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ANNEX II

of the Commission Implementing Decision on the Annual Action Programme in favour of Georgia for 2022

Action Document for EU 4 Sustainable Governance and Resilience

ANNUAL ACTION PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan/measure in the sense of Article 23(2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title **OPSYS** **Basic Act**	EU 4 Sustainable Governance and Resilience (EU4SGR) Annual action plan in favour of Georgia for 2022 OPSYS business reference: NDICI-GEO-NEAR/2022/ACT-61197 ABAC Commitment level 1 number: JAD.1007008 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes Primarily : Balanced Territorial Development TEI for Georgia Also synergies with Green and Health TEI for Georgia
3. Zone benefiting from the action	The action shall be carried out in Georgia
4. Programming document	Multiannual Indicative Programming Document (MIP) 2021-2027 [1]
5. Link with relevant MIP(s) objectives/expected results	Public Administration Reform, Public Finance Management, Balanced Territorial Development; Increase security, as well as peaceful conflict resolution and socio-economic development; Support progressive decarbonisation and adaptation to climate change
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	151- Government and Society-General
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): 11- Sustainable cities and communities

[1] Commission Implementing Decision C(2022)5658 of 09/08/2022 on adopting a multiannual indicative programme for Georgia for the period 2021-2027.

	Other significant SDGs (up to 9) and where appropriate, targets: 16 – Peace, justice and strong institutions 5- Gender Equality 7 - Affordable and Clean Energy 13- Climate Action 10 - Reduced Inequality			
8 a) DAC code(s)	DAC code 1- 15111-Public Finance Management - 50% DAC code 2- 15112-Decentralization and support to sub-national government -45% DAC code 3- 15190- Facilitation of orderly, safe, regular and responsible migration and mobility – 5%			
8 b) Main Delivery Channel	Official Development Assistance - 10			
9. Targets	☒ Migration ☒ Climate ☒ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☒ Human Rights, Democracy and Governance			
10. Markers (from DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	☒
	Aid to environment	☐	☒	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction	☐	☒	☐
	Inclusion of persons with Disabilities	☐	☒	☐
	Nutrition	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☐	☒	☐
	Climate change adaptation	☐	☒	☐
11. Internal markers and Tags	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation	☐	☒	☐

	Tags digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES ☐ ☐ ☒ ☐ ☒	NO ☒ ☒ ☐ ☒ ☐	
	Connectivity	☐	☒	☐
	Tags digital connectivity energy transport health education and research	YES ☒ ☐ ☒ ☐ ☐	NO ☐ ☒ ☐ ☒ ☒	
	Migration	☒	☐	☐
	Reduction of Inequalities	☐	☒	☐
	COVID-19	☒	☐	☐
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): 14.020111-Eastern Neighbourhood Total estimated cost: EUR 24 550 000.00 Total amount of EU budget contribution EUR 24 000 000.00 of which EUR 12 000 000.00 for budget support and EUR 12 000 000.00 for complementary support TEI 1: Balanced Territorial Development in Georgia: Austria, Czech Republic, Estonia, France, Germany, Netherlands, Poland, Slovakia, Sweden; plus EIB and EBRD; plus Switzerland. Austria and the EU co-chairing the dedicated working group. Indicative overall budget, as mentioned in the formal working paper circulated on 22 September 2021 by the General Secretariat of the Council to the Working Party on Development cooperation and international partnerships, is EUR 597 million but is currently being revised and will be updated in autumn 2022. TEI 2: Green and Health: Austria, the Czech Republic, Estonia, the EU, France, Germany, Lithuania, the Netherlands, Slovakia, Sweden, and EIB and EBRD; plus Switzerland. Germany and Sweden co-chairing the dedicated working group. Indicative overall budget, as mentioned in the formal working paper circulated on 22 September 2021 by the General Secretariat of the Council to the Working Party on Development cooperation and international partnerships, is EUR 917.3 million but is currently being revised and will be updated in autumn 2022. The commitment of the EU's contribution to this action will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible.			

	In the event that the Team Europe Initiatives (TEI) and/or these contributions do not materialise, the EU action may continue outside a TEI framework
MANAGEMENT AND IMPLEMENTATION	
13. Implementation modalities (type of financing and management mode)	Budget support **Direct management** through: - Budget Support: Sector Reform Performance Contract - Grants - Procurement

1.1. Summary of the Action

The Action "EU 4 Sustainable Governance and Resilience" aims to contribute to the overall financial stability and socio-economic welfare of the country, thus supporting resilience against external shocks, such as the pandemic or Russia's war of aggression against Ukraine.

The EU is a long standing and leading partner of Georgia in the area sustainable governance and public administration reforms. Today, Georgia's level in the management of public finances can be considered as having a strong foundation and progressing towards more advanced policy levels – and the role of EU cooperation in this achievement has been underlined by recent evaluations[2]. Core functions of the public finance management system and practices are established and operational. However, constant progress is needed requiring more complex approaches and inclusive policy dialogue. The areas that need improvement are inter alia, budget coverage and credibility, performance information and gender responsive budgeting (GRB), managerial accountability and internal financial control, state owned enterprise management, public investment management, external audit and financial oversight. Public Finance Management (PFM) relates to the governance pillar of the Economic and Investment Plan, but also has a bearing on its economic pillar.

Sustainable governance at local level is also a pre-condition for evidence-based measures and longer-term climate impact mitigation. In fact, cities have a high potential for improvement of their energy/climate impact and should directly contribute to the global fight against Climate change. They nevertheless often miss human and financial capacities to implement projects contributing to making them more sustainable. The action is in line with the **Joint Communication: "Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all"**[3] and relates directly to the Economic and Investment Plan[4], in particular **Flagship 5 on improving air quality and Flagship 6 on energy efficiency for Georgia.**

External shocks such as those ongoing caused by the COVID-19 pandemic and then the Russia's war of aggression against Ukraine have a serious negative impact on the economic growth, exports and job creation, especially when they overlap and for the more vulnerable communities and regions. Increased Georgia's resilience and capacity to harbour and deal with such changes are key to enabling progress of key internal reforms.

The specific **objectives** of the Action are to improve governance with a more comprehensive, transparent and accountable system of state finances; and to contribute to sustainable living conditions, increased resilience and development in small and medium cities and communities.

[2] Evaluation of the EU's Cooperation with Georgia 2014-2020 – draft report
[3] SWD(2020) 56 final/2 18.03.2020
[4] SWD(2021) 186 final on 02.07.2021

The action envisages budget support to the implementation of the new PFM strategy, which is to be finalised in autumn 2022 with strong involvement of the EU based on a new Public Expenditure and Financial Accountability (PEFA 2022, replacing the prior analysis from 2017), and enhancing gender responsive budgeting in the country. It will also support the capacity development of some municipalities and the preparation and implementation of realistic Sustainable Energy and Climate Action Plans in several municipalities of the country. Fiscal decentralisation and the development of green procurement will be key in this regard. Finally, some targeted measures to increase fiscal resilience against external shocks could be envisaged, as enabling environment for sustainable governance.

The implementation of these plans will be supported in complementarity with the Neighbourhood Investment Platform (NIP) and the 'sustainable cities' investment window under the European Fund for Sustainable Development Plus (EFSD+**)** open-access guarantees investment to develop priority infrastructure in municipalities (e.g. Sustainable Energy, Waste management, Sustainable Transport).

It is directly linked to MIP priorities: 1) "Support public administration and economic governance reforms, as well as balanced territorial development, through support to the decentralisation process (enhancing self-governance and addressing inequalities and ensuring access to health and social services), as well as public finance reform at national and sub-national levels (specific objective 2); 2) "Increase security, as well as peaceful conflict resolution and socio-economic development for people in conflict-affected areas (Specific Objective 3) under Priority area 2: Accountable institutions, the rule of law and security; and 3) Support progressive decarbonisation and adaptation to climate change of the economy and infrastructure, through active measures in, among others, sustainable transport and energy production, energy efficiency, green urban development, agriculture, sustainable blue economy, tourism, construction, rural development (Specific Objective 1) under Priority area 3: environmental and climate resilience.

The Action contributes to SDG 11 - Sustainable cities and communities, and 16 - Peace, justice and strong institutions. It will also contribute to SDG 7 - Affordable and Clean Energy and SDG 13 - Climate Action.

