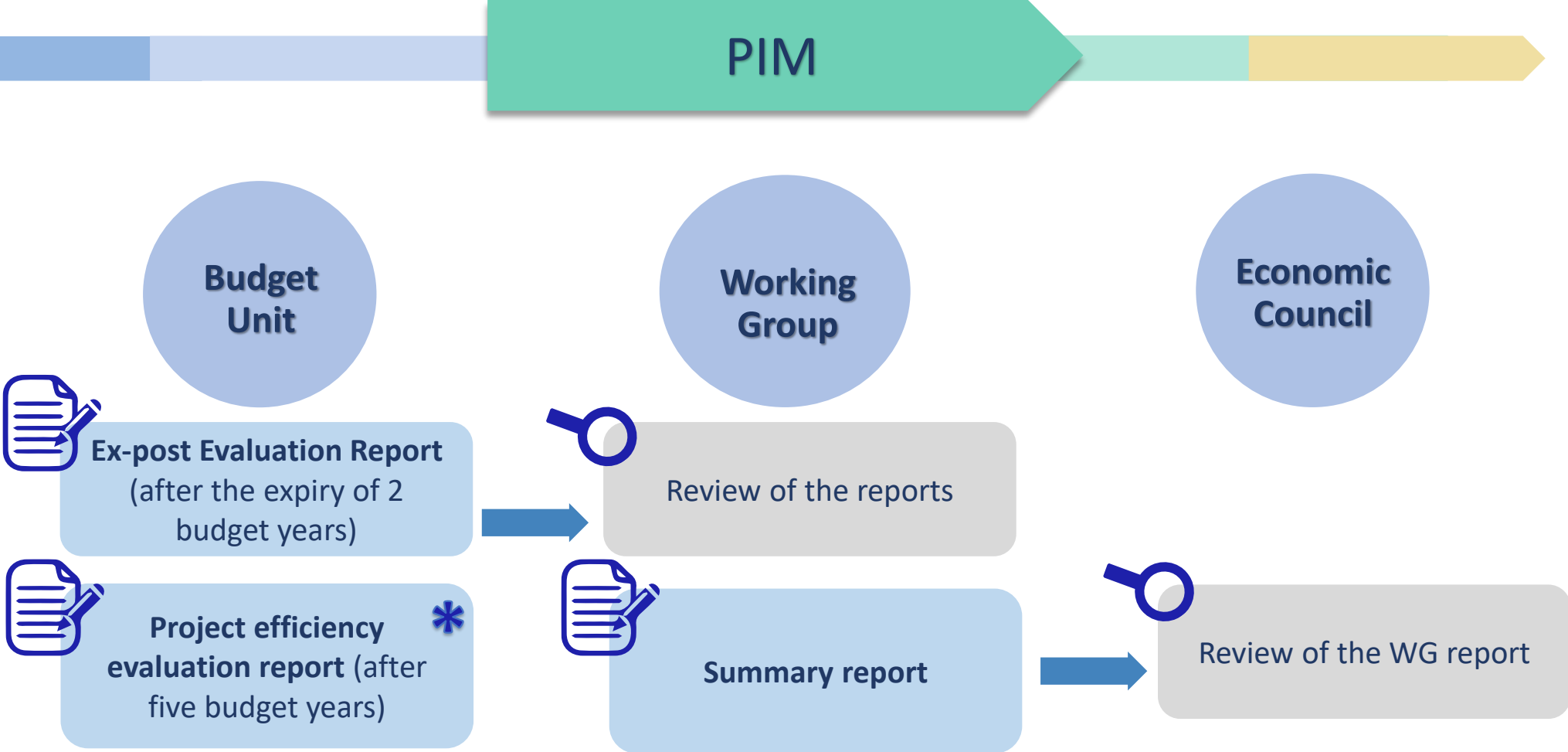
# Project Selection Criteria

<b>Project economic viability</b>	<b>Points</b>	<b>weight</b>
The economic rate of return (EIRR) is twice the discount rate	<b>3</b>	<b>5</b>
Economic internal rate of return (EIRR) is greater than the discount rate	<b>2</b>	
The economic benefit is described, although its monetary value can't be determined	<b>1</b>	
Economic benefits are not described	<b>0</b>	
<b>Project of users quantity/demand analysis</b>		
More than 5% of the population of the municipality	<b>3</b>	<b>2</b>
More than 20% of the relevant area	<b>2</b>	
From 5% to 20% of the relevant area	<b>1</b>	
Less than 5% of the relevant area	<b>0</b>	
<b>Financial sustainability</b>		
Direct income exceeds operating income expenses	<b>3</b>	<b>2</b>
Direct income covers operating 75% or more of expenses	<b>2</b>	
Direct revenues cover operational from 30% to 75% of costs	<b>1</b>	
Revenue covers operating income less than 30%	<b>0</b>	
<b>Climate Change</b>		
The project is adapted to climate change; The identified risks or the project have no negative impact on climate change and the implementation of the project contributes to CO2 reduction of emissions	<b>2</b>	<b>3</b>
The project envisages climate identified risks of change or the project does not have a negative impact on climate change or the implementation of the project contributes to CO2 reduction of emissions	<b>1</b>	
The project does not take into account the climate risks associated with change and/or project implementation contribute to the CO2 increase in emissions	<b>0</b>	

