ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of the Republic of Georgia

Action Fiche for Support to Public Finance Policy Reforms (PFPR)

1. IDENTIFICATION

Title/Number	Support to Public Finance Policy Reforms (PFPR) *ENPI/2013/024-705*		
Total cost	Total amount of EU budget contribution: EUR 21 million, of which EUR 19 million for budget support EUR 2 million for complementary support		
Budget support			
Aid method / Method of implementation	Direct (centralised) management Sector Reform Contract		
Type of aid code	A02 – Sector Budget Support	Markers	BSAR
DAC-code	15111	Sector	Public Finance Management
Complementary support			
Aid method / Method of implementation	Direct centralised management (procurement of services)		
DAC-code	15111	Sector	Public Finance Management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

The main objective of the public finance policy reform programme is to improve efficiency, transparency and accountability of public finance policy and management in Georgia.

Given the technical progress achieved via EU-supported, Public Finance Management (PFM) -focused budget support programmes as well as via other donors' programmes, a strong emphasis will be put on increasing efficiency in the management of public funds with a specific focus on accountability and transparency by directly and publicly involving a higher level of political and institutional responsibilities within the country's system of checks and balances. The proposed programme will also facilitate a more informed oversight by non-state actors and citizens.

2.2. Country context

2.2.1. Main challenges towards poverty reduction/inclusive and sustainable growth

Georgia is a small developing economy with a population of about 4.5 million people and a gross national income (GNI) per capita of USD 3,136[1]. Over the past eight years Georgia undertook significant economic, social and governance reforms resulting, inter alia, in progress in reforming the role of the state vis-à-vis the private sector, in reducing corruption, and in developing a more favourable environment for business. Sound fiscal and monetary policies supported by structural reforms supportive of supply-side dynamics also contributed to foster economic growth particularly in larger cities. The 2008 conflict with Russia together with the following global economic downturn and a sharp decrease of the foreign investments have altered this dynamic. Despite such shocks, Georgia has been capable to recuperate macroeconomic stability and to recover progressively. Current estimates for gross domestic product (GDP) growth are around 7 percent in 2012 and 6 percent in 2013. Current account deficit remains however relatively high (11.7% of GDP in 2012) and its medium-term outlook may represent a challenge to fiscal stability.

Poverty and unemployment (at about 27% and 15%, respectively) remain high and, as in many countries at a similar stage of development, also in Georgia there is an evident urban-rural gap with the incidence of extreme poverty in rural areas being almost twice than in urban areas. While agriculture is the primary source of employment in rural areas, the sector is still based on production methods with low productivity rates. Agriculture output thus accounts for 8%[2] of the GDP only, but still employs more than half of the total population. As a result, the average level of expenditures of one-fourth of the Georgian population - i.e. more then 1.2 million people - is estimated to be equivalent to less than 60% of (median) subsistence level.

2.2.2. Fundamental values

Fundamental rights are protected by Georgian Constitution and laws in line with international standards. Georgia took important steps towards ensuring freedom of religion. The law on Assembly and Demonstrations of July 2011 was praised by the Council of Europe Venice Commission as a significant improvement in the possibility to exercise of the freedom of assembly in Georgia.

2.3. Eligibility for budget support

2.3.1. Public policy

Georgia has been implementing far-reaching reforms since 2004 with impressive results. Prior to 2004, Georgia was one of the poorest performing economies in the region mainly due to conflict and governance issues, with 2003 GDP at 40 percent of the 1989 level. Starting in 2004, reforms undertaken to strengthen public finances, improve the business environment and social services, fight the then all-pervasive corruption, liberalize trade, and upgrade infrastructure, helped achieve an annual average growth of more than 9 percent over 2004-08.

The political programme of the coalition Georgian Dream "for Strong, Democratic, United Georgia" has become a basis for policy formulation after October 2012 when the coalition gained the majority of seats in the Parliament and formed the new Government. The party

[1] Geostat (www.geostat.ge) - GNI, 2011.
[2] Geostat - composition of GDP, 2011.

programme was reflected in the Basic Data and Directions (BDD) document which is the medium term budgetary policy document in place since 2005.