It will also directly contribute to the "Team Europe" initiative on "Balanced Territorial Development" specific objective 3 – *Enhance local empowerment and inclusive participation, including through engaging women and minorities*. It will also contribute to objectives and indicators of the "Green & Health" Team Europe Initiative: Specific objective 1 – *Improve air & water quality* and Specific objective 4 – *Green cities.*

On 23 June 2022 the European Council endorsed the European Commission Opinion and granted a European perspective to Georgia. The European Council also stressed that Georgia will be granted candidate status once a set of policy priorities will have been addressed.

2. RATIONALE

2.1. Context

Georgia is a small developing country with a population of about 3.7 million people and a gross national income (GNI) per capita of USD 4,255[5]. Over the last decade, Georgia undertook significant social and economic 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 also contributed to foster economic growth particularly in large cities (Tbilisi, Batumi). The pace of reforms has slowed down since 2019, partially due to global pandemic and partially due to high political polarisation that distracted the attention of authorities.

[5] Source: Geostat

Despite reforms and growth over the last decade, the unemployment rate remains relatively high - at 19.2% (18.9% among men and 16.0% among women) in 2018 that has increased further in 2021, up to 20.6% (22.7% among men and 17.8% among women). The real unemployment rate is presumably much lower as it also covers the non declared work-force, mainly working in households and subsistence economy.

Following the year 2020 of pandemic-related contraction, the economy started to rebound strongly thanks to an increase in tourism and remittances inflows. This rebound is, however, impacted by the economic effects of the Russia's war of aggression against Ukraine. Expected economic impact is projected to be significant on Georgia as Russia and Ukraine rank respectively 3rd and 4th in trading partners. The economic growth that the IMF projected at 5.8 % 2022 is expected to be 50% lower. Impact on commodity prices, export of goods and services, tourism inflows and remittances is probable. This will result in widening the current account deficit, higher inflation and reduced investment.

The government updated its political programme in the aftermath of the 2020 Parliamentary elections, called **Towards Building a European State**[6] and sets priorities for 2021-2024 years. The main objectives are to overcome the crisis created by the pandemic, thereby ensuring a rapid recovery and development of the economy to create a stable and secure environment for every citizen. At the same time, the country will continue to take steps towards the consolidation of democracy and the pursuit of European and Euro-Atlantic integration in the foreign arena.

On 3 March 2022, Georgia submitted its application for EU membership, ahead of its Government previously established schedule (initially planned for 2024), following Russia's war of aggression against Ukraine. On 23 June 2022 the European Council endorsed the European Commission Opinion and granted a European perspective to Georgia. The European Council also stressed that Georgia will be granted candidate status once a set of policy priorities will have been addressed[7] will have been addressed. In the new context, it is expected that the pace of reforms will be accelerated, to bring Georgia closer to the EU in terms of approximation with EU *acquis*.

The government programme is reflected in the Basic Data and Directions (BDD) document (i.e., the country's medium-term budgetary policy document) which is approved, together with the annual budget law, by end-December each year[8].

The institutional framework defining the budgeting process at the state level ensures a certain coherence and consistency between policy priorities and budgetary allocations. Policy objectives are being progressively reflected in the budget law which is also gradually developed in the direction of programme budgeting. The BDD for the 2022-2025 lists priorities across the sectors, such as conflict resolution and human rights, justice, public administration reform, education and economic development. The financial allocations put strong emphasis on infrastructure development, economic growth and strengthening private sector, public governance and education systems. In the policy framework, public finance reforms are recognised by the Georgian authorities as an important element of economic policy, and a special emphasis is put on efficiency and transparency of public finances.

Gender Responsive Budgeting (GRB) has increasingly become a focus of work over more than ten years in the country. With the support of international partners, extensive activities on capacity building, development of tailor-made approaches in the context of the program budget methodology and pilot work on GRB have been carried out. In particular, United Nations Development Program (UNDP), UN Women, Swedish

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[6] https://www.gov.ge/files/41_79014_435561_govprogram.PDF
[7] Opinion on Georgia's application for membership of the European Union
[8] https://www.mof.ge/en/4563

International Development Agency (SIDA), U.S. Agency for International Development (USAID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Swiss Development Cooperation (SDC) and the EU have been involved in supporting GRB activities, both at central and local level. At central level, pilot GRB work has been carried out within government and in the Parliament as well. With EU support, an "Action Plan for Gender Responsive Budgeting in Georgia: Institutionalizing GRB for effective and efficient resource allocation towards a better future for all 2020-2023" was drafted in 2019. However, the adoption and implementation of the Action Plan hasn't happened so far.

The EU is a leading partner of Georgia in the area of sustainable governance and public administration reforms. The cooperation in public finance management (PFM) started via budget support in 2007, and has continued over 15 years in consecutive phases, building on shared interests and on increasing successes in this policy area. Over the last decade progress in the PFM was noticeable, particularly with regards to: introduction of medium term planning and policy based budgeting, strengthening the fiscal discipline, modernising external audit in line with International Standards of Supreme Audit Institutions (ISSAI), introduction of corporate governance standards for state owned enterprises, setting up procedures for transparency and proactive engagement of citizens in the budgeting process, revenue mobilisation and tax investigative functions. Overall, Georgia's performance in the management of public finances, once compared to countries with similar level of development, can now be considered as having a strong foundation and progressing towards more advanced policy levels – and the role of EU cooperation in this achievements has been underlined by recent evaluations[9].

It has to be highlighted that during the COVID-19 pandemic, several planned reforms were delayed, or cancelled. During the state of emergency, priority was placed on expenditures for healthcare and business support. A number of activities have been delayed, such as in regard to performance information and programme budgeting, internal financial management and control, external scrutiny and parliamentary follow-up of SAO recommendations. The 2022 PEFA self-assessment conducted by the Ministry of Finance (MoF) also shows increased variance between planned and executed budgets that is mainly caused by COVID-19 fiscal adjustments.
However, there are a number of reform initiatives that did make some progress. These include increased finance management support for some municipalities; development of a primary dealers pilot programme regulation framework, State Owned Enterprises (SOE) fiscal risk analysis and database; and the creation of a register of private and public partnerships.

Over the last 20 years, several attempts have been undertaken to make the country more decentralised/deconcentrated and to bring local authorities closer and make them more accountable to citizens. However, progress in this regard - though visible and noted by the Council of Europe[10] and European Commission - is limited and needs additional undertakings from the authorities.

In order to strengthen the governance at sub-national level, the authorities have adopted the Decentralisation Strategy for 2019-2025[11] with the intention of granting more functions and finances to the local authorities. The Strategy has three pillars: i) increasing powers to local authorities, ii) fiscal decentralisation and iii) citizens' involvement and transparency. All pillars are attempting to contribute to the increase in public welfare, enhancing the role of citizen and community groups and more efficient delivery of public services to address increasing demands on the quality from the population. Furthermore, all municipalities are obliged establishing Gender Equality Councils, which among other tasks are developing and implementing municipal Gender Action Plans. The quality and financing of these plans vary among municipalities as well as capacities and commitment of municipalities to implement them.

[9] Evaluation of the EU's Cooperation with Georgia 2014-2020 – draft report
[10] https://rm.coe.int/090000168078af7c
[11] https://mrdi.gov.ge/pdf/5e468e292b317.pdf/Decentralization-strategy-ENG.pdf

Over the last decade three consecutive EU programmes have been implemented in the area of regional and local development. The fourth, ongoing EU 4 Integrated Territorial Development programme is targeting focal regions (Kakheti, Imereti, Guria, Racha-Lechkhumi) and aims at reducing socio-economic disparities and reviving the economic potential of provinces. This programme does not target *per se* medium size and large cities, but more the geographic disparities.

Coordination and policy dialogue are taking place in various formats, both government and donor led, varying according to the thematic area. Important fora for discussion include the Association Committee and sub-committees which provide the opportunity to strengthen the policy dialogue. There are regular PFM Coordination Council taking place together with the leadership of the Ministry of Finance that are conducted on a quarterly basis and report on progress of policy implementation. Meetings on decentralisation and regional governance are less structured, but maintain a regular character.