# Project Implementation and Monitoring – 5<sup>th</sup> stage



# Ex-post Evaluation – 6<sup>th</sup> stage

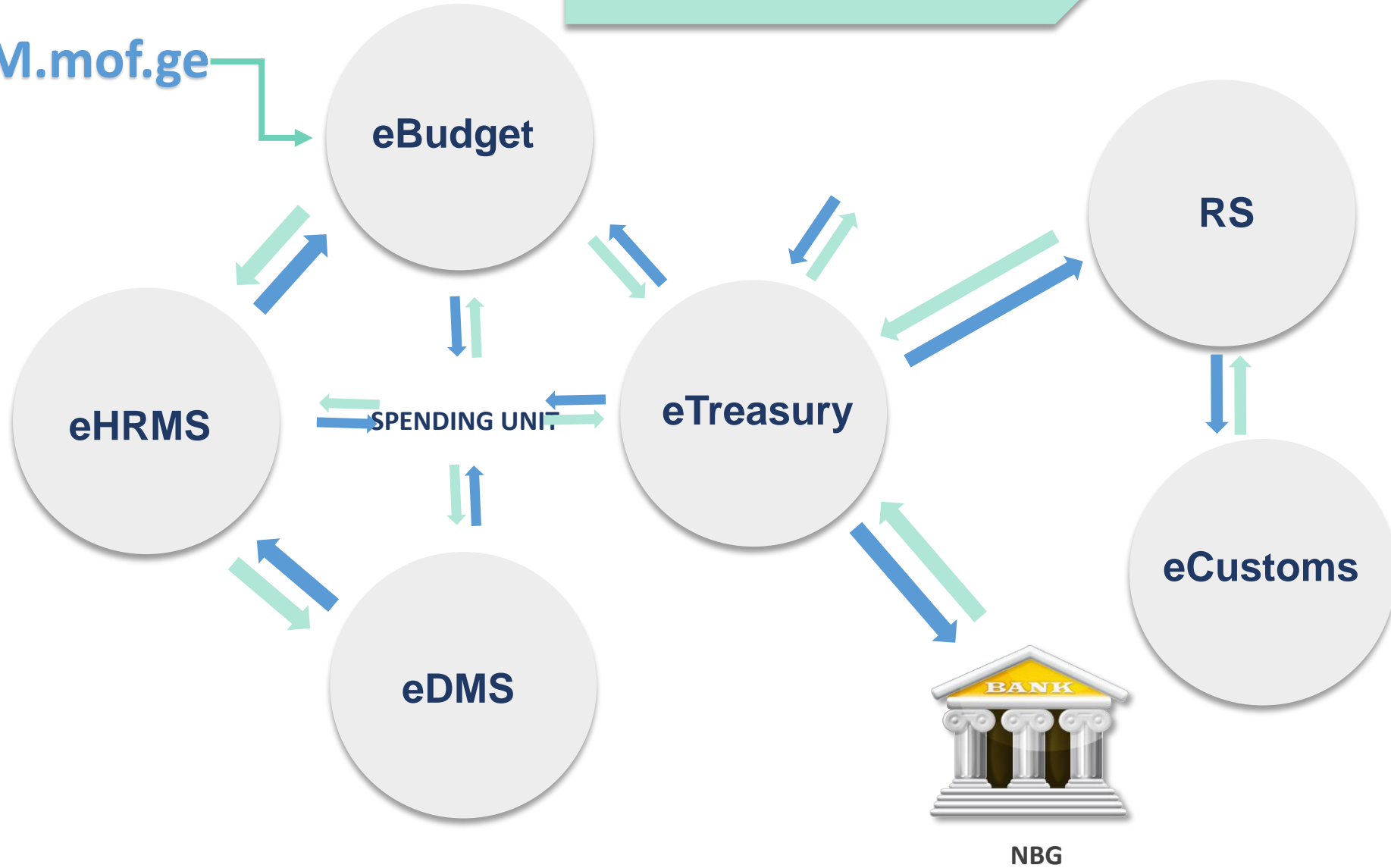


\* Upon WG request

EPFMS

ePIM

[www.ePIM.mof.ge](http://www.ePIM.mof.ge)



# EPIM

# ePIM

The screenshot displays the ePIM software interface, which is used for project management and evaluation. The interface is divided into several sections:

- Project Information:** A form for entering project details, including:
  - BASIC INFORMATION:** Fields for Project Name, Spending institution/agency, Person responsible for the project, Structural unit/budgetary organization, and Project location.
  - INTERVENTION LOGIC:** Fields for describing the problem and explaining how the project will alleviate it.
- Working Group Recommendations:** A text area for entering recommendations.
- Evaluation Summary:** A table showing the total score and evaluation criteria.

No	Criterion	Score	Provide justification for choosing the score
1	Economic viability		
2	Number of users		
3	Financial sustainability		
4	Impact on climate change		
<b>Total</b>		<b>0</b>	
- Evaluation Criteria:** A list of criteria with associated scores and justification fields.
  - 1. Economic viability (weight 5): Has the economic viability of the project been confirmed with reasonable certainty, meaning that the net benefits are expected to be positive, there are no better ways of achieving the project purpose?
    - 0 point - No Sufficient explanation
    - 1 point - Economic benefits described but impossible to calculate in monetary terms
    - 2 point - Economic benefits described and valued. EIRR more than a discount rate, but less than 2 times.
    - 3 point - Economic benefits described and valued. EIRR 2 times more than a discount rate
- Assumptions:** Fields for Sector, Subsector, Reference period, Time Horizon Assumptions (Start of investment period, End of investment period, Start of operation period), and Residual value assumptions.

Work on automating the tracking process through the development of **live dashboards** for real-time climate-related budget tracking and ensuring these systems are linked with **eBudget**.

# Challenges



## Challenges

Climate Budget Tagging along with the reporting on the fiscal impact of climate change mitigation and adaptation as well as climate-informed Public Investment Management (PIM) will significantly enhance the decision-making process for policy makers.

Incorporating cross-cutting issues such as climate change, gender equality, the Sustainable Development Goals (SDGs), human capital goals, and Green Budgeting into the program budget will further enhance the quality of results-based planning and reporting.

The implementation of the Electronic Public Investment Management (EPIM) system will strengthen public investment management reform and facilitate the analysis of climate change adaptation and mitigation measures.



Thank You!

PFM Reform

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Challenges