The BDD for the years 2013-2016 defines a set of key reform priorities across sectors. Public Finance Reforms are identified as one of the key components of economic policy with a special emphasis on efficiency, transparency and accountability of finances. PFM should play an active role in decreasing income disparities among different social groups of population. The BDD document was approved together with the 2013 annual budget law in December 2012.

The following ongoing reforms in the Public Finance Policy and Management should promote efficiency and accountability:

- Linkage between medium term and annual fiscal planning. The Basic Data and Directions (BDD) document, prepared and implemented gradually starting from 2004, is now systematically submitted to the Parliament together with the annual budget law and the consistency between the two set of documents is gradually improving. Furthermore, the introduction of programme budgeting is now on-going. It is expected that this complex and challenging policy process will take some years to be fully developed according to best international practices.
- Public internal control and audit systems. The relevant Public Internal Financial Control (PIFC) law, as amended in December 2011 by the Parliament, now includes essential components in line with EU-supported PIFC policy such as Internal Audit (IA), Central Harmonisation Unit (CHU) and Financial Management and Control (FMC) based on decentralised managerial accountability.
- Accounting systems. Starting from 2011, the Ministry of Finance (MoF) has developed International Public Sector Accounting Standards (IPSAS)-related implementation action plan with initial activities focusing on building capacity and skills of the Treasury staff, and prepared appropriate guidelines for modified cash-based IPSAS for the public sector.
- Revenue management. Following the entry into force of the new Tax Code in 2011, significant improvements are taking place in terms of simplification of procedures, especially for smaller business and for e-filing of declarations. Moreover, the Tax Ombudsman, also introduced in 2011, is now mandated to investigate violations of taxpayers' rights.

The Budget Code of Georgia establishes the framework for reporting on budget execution. The Government submits quarterly budget execution reports to the Parliament while the earlier are also available to the public through the MoF website. The annual budget execution report is subject to Parliament's formal approval.

Budget execution reports contain narrative and financial information regarding the execution of state programmes and sub-programmes. The budget format is broadly "input oriented" and outlines only general policy objectives for each line ministry. Introduction of programme budgeting from 2012 should improve reporting on policy outputs and results.

Apart from budget execution reports, the Ministry of Finance and the State Audit Office prepare quarterly reform execution reports. These reports are discussed in PFM Coordination Council meetings and serve as a basis for tracking progress.

2.3.2. Macroeconomic policy

Political and economic reforms only marginally improved employment and living conditions of the poor. Poverty and unemployment remains traditionally high in the country (about 27.8% and 15,1%). In terms of the distribution of the poor and unemployed persons across urban and rural areas, rural rates are higher than urban ones, and the incidence of extreme poverty in rural areas is almost twice than in urban areas. While rural areas largely depend on agriculture to generate revenues, the farming sector in Georgia is still based on archaic production methods with low, if not negative, productivity rates, merely allowing for subsistence crops. As a result, agriculture output only accounts for 7.9%[3] of the GDP but employs almost 60% of the population. As a result, the consumer expenditures of 23% of the Georgian population - or over 1.2 million people- were below the 60% of median subsistence level.

The real GDP growth could amount to 7% in 2012 and is planned to reach 6% in 2013. Real growth was posted notably to the following sectors: financial Intermediation (16.8%), hotels and restaurants (11.3%), manufacturing (19.7%), communication (11%), real estate (19.4%).

Prices of key consumer price index (CPI) basket components have been stable, having marginal deflation to -0.9 % (year to year) in December. In order to avoid economic slow down, the National Bank of Georgia has implemented relevant monetary measures decreasing the refinancing rate in November to 5.25%.