The complementary programmes implemented by development partners and from other EU donors in respective sectors are as follows:

- The International Monetary Fund (IMF) is providing technical assistance to the Ministry of Finance in the area of State Owned Enterprise reform and application of International Accounting Standards (IPSAS) in practice.
- The Asian Development Bank assisted the MoD on Debt Management Strategy that includes sovereign as well as corporate debt of public corporations.
- The World Bank (WB) under the EU4 Economic Governance and Fiscal Accountability programme (AAP 2018) is assisting the Ministry of Finance (MoF) in the area of medium-term budgeting, fiscal risk reporting, revenue mobilisation and public investment management. Support also covers strengthening both internal and external audit areas. The project with also conduct quality check and validation of 2022 PEFA self-assessment produced by the MoF. The WB is also conducting a Gender Responsiveness Public Financial Management (PFM) assessment in Georgia. The activities also target 2022 subnational PEFA assessment in Georgia in line with the PEFA Secretariat requirements.

- United Nations Development Program (UNDP), with funds from the EU, Swiss and Austrian governments, is implementing programmes targeting local authorities in Eastern Partnership countries including in Georgia to foster local economic development, and use innovative methods towards just and green transformation.
- GIZ with German and Swiss funding implements a project aiming to strengthen institutional and human capacities of local governments of Georgia, Armenia and Azerbaijan to provide better public services.
- Good Governance Initiative – is a USAID funded project that aims to increase transparency and accountability of the central and local government agencies, thus improving the quality and efficiency of the governance.

- UNECE regional project “Smart Sustainable Cities with Innovative Financing 2020-2023” is preparing a “Smart Sustainable Cities Profile” of Tbilisi, using the Key Performance Indicators (KPIs) for Smart Sustainable Cities (SSC) that they developed. The set 91 indicators covers different sectors, from Economy, Environment, Society and Culture spheres. While UNECE project doesn’t cover small and medium cities in Georgia, elements of the methodology and approach can be used for the “sustainable cities” initiative of the action.

The Action will benefit from complementarity with other forms of EU assistance, such as:
- under the EU Individual Measure 2021 “Technical Cooperation Facility IV”, technical assistance and support to civil society is planned in the area of PFM and Public Administration Reform (PAR). It is expected that related projects will start in 2023 and can serve to prepare the ground for the proposed Action.

- under the "EU4Integrated Territorial Development" Programme, technical assistance will be deployed to support MRDI and municipalities implement reforms and practices related to good governance Key Performance Indicators.
- the European Fund for Sustainable Development Plus (EFSD+) Guarantee includes a specific Investment Window called "Sustainable Cities". Provided fiscal space allows, and the necessary conditions are in place (i.e. possibility of sub-sovereign loans), the Action has the potential to become a crucial preparation for cities to benefit of this Window, for investment in sustainable urban development/cities.
- the blending projects under the Neighbourhood Investment Platform (NIP) help mobilise financing of investment projects in municipalities, while reducing fiscal burden thanks to EU grant contributions, in areas including transport, energy efficiency and environment.
- Covenant of Mayors East (CoM East), now in its 3rd phase continues to support signatory municipalities in forming and implementing sustainable energy and climate policies through capacity building and demonstration projects. Climate adaptation is also targeted by the Action "Supporting Decarbonisation, Climate Resilience and Energy Security in the Eastern Partnership" that is currently at programming phase.

The proposed action is in line with the "Team Europe" initiative on "Balanced territorial Development" specific objective 3 – *Enhance local empowerment and inclusive participation, including through engaging women and minorities*. It will also contribute to objectives and indicators of the "green & health" Team Europe Initiative: Specific objective 1 – *Improve air & water quality* and Specific objective 4 – *Green cities.*

Joint programming *per se* does not take place in Georgia. However, the EU Delegation and EU Member States have developed and regularly updated since 2019 *"Joint programming key messages*". Those are used as a joint analysis, strategic approach and advocacy lines related to cooperation sectors. This Action is fully in line with two of them. On *Good Governance: integrity and anticorruption*, it aims for *continued strengthening of the capacity of existing oversight, audit and financial investigation bodies, including of the parliament*. On *Territorial Governance and Public Administration Reform*, it targets the objectives of the *establishment of reliable, accountable, transparent and result-oriented local self-government, empowered with new functions, responsibilities and resources* and *improve the quality, efficiency and accessibility of public services across the territory.*

2.2. Problem Analysis

<u>Short problem analysis</u>

Public Finance Management:

Core functions of the public finance management system and practices are established and operational in Georgia. As noted above, the country is well advanced in this area compared to the countries of similar size or economic development. Looking forward, constant progress is needed requiring more complex approaches and inclusive policy dialogue. The areas that need improvement are inter alia, performance budgeting, external audit, managerial and internal control, SOE management, public investment management, financial oversight. Improvements in all these areas will directly contribute to the good governance pillar of the **Economic and Investment Plan** which constitute a precondition for boosting economic and social development in the EaP. It is also necessary to ensure **proper implementation of all Flagships** as with better PFM systems, the government will be able to collect and spend resources more efficiently and strategically.

The 2022 PEFA self-assessment that was completed in April 2022 by the Ministry of Finance takes stock of implemented reforms during 2018-2021. The document still has to be validated by the PEFA Secretariat by late summer 2022. It indicates number of challenges that would require authorities' attention over the medium-term. It concerns mostly budget reliability and strengthening the aggregate fiscal discipline that was compromised during the period of COVID-19 pandemic. In order to align to best international practice, efforts have to be made in monitoring of public corporations, subnational governments and contingent liabilities. Deficiencies also remain in the area of management of public investment that concern projection, analysis, costing and monitoring of projects. Government improved assets management system by gradual application of IPSAS, however non-financial assets monitoring remains weak.

In April 2022 the SAO finalised its Supreme Audit Institution Performance Measurement Framework (SAI PMF) assessment with the support of Organisation for Economic Cooperation and Development (OECD)[12]/ Support for Improvement in Governance and Management (SIGMA). The assessment uses the methodology prescribed by the INTOSAI[13]. The report takes stock on progress in the SAO's technical quality of its financial and compliance audits and its ability to keep the government and public sector entities accountable and transparent. The SAO also made significant progress in the relevance and usability of its work for citizens and Parliament. Nevertheless, there is a need to strengthen the SAO mandate, especially in the area of revenue audit. Audit of local governments remains a bottleneck in the public accountability framework, as it is done once in every three years only.

The need for improvement of the PFM systems is also highlighted in the development partners' analysis. The IMF's technical assistance team report on corporate governance (December 2021) notes that "notwithstanding the improved transparency and monitoring of SOEs in recent years, their financial performance has continued to be unsatisfactory. While being important factors, better disclosure and monitoring can only go so far in improving SOE performance. It has become clear that a comprehensive legal and institutional reform is required to deliver the desired improvements in SOE performance".

The IMF's Tax Administration Diagnostic Assessment Tool (TADAT)[14] that was completed in 2020 takes stock of improvements compared to previous 2016 assessment. However, critical weaknesses remain in the areas of risk management, tax filing and publication/information on revenue mobilization plans, activities and results. The latest Public Expenditure Review conducted by the World Bank Group dates from 2017 and does not capture the issues relevant for the PFM sector any more. The WB latest (2020) assessment "Towards Green and Sustainable Growth" highlights the challenges caused by the pandemic and the importance of having sound public debt management system in place.

In relation to GRB, there has been an extensive period of experimentation and piloting with GRB in Georgia. At central level, different actors have carried out activities, especially ministries, including Ministry of Finance and different line ministries, the Inter-Agency Commission for Gender Equality and the Parliament. However, a coherent and systematic implementation process in the frame of the planning and budgeting process is still lacking. A consistent approach across planning, budgeting as well as implementation and monitoring and evaluation is the next logical step. Furthermore, such an approach needs clear guidance and detailed instructions on what steps to follow in planning and budgeting to fully implement GRB.
While the instructions to include gender performance indicators on a voluntary basis have been a first step in the right direction, gender equality performance indicators need to be well situated in the overall performance approach and thus extended to include the whole performance chain. Also, a gradual transition from a voluntary basis to a common standard approach is to be taken.
Thus, the time is ripe for full and systematic implementation in the framework of Economic Governance and Public Finance Management (PFM) and especially the programme budget methodology. What is needed as a next step, is a coordinated, strategic approach with a sustainable commitment to implement GB systematically throughout the planning and budgeting process, aiming at putting in practice international and national commitments of the Government of Georgia on gender equality and women's rights.

[12] Organization for Economic Cooperation and Development
[13] International Organization of Supreme Audit Institutions
[14] Tax Administration Diagnostic Assessment Tool

The latest Evaluation of the EU's Cooperation with Georgia 2014-2020[15] underlines both the remaining weaknesses (public confidence in state institutions, perception of high level corruption, lack of civil society organisation (CSO) engagement in development planning, implementation and monitoring) in the areas of PFM and Regional Development the necessity of continuing cooperation in this sector[16].

Decentralisation/small and medium cities development

Georgian municipalities have their own exclusive powers and delegated powers. Their own powers include: spatial and territorial planning of the municipality and development of the appropriate engineering infrastructure; issuance of construction permits and supervision of the construction; arrangement and maintenance of cemeteries; management of local motorways and regulation of traffic on local roads; provision of parking lots for vehicles and regulation of parking/stopping rules; issuance of permits for regular carriage of passengers within the municipality's administrative boundaries; organisation of municipal transport services for the population; cleaning of streets, parks, public gardens and other public areas, landscaping, and provision of external lighting; waste management; water supply.

There is a consensus that management of human resources and broader development at local levels is weak. While in part this can be attributed to low pay, unattractive working conditions and limited career prospects, the weak capacities of local self-governments are compounded by the absence of a systemic approach to the training of civil servants at the local level. The result is that local authorities quite often fail to meet their obligations as provided for by the legislation simply because they do not have capacities and skills to do so (e.g. designing municipal development plans, developing spatial plans, programme budgeting, etc.). While substantial effort and achievements have been made in Public Administration Reform at national level, the benefits of the reforms have rarely reached the small and medium size cities.

Climate change, coupled with economic challenges reinforced by the COVID-19 effects on the socio-economic fabric of the municipalities, have only increased the burden on urban infrastructures and services. Cities are also heavily impacted by external shocks such as Russia's war of aggression against Ukraine, in terms of migration (with increased numbers of citizens from Ukraine, Russia and Belarus entering the country), decrease of remittances and economic trends due to reduced tourism and the impact of sanctions on an economy which is strongly connected to Russian and Ukrainian business.

Municipalities have a key role to play in the global fight against climate change. The EU is fully supportive of an increased role of Municipalities in this global fight. In 2008, the Covenant of Mayors was launched in Europe with the ambition to gather local governments voluntarily committed to achieving and exceeding the EU climate and energy targets. The initiative now gathers 9,000+ local and regional authorities across 57 countries drawing on the strengths of a worldwide multi-stakeholder movement and the technical and methodological support offered by dedicated offices. In Georgia, there would be approximately 24 signatories of the Covenant of Mayors, whereas numerous other Municipalities are sensitive to the issue of Climate change and convinced of the necessity to make particular efforts in this area. Unfortunately, these Municipalities too often lack the necessary human and financial resources in order to prepare and implement actions in the sectors of Climate change and Environmental protection.

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[15] Evaluation of the EU's Cooperation with Georgia 2014-2020

[16] Budget support in PAR and PFM was appropriate given commitment to reform, the presence of broadly accepted international assessments (OECD-SIGMA and PEFA), the central role of complementary measures, and the fact that both areas have multiplier effects across all areas of support. Without adequate PAR and PFM, the EU's cooperation with Georgia would need to undergo drastic qualitative and quantitative downgrading. (page 21/13)

Comparing the 2017 and 2012 PEFA reports, Georgia made steady progress in PFM, an assessment which a 2018 IMF review confirmed, as did a July 2019 report of the EU itself. Georgia is an outstanding international performer in the area of budget openness. Remaining PFM weaknesses to be addressed include the oversight function of the Parliament, limited public participation in the budget making process and limited technical capacity of civil society organisations to engage in a substantive policy dialogue. (Page 23 /15)

The reluctance towards more decentralised financial management due to lack of local capacities may be seen as a vicious circle of little capacities due to lack of real implementation power and consequently of job attractiveness. Under the impulsion of the Decentralisation strategy, Georgian authorities at national and local level and international partners see an opportunity to change the equation into a virtuous circle, with progressive implementation of PAR at local level, and progressive fiscal decentralisation, empowering local officials and citizens for more responsibilities and engagement into local development.

Linking PFM and decentralisation, for the last 2 years, the MoF has been working with several municipalities to improve subnational public finance management. A Memorandum of Understanding between MoF and those municipalities specifies benchmarks to be attained, to be measured by subnational PEFA. Depending on the positive results of the subnational PEFA assessment, the MoF has been allocating more funding to the well performing municipalities. By June 2022, around 30 Municipalities participate in this initiative.

Implementation of the **Economic and Investment Plan** also requires strong involvement of regions. To reach targets under **Flagship 5- Air Quality** and **Flagship 6- Energy efficiency**, it is equally important that municipalities take a leading role in designing climate action plans.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action.

The main stakeholders of the programme are the Ministry of Finance (MoF) and the Ministry of Regional Development and Infrastructure (MRDI) that have to co-share responsibility of efficient management and implementation of the Action.

The other key institutions include the State Audit Office and State Procurement Agency of Georgia, State Representative/Governors in the regions and local self-governments (municipalities and self-governing cities). The Administration of the Government and Committees of the Parliament which steer public administration/governance reforms, are also closely involved.

Other stakeholders include international partners involved in different forms of support, local civil society organisations, including women's organisations, which have been, and will closely be associated throughout the preparation and the implementation of this programme. Civil society will specifically be involved in the "sustainable cities" initiative of the Action, as a partner and a monitor of KPIs for reforms to be implemented by municipalities.

In recent policy dialogue with the EU since Russia's war of aggression against Ukraine, the Ministry of Finance has mentioned that they are closely monitoring the situation and considering the preparation of alternative macro-economic scenario and possible anti-crisis plan. However, at this stage there is no follow up anti-crisis plan of the government addressing the pandemic, neither a new anti-crisis plan related to Russia's war of aggression against Ukraine.

Choice of cities to be invited to participate under objective two will not be solely based on the population, but also considering other criteria such as the presence of ethnic minorities, or of specific vulnerabilities to environmental challenges. Increased vulnerabilities of specific cities and municipalities due to Russia's war of aggression against Ukraine and spill over effects (migration, economic impact) will be taken into account. Previous commitment of cities to democratic processes and transparency, such as those participating in Open Government Partnership, will also be considered.

2.3. Lessons Learned

Lessons learned from previous EU-Georgia policy dialogue and cooperation confirm an overall satisfactory progress and also the fact that budget support programmes are better understood and appreciated by the authorities. Budget support is also considered as an important motivator and driver for the design and implementation of jointly agreed reforms. Experience also highlights, on the one hand, the importance of being progressive in critical reforms and in the selection of a reduced number on annual measures, but also on the other hand, on the crosscutting importance of a frank and sustained long-term commitment and policy dialogue.

Reforms in the public finance management area are implemented, with varying degree of success, by the responsible authorities and such reforms have contributed to the achievement of an internationally acknowledged solid foundation in public finance policy and management in Georgia. The achievements to be highlighted are in the area of budget preparation, budget execution (accounts, commitment control, and cash management), personnel and payroll, revenue / tax payer services, and procurement as well as the use of information technologies (IT). The State Audit Office has transformed from an inspection service to a modern supreme audit institution, providing high quality financial and compliance audits to its stakeholders.
State financial information is available, updated regularly and free to access for interested stakeholders. This is also reflected in 2021 Open Budget Survey where Georgia ranks number one worldwide in terms of budget transparency[17].

Georgia's financial system has passed the "COVID-19" stress test, but medium-term policy reforms have slowed down, as recognised by the authorities. Their commitment to further reforms in public finance management has not declined as evidenced also by the EU-Georgia policy dialogue about 2022 PEFA assessment and the following updated reform strategy for 2023-2025/26.

Over the current decade, the EU has implemented three budget support programmes linked to territorial development with the total amount of EUR 100 million.

The initial support was an important step towards the organisation of a system of programming, monitoring and implementation of regional development policies in Georgia. During the second phase, the EU focus was on funding for local economic development programming as well as inclusive policy-making ensuring that people living in the territory overseen by local authorities (LAs) participate in local public affairs and receive adequate services. The ongoing EU4 Integrated Territorial Development programme (EU4ITD, AAP 2019) supports local economic development initiatives of the EU focal regions and aims at reducing disparities between big cities and small communities. More than 150 project ideas designed by the local authorities are supported by the EU4ITD programme. Projects target: urban renewal, development using its unique potential, competitiveness and innovation of small and medium enterprises and infrastructure for local development. Despite the global economic impact of the pandemic and the Russia's war of aggression against Ukraine, ITD programme implementation anticipates increased gross value added, more small and medium sized enterprises (SMEs) and job creation in the focal regions.