External trade data for January-November of 2012 show that exports of goods and services slightly decreased year-on-year (amounting to USD 1,320 million), however imports slightly increased (amounting USD 4,347 million). It has to be noted that Georgia traditionally has large trade deficit that is counterbalanced by remittances, foreign direct investment (FDI) and External assistance. The current account deficit is projected to 10.8% of GDP, which is 1% better than in 2011.

The major macroeconomic challenge continues to be to sustain economic growth while promoting balance of payments adjustment. This requires increase of private capital inflows and domestic lending in support of investment projects

Maintaining macroeconomic stability and promoting investment remain key priorities of the Government's new Strategy "for Strong, Democratic and United Georgia".

FDI is predicted to be maintained at least at 6% of GDP. The Government also aims to invest in large scale infrastructure projects in transport and communal services, as well as in agriculture.

A 24-month Stand-By Arrangement (SBA) and a 24-month arrangement under the (concessional) Stand-By Credit Facility (SCF) were approved by the International Monetary Fund (IMF) Executive Board on April 11, 2012. Under the program, Georgia has access to IMF credits of up to SDR 250 million (250 percent of quota, or about USD 386 million), evenly divided between the two arrangements. The authorities are treating the program as precautionary, and accordingly did not request the disbursement of the SDR 25 million made available at the time of the program approval. Performance under the program is monitored through semi-annual reviews.

On March 13, 2013, the Executive Board of the IMF completed the first and second reviews under the SBA and the SCF arrangement for Georgia.

According to its related press release it is stated that[4] : "*Macroeconomic developments have been generally positive, with growth remaining strong and inflation subdued. The fiscal*

[3]Geostat, Composition of GDP, 2011.
[4] http://www.imf.org/external/np/sec/pr/2013/pr1375.htm.

deficit target was met comfortably and reserve accumulation was in line with program objectives".

Fiscal policies of the government aim at putting public debt firmly on a downward path. The general government deficit would go from 3.5 percent of GDP in 2012, to 3.0 percent in 2013, and drop below 3.0 percent in 2014. As a result, public debt would decline from 34 percent of GDP in 2011 to 31 percent in 2014, and remain on a downward path thereafter.

Revenues are projected to decline over the medium term, reflecting the phasing out of grant support and non-recurrence of one-off tax intakes. During the 2013-2016 period, revenues will decline from 28.8% of GDP to 25.8%. Thus, tax revenues will decline from 25.3% to 23.9% of GDP.

The vulnerability of the economy will grow if deterioration of global growth will continue accompanied by lower prices of Georgian commodity exports (metals), lower remittances and lower private capital inflows, including FDI.

Under the impact of weaker external demand and lower investment (linked, in part, to lower FDI), the loss of real GDP relative to the baseline would follow a similar pattern as for the rest of the world. The IMF estimates that the external shock would open a cumulative balance of payments gap of USD 827 million in 2012–14, and USD 108 million in 2015–17.

2.3.3. Public financial management

The PFM sector has undergone a number of positive changes in the areas of budgeting and accounting of state funds since 2008. Georgian legislation now defines better the division of power among the Government, the external control and Parliament. The budget law determines the appropriations to the spending units, and commitment control mechanism is in place. A medium Term Expenditure Framework (MTEF) has been developed to strengthen the link between government development priorities and the annual budget. There are however, areas in the existing internal and external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements that are in need of continued reforms.

For better capturing the results of implemented reforms during last three-four years, Ministry of Finance conducted a new Public Expenditure and Financial Accountability (PEFA) self-assessment in summer 2012 that is sent for quality check and validation to the World Bank office. EU Delegation and the authorities have agreed that the report will be available to public in late spring 2013. Publication of the PEFA report will be followed by the updated PFM reform strategies and action plans, that forms the platform for new Public Finance Policy Reform Support programme.