These initiatives have illustrated a broad desire of state and local authorities to engage in territorial development, aiming to sustain socio-economic development in regions of Georgia.

The sector has been also supported by regional initiatives such as Mayors for Economic Growth and Covenant for Mayors as well as by Calls for Proposals under the CSOs/Local Authorities (Las). These initiatives proved to be relevant, generating high level of interest and engagement from local and regional authorities and private

[17] https://internationalbudget.org/open-budget-survey/rankings

players, as they open up new opportunities for the local economic development. They also have contributed to maintaining adequate service provision and securing livelihoods, ensuring stronger resilience at local level.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

The main public finance policy is articulated in the reform plans of the Ministry of Finance (MoF), the State Procurement Agency (SPA) and the State Audit Office (SAO). The MoF reform focus is set by the PFM strategy 2019-2021 that was extended for one year. In June 2022, the PEFA 2022 self-assessment findings are being verified by the PEFA Secretariat and the new strategy is being elaborated on this basis. The draft strategy 2022-2025/26 is planned to be available in September 2022.

The 2019-2021 strategy includes, inter alia, the deepening of reforms in the areas of (i) management and result-orientation of budget and of public investment, (ii) General Government debt management, (iii) International Public Sector Accounting Standards (IPSAS)-oriented accounting and cash management reforms, (iv) tax and customs harmonisation with the EU *acquis*, (iv) macro-fiscal planning, (v) fiscal risk management, (vi) public internal financial control and (vi) supervision of the private sector financial accounting and reporting.

The strategy of SAO for 2018-2021 sets out five strategic objectives: (i) independence and mandate, (ii) improving public finance governance through high quality audit work, (iii) strengthening accountability by fostering participation of national stakeholders, (iv) improved efficiency of public finances through stronger governance and (v) professional development of staff in line with European Organisation of Supreme Audit Institutions (EUROSAI) standards. The SAO strategy implementation progress was assessed positively by the SAI PMF assessment that was completed with the OECD/SIGMA support in May 2022. The State Audit Office is committed to present a new strategy to stakeholders based on assessment findings by September 2022.

At the end of 2021, the MoF presented the updated public debt management strategy, covering 2022-2025 years. The strategy has five directions: i) reducing the government net debt to gross domestic product (GDP) ratio; ii) Increasing GEL-denominated debt share in the portfolio; iii) increasing the focus on the development-oriented loans; iv) cost and risk optimization and v) securities' market development.

It is worth noting that, despite a difficult period caused by the COVID-19 pandemic, an overall satisfactory progress in the implementation of the PFM strategy has been maintained and publicly acknowledged.

The budget support part of this Action will be supporting the implementation of public finance management reforms that shall be articulated in the updated MoF and SAO strategies. The relevance and credibility of the MoF and SAO strategies will be assessed in the PFM annual report to be produced by the Delegation in September 2022. The quality of self-assessment reports and current policy dialogue with MoF assure that future reforms activities will address the deficiencies.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy

The government is pursuing stability oriented macroeconomic policies that was recently verified by reaching a Staff level Agreement with the IMF. The Programme would help Georgia maintain and further entrench macroeconomic and financial stability amidst back-to-back shocks and achieve stronger and more inclusive growth. Georgia's economy has proven resilience in the past, and has demonstrated the ability to rebound quickly as the global risks fade away.

The economic impact of Russia's war of aggression against Ukraine on Georgia is so far much less severe than initially anticipated. Lower exports to Russia and Ukraine are compensated by higher exports to other destinations, and the inflow of foreign tourists has recovered to pre-pandemic level. The transport sector benefits from redirection of a part of trade flows affected by the war via Georgia. Moreover, Georgia experiences a substantial inflow of Russians and Belarussians and relocation of some companies and their staff from these countries, especially in the IT sector. While this migration and related money transfers stimulate economic activity and domestic consumption, they also contribute to a significant appreciation of the local currency, which could affect negatively exports going forward.

GDP rose by 10.5% year-on-year in the first half of 2022, which is similar to the growth recorded in 2021 overall (+10.4%). In the first quarter, GDP increased by 14.9% year-on-year, partially reflecting a base effect. Economic growth slowed down to 7.2% in the second quarter, but accelerated again to 9.7% and 10.5% in July and August respectively.

The annual inflation rate in Georgia stood at 13.9% in December 2021, breaking a historic record high, according to the National Statistics Office of Georgia (Geostat). Inflation is largely driven by rising global and domestic commodity prices (especially food and energy). In recent months, these pressures were partially mitigated by the appreciation of the local currency. Food prices increased by 16% year-on-year in August and contributed 5.1 percentage points to overall inflation rate. Transport prices rose also by 16%, while housing and utility prices increased by 12%. Core inflation, which excludes volatile food, energy and transport prices, was 7% year-on-year in August.

The Georgian currency, the lari (GEL), so far appreciated strongly in 2022. Following the Russian's war of aggression against Ukraine of Ukraine in February 2022, the lari had initially depreciated, but has strengthened since then on the back of rising revenues from foreign tourism, exports of goods and money transfers from abroad. Overall, it gained 10% against the dollar and 26% against the euro between the beginning of the year and end-September.

Georgia recorded an impressive reduction of its public debt ratio in the first eight months of 2022. It decreased by approximately 11 percentage points to 41% of GDP at the end of August. This reduction resulted from the strong appreciation of the lari, which led to a decrease of the GEL value of external debt (the vast majority of Georgia's public debt is external), as well as from the substantial increase of the nominal GDP of the country this year.

The financial sector remained profitable in 2021 and the banking system managed to maintain sufficient capital buffers to withstand the COVID-19 and Ukraine shocks, reflecting the effectiveness of the supervisory regime before the crisis.

Fiscal policy of the authorities aims to reduce the deficit and comply with the fiscal rule by 2023, restoring fiscal buffers, and creating space for priorities such as infrastructure and education. Tax revenues that comprise 4/5 of budget revenues are planned at 24% of GDP in 2022. The trend is sustainable over the medium term, projected at 23.8% of GDP.

Georgia and the IMF reached Staff-level Agreement on a three-year US$289 million Stand-By Arrangement. The Arrangement was approved by the IMF Executive Board on 15 June 2022. The IMF program will help

Georgia to maintain macroeconomic and financial stability amidst back-to-back shocks and achieve stronger and more inclusive growth. The program is “non-disbursing” and draw-down of funds is subject to request from the Georgian authorities. In case requested, funds will go to international reserves of the national bank and help maintaining the flexible exchange rate. NBG interventions would smooth excessive financial market volatility and prevent disorderly market conditions.

Should spill-overs from the war, such as elevated global commodity prices prove more severe than expected, additional funding (including allocations to the State budget) could be considered. Russia and Ukraine are Georgia’s 3rd and 4th trading partners. The Fund estimates that the consequence of the Russia’s war of aggression against Ukraine are expected to reduce by half Georgia’s growth to around 3 percent in 2022, raise inflation, and widen the current account deficit. IMF expects growth to pick up in 2023 and other key indicators (deficit, inflation) to strengthen. The economic outlook is subject to a higher than-usual level of uncertainty.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

During the last decade, Georgia has demonstrated progress in Public Finance Management (PFM) and Debt Reduction Management through the following key reforms:

- Expansion and strengthening of fiscal discipline and budgeting;
- Fiscal risk reporting and inclusion of SoEs and semi-independent entities in state budget execution reporting
- Enhancement of internal audit capacities and rolling out of the financial control rules and procedures
- Introducing legal framework for public investment and assets management
- Gradual application of International Public Sector Accounting Standards (IPSAS) at state and sub-national levels;
- Gradual approximation to the EU tax and customs legislation and introduction of automatic value added tax (VAT) refund mechanism
- Improvement of the regulatory framework of the SAO and providing high quality financial and compliance audits;
- Enhancement of the Parliamentary capacity for budget and fiscal analysis
- Implementing initiatives for citizen engagement in the budget process and initial steps on gender responsive budgeting.