It is also expected that significant improvements will be reported in almost all areas of PFM. Key quantitative progress in the past three years is as follows:

- Introduction of programme budgeting at State, as well as at autonomous and local government levels
- Introduction of risk based tax audit system
- Improving the law on Internal Audit and development of key methodological documents in this area

- Development of Financial and Performance Audit manuals by the State Audit Office and conducting audits according to international standards
- Conducting PEFA self-assessment by the Ministry of Finance
- Cutting budget deficit down to 3.3% of GDP (from 9% in 2008)

On the basis of the analysis of the PFM progress in Georgia during the current year i.e. 2012, as well as positive developments during 2009-2011 it can be concluded that the main actions of the Government are directed to address the least developed areas of Public Finance Management in Georgia. Therefore the direction of change points towards well targeted actions in line with overall commitment under the existing strategy and action plan.

2.3.4. Budget transparency and oversight of the budget

Since 2005, the Government is regularly publishing the annual State Budget laws and quarterly/annual budget execution reports on the Ministry of Finance website[5]. The published material contains not only general budgetary data but also detailed information on revenue sources and budget appropriations by spending agencies. The annual budget law also contains info on state transfers allocated to local-self governments as well as public debt targets.

Apart from annual budgeting, a medium term expenditure framework has been introduced in Georgia: since 2005, the government prepares a MTEF that contains multi-annual fiscal targets and expenditure ceilings for the next 4 years. From 2009 onwards, the MTEF and the draft annual budget law are submitted to the Parliament in one package for approval and there is high degree of consistency between the two documents. The MTEF is also available to the public through the Ministry of Finance website.

Georgia scores 55 out of 100 in the Open Budget Index 2012, which is higher than the average score of 43 for all 100 countries surveyed, according to the global report released by the International Budget Partnership in January 2013.

Based on the main findings, Georgia is consistent in publishing four of the eight key budget documents measured by the OBI: Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, and Audit Report. However, the Georgian government provides its citizens with only some information on the country's state budget and financial activities, making it challenging for the citizens to track how public money is managed.

At the same time, despite a generally strong oversight of planning and implementation of the national budget there is still a need to further strengthen the oversight powers of the Georgian Parliament and the Supreme Audit Office.

2.4. Lessons learnt

Lessons learned from the previous Budget Support (BS) Programmes, and especially via the PFM-related programmes (EC Sector Policy Support Programme 2007-2009 and the subsequent 2010-2012 phase) have shown that Georgia continues to qualify for BS and that the BS system is now well understood and indeed appreciated by the authorities and considered by them as an important support and driver for the design and implementation of jointly agreed reforms. This being said, experience from previous programmes highlights, on the one hand, the importance of being realistic and progressive in the development of public finance reforms, and the role of institutional capacity building and, on the other hand, the

[5] www.mof.ge.

capacity of BS to contribute to sustain the on-going development of policy dialogue as a necessary element for reforms to achieve their stated objectives.

Assessment of programmes implemented by the authorities via different types of bilateral cooperation show that the reforms in the areas of public finance have been pursued, albeit with varying degree of success, by the responsible authorities, and reforms have indeed ensured the achievement of a solid foundation in public finance policy and management which, combined with satisfactory stability-oriented macroeconomic policy and an improved business environment, have contributed to progressively improve the quality of the country economic governance.

Finally, it is worth noting that the commitment of the authorities to further reforms in public finance policy and management has not been compromised after the recent Parliamentary elections. The new Government has engaged in a constructive dialogue and publicly stated its commitment to public finance-related reforms as critical to further progress, especially needed in times of fiscal consolidation, in terms of efficiency, transparency and accountability of public finances.

2.5. Complementary actions

Key donors such as the EU, World Bank, SIDA[6], GIZ[7] and the Netherlands are involved in supporting reforms in the area of public finance policy and management, while international assistance is mainly focused on addressing weaknesses in the PFM area. In addition, the EU is also engaged on the reform priorities of the European Neighbourhood Policy and Action Plan for Georgia.

The EU is providing sector policy support to PFM-related reforms since 2007. The first PFM Sector Policy Support Programme (SPSP), of EUR 15 million, was in place during 2007-2009 and was focusing on treasury and revenue reforms, and on the establishment of the foundations for external and internal audits. The second phase of programme (EUR 11 million) was implemented in 2010-2012 period and contributed to support further progress in PFM reform areas covered during the first phase.

Apart from budget support programmes, the EU is providing direct technical assistance to the MoF in the area of customs to further strengthen institutional capacity and guidelines in line with the EU best practices. The EU is also planning to launch two additional twinning projects in the public finance management area as follows:

- Twinning with the State Audit Office will focus on the areas of 1) Corporate and Resource Management, 2) Financial and compliance auditing and reporting, and 3) Staff Professional Development and Performance Appraisal.

- Twinning with the Finance Academy of the MoF will focus on 1) Strategic management, including quality management systems, 2) Human resources management (HRM) in public service, 3) Training management and design and 4) External relations.

Consideration is also given to supporting the MoF in the areas of investigation of tax frauds. Finally, the Comprehensive Institutional Building (CIB) under the Eastern Partnership

[6] Swedish International Development Cooperation Agency
[7] Deutsche Gesellschaft für Internationale Zusammenarbeit

Initiative provides opportunities to support institutions that are central in respect of relevant actions related to, for example, "Oversight cluster".

The World Bank has completed its third Development Policy Operations (DPO) in mid-2012. The last DPO was focusing on the following policy areas: (i) mitigate the impact of the economic downturn in the short-term; and (ii) facilitate recovery and prepare Georgia for post-crisis growth in the medium-term. Complementary technical assistance was also implemented by the programme of the World Bank-led Public Sector Financial Management Reform Support (PSFMRS) project. The project has been co-financed under a pooling arrangement and the project end date, originally 2010, was extended by two more years.

While the IMF does not implement specific technical assistance (TA) projects with the government, it can be noted that "Structural Benchmarks" related to public finance were set under well-progressing IMF programmes.

GIZ is helping the State Audit Office in drafting the performance audit methodology. It is also providing management support to the State Procurement Agency. In addition, GIZ is in the process of providing technical assistance and training to the Ministry of Finance to help in development of audit methodology according to Institute of Internal Auditors (IIA) standards.

In the last two years, the National Audit Office of Sweden and the State Audit Office of Georgia have been closely cooperating to develop financial audit manual and to conduct pilot audits moving towards International Standards for Supreme Audit Institutions (ISSAI). Georgia's State Audit Office (SAO) has also established good cooperation with SAIs of Latvia and Lithuania so as to carry out, with the assistance of those colleagues, pilot audits in order to test relevant methodologies.

2.6. Risk management framework

Main risks: (1) internal Political instability may weaken the capacity and divert the attention of the Georgian Government from being engaged in substantial sectoral reforms. (2) Government continues adherence to stability oriented macroeconomic policy objectives after the parliamentary elections (3) establishment of new extra-budgetary funds may weaken fiscal position of the government

Mitigation measures: (1) Close monitoring of political situation and media and continued political dialogue with the Georgian Authorities. (2) The government and the Parliament maintain a market-oriented economic policy together with an appropriate control of the budget balance. (3) The government will include extra-budgetary funds in the consolidated financial statements and quarterly financial reporting to the Parliament

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

General objective: Improve efficiency, transparency and accountability of public finance policy and management in Georgia.

Specific objective: Improve policy and institutional capacity of key public finance players by supporting the implementation of relevant strategies, policy measures and action plans.

3.2. Expected results

Expected results: A strong emphasis will be put on increasing efficiency in the management of public funds with a specific focus on accountability and transparency by directly and publicly involving a higher level of political and institutional responsibilities within the country's system of checks and balances. The proposed programme will also facilitate a more informed oversight by non-state actors and citizens.

Implementation of the public finance policy reform programme shall strengthen the institutional and policy framework. It will contribute to enhancing **Policy-based budgeting** via:

- improved quality and reporting of programme and capital budgets
- strengthened medium-term strategic planning framework duly reflected in the annual fiscal planning
- supported fiscal consolidation and transparency including via the inclusion of Legal Entities of Public Law in annual financial statements.