Based on 2021 budget execution data, that evidences budget performance according to the initial projections, the Delegation assesses that Georgia’s financial system has passed the “COVID-19” stress test, but medium-term policy reforms have slowed down. Medium-term policy objectives align with the EU fiscal and budgetary standards related to consolidation of fiscal space, bringing down public debt and fiscal deficit in compliance with the fiscal rules and strengthening the revenue administration. Some weaknesses are particularly relevant for budget support namely in public investment management and public asset management, as well as procurement.

The Ministry of Finance reform is set by the PFM strategy 2019-2021 (policy extended for one additional year 2022) that captures most of the weaknesses identified by 2018 PEFA assessment, the IMF’s Fiscal Transparency Evaluation (FTE) and Public Investment Management Assessment (PIMA) report, the Open Budget Index, the Tax Administration Diagnostic Assessment Tool (TADAT) and requirements of EU Budget Directives. The government prepared a COVID-19 related anti-crisis economic response plan in March 2020 that contained key elements of the fiscal response to the crisis. These measures became integral part of the PFM strategy, but the latter was not formally amended.

The Ministry of Finance finalised its new PEFA (Public Expenditure and Financial Accountability) self-assessment in May 2022. The team composed by the World Bank and PEFA Secretariat experts will complete the validations process in the third quarter of 2022. The assessment will lay down the basis of new PFM strategy that will cover the period 2022-2025.

Policy coordination amongst different PFM stakeholders is organised via the PFM Coordination Council, which includes the participation of representatives of civil society organisations, International Financial Institutions (IFIs) and of the EU Delegation. The EU-Georgia policy dialogue and cooperation in this specific field is strong, and ongoing and new joint actions support progress in PFM. Measures to address challenges in public investment management, asset management and public procurement are targeted by the EU4 Economic Governance programme and followed-up in the policy dialogue.

While the PFM strategy remains relevant, the crisis context will require close monitoring of exceptional spending/procurement procedures, financial management and control safeguards.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.4. Transparency and Oversight of the Budget

The Open Budget Survey (OBS) 2021 (published in May 2022) by the International Budget Partnership ranks Georgia the highest in the country list on budget transparency. The country's score has risen by more than 30 points since 2008, with the ranking recognising its budget transparency amid the pandemic. OBS 2021 highlighted Georgia’s progress in improving its Financial Management Information System, which enabled the country to withstand the challenges posed by the pandemic and "the government was well positioned to operate online when pandemic restrictions forced officials to work remotely". The index also said "regular coordination" had also "bolstered the country’s budgetary system" and noted the International Monetary Fund and the European Union had helped pave the way for Georgia to produce budget documents in line with international standards. “Mechanisms for public participation in the central budget process remain underutilised," Survey said while adding the latest improvements demonstrated budget accountability in Georgia "is not just a temporary endeavour, but an ongoing commitment to embedding good budgeting practices over time that are capable of weathering challenges and crises.

Georgia makes all key budget documents publicly available online in a timeframe consistent with international standards. Open Budget Index (OBI) ranking puts Georgia ahead of other countries in the Neighbourhood and Western Balkans regions and confirms the efficiency of past and ongoing EU-Georgia policy dialogue and cooperation to deliver strong results in this critical governance area.

The Parliament regularly holds hearings on the State Audit Office (SAO)'s annual report as well as the report on the execution of the state budget, and parliamentary hearings are carried out timely. The technical capacities of the Budget Office of the Parliament are progressing but more is needed to provide timelier and more diverse services to all relevant Committees.

As a direct result of EU-Georgia policy dialogue and cooperation, since 2015 the Ministry of Finance is regularly making publicly available a 'Citizen's Guide to the State Budget' which better informs citizens and media on budget planning and priorities. The government is following up on recommendations provided by the SAO and provides status implementation report as an annex to the annual budget execution report submitted to the Parliament.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to contribute to the overall financial stability and socio-economic welfare of the country, thus supporting resilience against external shocks, such as the pandemic or Russia's war of aggression against Ukraine.

The Specific Objectives (Outcomes) of this action are to:

1. improve governance with a more comprehensive, transparent and accountable system of state finances
2. contribute to sustainable living conditions, increased resilience and development in small and medium cities and communities.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

- outputs contributing to Outcome 1 (or Specific Objective 1) are :
  - 1.1 Strengthened budgetary framework
  - 1.2 Increased independence and capacity of external audit
  - 1.3: Strengthened financial oversight

  more precisely,
  - Induced outputs for budget support:
    - 1.1.1. Improved budget discipline, coverage and credibility
    - 1.1.2. Improved taxpayer services and accountability on tax policies
    - 1.1.3. Improved financial management and control systems
    - 1.1.4. Fiscal decentralisation and improved predictability of local government revenues
    - 1.2.1 Strengthened independence and competences of the SAO
    - 1.2.2 Improved audit coverage and audit processes
    - 1.3.1 Regular follow-up on audit work by the Parliament
    - 1.3.2 Functional Budget Office in line with OECD practice on independent fiscal institutions
  - Direct outputs for budget support:
    - 1.1.1a Sectoral policies are costed and budgeted
    - 1.1.1b Fiscal risks covering SOEs
    - 1.1.1c PIM guidelines applied to investment projects
    - 1.2.1 Amendments to the SAO law are developed
    - 1.3.1 Parliament regularly issues recommendations to the Executive
    - 1.3.2 Independent reports are regularly produced by BPO
- Direct outputs contributing to Outcome 2 (or Specific Objective 2):
  - 2.1 Urban governance: increased capacity of municipalities in management of public finances, public administration principles including accountability and transparency
  - 2.2 Urban quality of life for citizens: public services quality and accessibility are improved

2.3 Urban planning and opportunities: increased use of realistic and people's centred urban planning (men and women)
2.4 Urban resilience: Sustainable Energy and Climate Actions are implemented
2.5. Greater gender equality is achieved in the awarded cities

The objectives of the Action contribute to several specific objectives of the Team Europe Initiative, which are:
- "Team Europe" initiative on "Balanced Territorial Development" specific objective 3 – *Enhance local empowerment and inclusive participation, including through engaging women and minorities*.
- "Green & Health" Team Europe Initiative: Specific objective 1 – *Improve air & water quality* and Specific objective 4 – *Green cities.*

3.2. Indicative Activities

Activities related to Output 1.1, 1.2, 1.3:
- policy dialogue in the framework of the Budget Support component
- assistance to perform compliance review of the Budget Support conditions

Activities related to Output 2.1, 2.2, 2.3, 2.4, 2.5:
- policy dialogue, including with MRDI and MoF regarding the definition of the Key Performance Indicators for sustainable governance
- Grants for increased capacity, better public services and sustainable energy and climate Actions
- Grant for monitoring KPIs and sharing municipal best practices, which will increase transparency, positive partnership and dialogue between local authorities and civil society

Prior and during Action implementation, assistance as required will be provided from the EU4ITD Programme and Resilience facility. This will allow proper preparation and continuity of capacity building, in particular related to KPIs implementation by cities and municipalities.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Outcomes of the Strategic Environmental Assessment (SEA) screening (relevant for budget support and strategic-level interventions)
The SEA screening concluded that key environmental and climate-related aspects need be addressed during design.

Outcomes of the Environmental Impact Assessment (EIA) screening (relevant for projects and/or specific interventions within a project).
The EIA screening classified the action as Category C (no need for further assessment).

Outcome of the Climate Risk Assessment (CRA) screening (relevant for projects and/or specific interventions within a project).
The CRA screening concluded that this action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

Along with the EU's Gender Action Plan III[18] for gender equality and women's empowerment in EU external action and the Country Level Implementation Plan (CLIP) for Georgia, this Action Document shall take into consideration the conclusions and recommendations provided in the Country Gender Equality Profile of

[18] SWD(2020) 284 final 25.11.2020

Georgia elaborated by United Nations (UN) Women and published in June 2020. It shall also draw from the findings of the UN Women Country Gender Equality Profile Report for Georgia, published in 2021.

The government has adopted a number of measures to ensure gender equality and greater participation of women in public, political, economic and social spheres. Nevertheless, processes such as planning, budgeting, and administration are often considered gender-neutral. In the light of the COVID-19 pandemic, the need for gender-sensitive decision-making is even more pressing. Currently the Parliament of Georgia is renewing its Gender Equality Concept. At the Government level, gender equality policy is part of the Human Rights Strategy, which approval is still pending since expiration of the previous one back in 2020.

In line with EU cross-cutting priorities, this Action will ensure that a gender sensitive results-based approach is systematically applied and built into the design of all actions. These shall address issues that contribute to greater gender equality and non-discrimination in line with the EU-Georgia cooperation agreements and EU Membership application. In addition, efforts will be made to support Georgian authorities in improvement of collection and use of sex-disaggregated data for policy-making as currently in many fields also of the EU intervention such data is missing or is relatively outdated.

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1 (significant objective). This implies that gender equality is a significant objective and gender equality will be mainstreamed across this Action. Furthermore, specific activities aimed at gender equality will be implemented in the framework of activities under outcomes 1 and 4.

Under outcome 1 a relevant gender sensitive results based approach will be promoted through the national PFM support, such as further steps towards introduction and use of gender responsive budgeting, including PEFA Gender Responsive Public Financial Management Framework[19]. Furthermore, under this programme a more inclusive budgeting and decision making process will be facilitated. A gender responsive budgeting related indicator will be considered to be included in the sector budget support programme envisaged under this Action.

Under outcome 4, the municipalities willing to participate in the "sustainable cities" programme will be obliged to report also on gender related KPIs for their cities. This is expected to incentivise the municipalities to consider gender aspects of their municipal development plans and ensure inclusive KPI development process, in particular as regards men and women as well as other groups of persons in vulnerable situations. As a result municipal policies towards gender equality and the empowerment of women and girls will be screened and supported.

Human Rights

There is no specific risks of HR violations through the action. Capacity building of duty-bearers (municipal authorities) is planned to support them to fulfil the governance KPIs defined at the initial stage of the action. HR KPIs could be considered as relevant. Civil society organisations will be monitoring the local authorities' fulfilment of the governance KPIs defined at the initial stage of the action.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1 (significant objective). This implies that specific attention will be given to the inclusion of disability, especially in "sustainable cities". People centred urban planning is understood as an inclusive tool for serving the citizen, for example for better accessibility of public and private building and disability-friendly movement in cities. Georgian cities have for the moment a grim track record of non-accessibility. "Sustainable cities" will support

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[19] PEFA Launches Supplementary Framework for Assessing Gender Responsive Public Financial Management | Public Expenditure and Financial Accountability (PEFA)

cities for better governance and social inclusion. Governance KPIs related to vulnerable groups shall be considered. Civil society will monitor if and how the cities do implement disability-friendly reforms. Technical assistance ad grants to cities can help them to change this situation and ensure more accessible services and free movement for all.

Democracy

Improved public finance management, transparency and oversight will contribute to democratic development. Local democracy mechanisms can be supported through governance KPIs, such as public participation in local governance.

Conflict sensitivity, peace and resilience

Georgia is a multi-cultural and multi-ethnic country. Many remote areas are home to ethnic and/or religious minorities. In order to contribute to peaceful inter-communities relations, it is necessary to address the needs of these minorities, and promote public accountability and Public Administration Reform at the local level. “Sustainable cities” provides an opportunity to integrate conflict prevention, capacities for local conflict resolution into local authority development plans. This can include inclusive principles and mechanisms for fostering community cohesion, consultation, participation. There is potential here to build local administration capacity to manage local conflicts. As seen in many of the localised inter-communal conflicts, not only are underlying causes, perceived inequality, discrimination driving conflict, but also ways in which conflicts are handled at early stage – in particular the religious conflicts over mosques, or between communities competing for resources/services (eco-migrants).

In terms of consequences of the Russian war of aggression against Ukraine on 24 February are yet to be analysed. In the short term, influx of Ukrainian, Russian and Belorussian citizens, while non negligible, has kept reasonable proportion and can be felt mostly in the capital real estate market. Due to strong interlinkages between Russian and Georgian business and economy, the situation may affect more and more Georgian economy and livelihoods. In the mid-term, decrease of remittances from Russia and possible EU countries (with Ukrainian replacing possibly Georgian manpower) can be foreseen, and may have direct consequences on the macro-economic situation. They could consist in supporting the implementation of general or specific government measures to address the impact on Georgia of Russia’s war of aggression against Ukraine and/or sanctions against Russia, support to Civil Society Organisations (CSOs) and/or International Organisations (IOs) dealing with the flux of migrants coming from the conflict zones, support to Georgian business affected by the limited trade and tourism and others.

Macroeconomic fragility is addressed in both the risk assessment, and also through the action itself; budget support in PFM shall contribute to macro-economic stabilisation in times of volatile geopolitical environment. The “sustainable cities” shall contribute to resilience of cities, be it in terms of better contingency planning, economic resilience or better co-existence of ethnic groups – by helping to manage diversity and potential tensions between groups. The selection of municipalities participating to the “sustainable cities” will pay attention to the ethnic composition of the targeted areas.

Disaster Risk Reduction

Many regions of Georgia are prone to natural disaster, even more in times of climate change. The second objective of the action will support cities to prepare relevant plans, and put them into action, in line with the National Adaptation Plan and to better implement the Sendai Framework.

3.4. Risks and Assumptions

Category[20]	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1	Macroeconomic instability, increased unemployment and inflation that may divert authorities' commitment/attention	**H**	**H**	Continuous policy dialogue with the IMF and the government, monitoring of macro-fiscal and political situation, provision of technical and financial assistance
2 and 3	Insufficient commitment by authorities to decentralise implementation system for actions; poor coordination with relevant line ministries	**M**	**H**	Multi-stakeholder policy dialogue, sharing lessons learned and rationalisation of the broader policy reforms Facilitation of inter-ministerial coordination, including through dialogue with other donors and EU-funded interventions
3	Lack of willingness/interest regarding Gender responsive Budgeting (GRB)	**M**	**H**	Multi-stakeholder policy dialogue, sharing lessons learned and rationalisation and good practices/impact of GB in other countries
3 and 5	Lack of alignment of complementary actions financed from sources other than EU	**M**	**L**	Enhanced coordination with other donors
3	High turnover of civil servants in beneficiary institutions involved in Programme implementation; insufficient technical capacity/experience	**M**	**M**	Continues capacity building and dialogue with the state institutions Provision of supportive measures and technical assistance especially on regional and municipal level
1	Security risks derived from Russia's war of aggression against Ukraine	**H**	**H**	Continuous dialogue with the government, monitoring of the developments
1	COVID-19: resurgence – new waves	**H**	**H**	Preparedness measures from previous waves, invoking of contingency measures if required

[20] The risk (category) can be related 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information.

External Assumptions

- Commitment and focus of national and local authorities is sustained
- The Russian war of aggression in Ukraine does not extend to neighbouring countries
- Any new potential wave of COVID-19 or other pandemic doesn't disrupt significantly the economy and livelihoods (tourism in particular)
- No economic recession affects the country over the medium term
- Commodity prices on international markets are stabilised
- Assumptions related to specific objectives: methodology for GRB is developed and user-friendly

3.5. Intervention Logic

The Action has been designed to address the sustainable governance and resilience needs of Georgia. At the national level it will strengthen public finance institutions and foster evidence based and inclusive policy making, efficiency of budgetary expenditures, transparency and accountability and stakeholder participation. While supporting better governance and services in small and medium cities and communities, it will unleash their potential and help to alleviate consequences of pandemic and other exogenous shocks and, attract attention and investments. Complementary measures will contribute to strengthening of the capacity on key institutions to design, implement and monitor interventions. The programme will also include a grant for CSOs for monitoring sustainable governance indicators and raising awareness of best performing institutions/municipalities, as well as increasing the resilience against external shocks.

The underlying intervention logic for this action is that:

For outcome 1: *If* procedures for policy planning and non-financial performance reporting in the budget framework are streamlined; fiscal risks reporting, public investment management and taxpayer services are improved, and internal financial control systems enhanced, *then* Georgia will have a more comprehensive, transparent and accountable system of state finances that will contribute to the overall financial stability and welfare of the country as well as more efficient and performant implementation of all the Flagships.