The programme will also contribute to **external scrutiny and accountability** of the government via:

- Annually prepared and published "Citizens' Guide to the Annual State Budget"
- Increased accountability of the Government in respect of Parliament's recommendations.

Public internal financial control will be further strengthened via:

- Improved public sector internal financial control and audit
- Audit units established in all line ministries, and financial and performance audits implemented according to international standards.

Georgia will review the current status and the perspectives of the **Fiscal Governance** in relation to EU fiscal rules as well as Georgia's perspectives of **fiscal decentralization**. The study will be published and allow broad based, participatory discussions related to approximation of Georgia's PFM systems to EU in the medium and long term perspective.

Strengthening **external audit** is one of the key results of the programme. The focus in on:

- Increased harmonization with International Organisation of Supreme Audit Institutions (INTOSAI) Lima and Mexico Declarations with specific attention on Independence, Objectivity and Impartiality and on improving SAO services to Parliament and citizens
- Developed and implemented financial and performance audit standards according to international best practises
- Developed and implemented external communication with a special attention to the public and to the Parliament.

Public oversight over the executive will be promoted via:

- Improved financial oversight through a reinforced Budget Office capable to provide members of Parliament with an independent review of main budget policy issues
- Improved communication and visibility through scheduled public hearings on SAO and on Government's budget execution reports.

3.3. Rationale for the amounts allocated for budget support

The total amount allocated to the Public Finance Management sector under the ENP is EUR 21 million to be delivered under the present budget support programme. This amount is based on

- Commitment of the Government of Georgia and Parliament (Budget and Finance Committee) to allocate state budget resources (including EU budget support) in line with the government's medium term strategy and objectives (as indicated in the BDD) and to follow budget procedures;
- Effectiveness, value for money and impact on the public finance policy making process that budget support will bring in achieving Government of Georgia's policy objectives (as indicated in the BDD and PFM reform policy vision for 2009-2013 and action plans);
- Track record of previous PFM sector budget programmes implemented during 2007-2009, 2010-2011 and absorption capacity of past disbursements and how effectively Government of Georgia have met agreed objectives (90-95% compliance) achieved with past PFM budget support operations;

3.4. Main activities

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development.

3.4.1. Budget Support

EUR 19 million allocated to support the Public Finance Policy Reform (PFPR) Programme in Georgia. This amount will be allotted in three annual disbursements, each disbursement being dependent on the compliance with conditions outlined in section 4.

3.4.2. Complementary support

Technical assistance (TA) will be used to help the authorities in their implementation of the Programme. In this framework, activities will include strengthening of institutional capacity of the Ministry of Finance, State Audit Office and Budget and Finance Committee of the Parliament in the areas of strategic planning, programme budgeting, internal financial control, external accountability and communication. TA will be delivered through on-the-job training and TA team will also help the beneficiaries in preparing strategies/action plans and drafting guidelines on specific subjects.

The complementary assistance to the budget support will also promote civic engagement and participation in the public finance policy and management processes. Namely, the EU will promote regular organisation of public meetings and policy discussions among public officials, experts, NGO representatives and academia on actual ("hot") topics of financial policy and management.

Finally, TA will be used for carrying out periodic reviews by independent experts aimed at assessing the level of compliance progress in relation to the conditionalities of the budget support component.

3.5. Donor coordination

The local capacity to effectively coordinate reforms across the various sectors is generally still weak in Georgia. While more should be done – and efforts are on-going - it should however be acknowledged that the Government of Georgia is in the driver's seat in terms of formulation and implementation of PFM-related reforms.

Discussions and consultations are on-going between the authorities and donors (including World Bank, the Netherlands, GIZ, SIDA, etc.) also during the PFM Coordination Council meetings which are organized and led by the Ministry of Finance. In addition, meetings among interested donors take place in Tbilisi on a regular basis.

3.6. Stakeholders

The main stakeholders of the programme are the Ministry of Finance (MoF), the Budget Committee of the Parliament, and the State Audit Office of the Republic of Georgia. It is also important to note that all main stakeholders will commit to increase, via the proper and timely implementation of this programme, transparency and accountability vis-à-vis civil society organizations, citizens and markets.

Other active stakeholders include bilateral donors and International Financial Institutions involved in different forms of support to public finance reforms and, as importantly, local civil society organisations which have been, and will be kept closely involved throughout the preparation and implementation of this Programme. In this context, it is worth noting that civil society organizations actively involved in the scrutiny and oversight of public finances have expressed, in different occasions, their support for the undertaking of this programme.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

The risk of non-intervention may weaken domestic and international focus to Public Finance Policy and Management reforms. Continuation of supporting PFM reforms will bring Georgia closer to EU and international standards and norms, making public financing more transparent and efficient, contributing to better governance of the country.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 48 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Criteria and indicative schedule of disbursement of budget support

The General and Specific Conditions for disbursement of each of the individual tranches will be defined in detail in the policy matrix attached to the Financing Agreement. Disbursements linked to the budget support component of the programme will be released only after positive assessment by an external and independent review carried out to assess the level of compliance with the general and specific conditions.

General Conditions of the disbursement are linked to implementation by the government of Georgia of stability oriented macroeconomic policy, public finance policy and management, as well as progress in transparency and oversight of the budget.

Specific Conditions of the disbursement are linked to implementation of reforms in the areas of policy-based budgeting, external scrutiny and accountability of the budget, public internal financial control, fiscal governance, external audit and public oversight.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

Country fiscal year	Year 2015				Year 2016				Year 2017				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Base tranche		1.0				1.0				1.0			3.0
Variable tranche		4.2				5.2				6.6			16.0
Total		**5.2**				**6.2**				**7.6**			**19.0**

4.4. Details on complementary support

Complementary support will be implemented through service contracts.

4.4.1. Procurement (direct centralised management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance to the MoF, the State Audit Office and the Budget and Finance Committee of the Parliament	Services	Up to 2	Q2, 2014
Supporting PF policy debates among key stakeholders	Services	Up to 2	Q2, 2014 Q4, 2015

Budget support conditionalities compliance review	Services	3	Q4, 2014 Q4, 2015 Q4, 2016
Evaluation and audit	Services	Up to 3	According to needs (see section 4.8)
Communication and visibility	Services	Up to 2	According to needs (see section 4.9)

4.5. Scope of geographical eligibility for procurement

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article ENPI 21(7) on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.6. Indicative budget

Module	**Amount in EUR million**
3.3. – Budget support Sector Reform Contract	19.0
4.4.1. – Procurement (direct centralised)	1.6
4.8. – Evaluation and audit	0.3
4.9. – Communication and visibility	0.1
Totals	**21.0**

4.7. Performance monitoring

Monitoring of the proposed programme will be entrusted to the PFM Coordination Council under the Ministry of Finance, which functioning is a general pre-condition for the budget support. The Council will organise sector coordination meetings four times a year, involving the EU Delegation, the Ministry of Finance, State Audit office and other line ministries and agencies to assess progress in the implementation of the Programme. Regular technical and financial monitoring will be ensured by the MOF which shall establish internal monitoring system to the programme, responsible for preparing progress reports and other analysis.

Overall, this programme will be monitored through the Results-Oriented Monitoring (ROM) system for EU funded projects and programmes.

4.8. Evaluation and audit

Audits and evaluations will be carried out by the Commission. A final evaluation and final audit will be carried out at the end of the programme.

Evaluations, verifications and/or audits of the TA projects under this programme can be requested at any time.

4.9. Communication and visibility

Communication will focus on the achievements and impact of the action. In order to maximise the impact of communication efforts, both the government and the implementers of the different projects under this programme will produce a communication and visibility plan in accordance with the Communication and Visibility Manual for EU External Actions. These plans will be agreed with the EU Delegation.