For outcome 2:
If small and medium size cities improve their capacities for better governance (including policy planning and design of Climate Action plan, PFM and accountability aspects), and implement subsequent projects for urban development, *while* civil society monitors the progress, *then* the overall quality of urban life will increase, including better and accessible services, opportunities and resilience. It will also give municipalities a strong role in implementation **Flagships 5 and 6.**

3.6. Indicative Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data (1 per indicator)
Indicative Impact of the policy	To contribute to the overall financial stability and socio-economic welfare of the country, thus supporting resilience against external shocks, such as the pandemic or Russia's war of aggression against Ukraine.	fiscal deficit under 3% as per Georgian fiscal rules public debt below 60% of GDP as per Georgian fiscal rules GDP growth over medium period 2022-2030	2022: 3.8% fiscal deficit 2022:55% public debt 2022: 3.5 % IMF estimate	2026: 2.8 % fiscal deficit 2026: 45% public debt 2026: 3/5% on average	Georgia's debt management strategy BDD 2022-2025 2023-2025 PFM reform strategy Geostat and MoF data
Expected Outcomes of the policy	Outcome 1. improved governance with a more comprehensive, transparent and accountable system of state finances Outcome 2. sustainable living conditions, increased resilience and development in small and medium cities and communities	1.1.PEFA Performance indicators 1.2.IMF TADAT POA 4, 5 1.3.Ranking and scores in Open Budget Partnership Survey 2.1.overall PEFA scores at local level 2.2.number of jobs created in small and medium cities part of the Action / number of businesses registered in targeted cities	1.1. 2022 PEFA Assessment scores 1.2.TADAT 2020 scores [21] 1.3.OBP 2022 survey [22] 2.1.overal PEFA latest scores before 2022 in selected municipalities 2.2.Tbd (depending on cities participating)	1.1.2026 PEFA Assessment Scores being higher than 2022 PEFA 1.2.Increase in score in TADAT 2024 1.3.OBP higher ranking in budget oversight and citizen participation 2.1. overall PEFA scores at local level improved in PIM, budgeting, Public Internal Financial Control (2026)2.2.Increase by 20 %?	1.1.PEFA (2026), 1.2.TADAT (2024) 1.3.Open Budget Survey reports (yearly) 2.1.GEOSTAT / MEPA/ National Environmental Agency data 2.2.GEOSTAT

[21] https://www.tadat.org/assets/files/Georgia_Final_PAR_2020.pdf
[22] https://internationalbudget.org/open-budget-survey/rankings

Induced Outputs	**1.1 Strengthened budgetary framework** 1.1.1. Improved budget discipline, coverage and credibility 1.1.2. Improved taxpayer services and accountability on tax policies 1.1.3. Improved financial management and control systems 1.1.4. Fiscal decentralisation and improved predictability of local government revenues **1.2 Increased independence and capacity of external audit** 1.2.1 Strengthened independence and competences of the SAO 1.2.2 Improved audit coverage and audit processes **1.3: Strengthened financial oversight** 1.3.1 Regular follow-up on audit work by the Parliament 1.3.2 Functional Budget Office in line with OECD practice on independent fiscal institutions	1.1.1. PEFA indicators identified as B or below in 2022 assessment 1.1.2 TADAT POA 4 and 5 1.1.3. OECD SIGMA indicators / reports 1.1.4. share of local self government revenues in GDP 1.2.1 State Audit Office law is fully in line with ISSAI Standards 1.2.2. number and share of performance /financial audit 1.3.1 SAO audit reports discussed and followed up 1.3.2 Budget Office functions in line with the OECD guidelines for independent fiscal institutions	1.1.1. Indicators as per 2022 PEFA 1.1.2 TADAT POA 4 and 5 scores in 2020 1.1.3. financial management and control systems are assessed as weak 1.1.4. share is 4.5 % GDP (2022) 1.2.1 SAO mandate on revenue audit is still limited 1.2.2. 75 audits (15% performance audits from total) 1.3.1 “Most Important” audit reports discussed by the B&F Committee; follow up mechanism is weak 1.3.2 Budget Office mandate and institutional capacity is not in line with the OECD guidelines	1.1.1 scores B+ or A (2026) 1.1.2. Scores A or B in TADAT POA 4 and 5 (2024) 1.1.3. basic critical elements of financial management and control systems are in place 1.1.4. share is 7 % GDP (2026) 1.2.1 SAO has full mandate to audit budget revenues 1.2.2. increase by 5% in both numbers 1.3.1 Follow-up mechanism for SAO audit reports established and functional 1.3.2 Budget Office operates fully in line with OECD guidelines for independent fiscal institutions	PEFA assessments, TADAT, CSO, OECD/SIGMA reports SAI PMF assessment 2026 MoF report on PIM implementation; WB reports Budget and Finance Committee reports SAO law SAO website Rules and Procedures of the Parliament (being revised); Parliament reports OECD/SIGMA monitoring reports

Direct Outputs	1.1.1a Sectoral policies are costed and budgeted 1.1.1.b Fiscal risks covering SOEs 1.1.1c PIM guidelines applied to investment projects 1.2.1 Amendments to the SAO law are developed 1.3.1 Parliament regularly issues recommendations to the Executive 1.3.2 independent reports are regularly produced by BPO 2.1 urban governance: increased capacity of municipalities in management of public finances, public administration principles including accountability and transparency 2.2 urban quality of life for citizens: public services quality and accessibility are improved 2.3. urban planning and opportunities: increased use of realistic and people's centred urban planning (men and women)	1.1.1a Number of sectoral policies/strategies costed and budgeted in the BDD/budget 1.1.1b Fiscal risks report covers major SoEs comprising % monetary value 1.1.1c PIM Guidelines coverage increased (to state and municipal budgets) 1.2.1 Amendments to the SAO law approved by the Legislature 1.3.1 Number of issued recommendations by Parliament to the Executive 1.3.2 Number of independent reports produced by BPO 2.1 Number of KPIs developed and implemented 2.2. Number of national Public Services Standards adopted ; Number of physical / digital public services 2.3.1 Number of urban planning documents updated 2.3.2 Number of urban plans implemented/started 2.4. Number of activities implemented under relevant action plans	1.1.1a 30% of sectoral policies are costed and integrated in the BDD/budget 1.1.1b Fiscal risks report covers 90% of SoEs 1.1.1c PIM applied to projects above Gel 5 million 1.2.1.Amendments partly drafted (2021) 1.3.1 To be determined with the support of the Parliament TWG project 1.3.2 To be determined with the support of the Parliament TWG project 2.1 n.a 2.2 5 research papers in 2021	1.1.1a 70% of sectoral policies are costed and fully integrated in the BDD/budget 1.1.1.b Fiscal risks report covers 100% of SoEs 1.1.1c PIM guidelines applied to all projects 1.2.1.Amendments to the SAO law enacted and implemented 1.3.1 To be determined with the support of the Parliament TWG project 1.3.2 To be determined with the support of the Parliament TWG project 2.1. KPIs are developed, agreed and at least 50% of participating municipalities	OECD/SIGMA reports SAO annual reports Budget and Finance Committee reports Budget Office reports CS and media monitoring and reports CS and media monitoring and reports, cities' annual report and citizen's surveys Urban planning document implementation reports available online Plans implementation reports available online CS and media monitoring and reporting CS and media monitoring and reporting, cities'

	2.4 urban resilience: Sustainable Energy and Climate Actions are implemented 2.5. greater gender equality is achieved in the awarded cities	2.5. Number of activities implemented to address gender inequalities	2.3.1 tbc clarified with cities/TA 2.3.2 tbc clarified with cities/TA 2.4. tb c per cities – existence of plan 2. 5 0 (or tbd by cities/TA)	score average 80 % 2.2. 50% increase of physical / digital accessibility of public services and buildings based on developed standards 2.3.1 at least 50 % of participating cities have renewed/ new urban plan 2.3.2 at least 50% of urban plans started implementation 2.4. at least 80 % of participating cities have developed a E/CA Plan; a least 50 % have started implementing such plan by 2027 2.5. at least 10 (one gender activity per award grant)	annual report and citizen's surveys Urban planning documents available online on cities' website Plans available on website. Implementation reports by cities

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.
Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 12 000 000.00, and for complementary support is EUR 12 000 000.00. This amount is based on the analysis of the relevance of the policy and the capacity of Georgian partners: on the solidity of the overall PFM related policy in Georgia and the needs, capacity, and opportunities for sustainable results at national and local level.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions:
The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the ***Public Finance Management Reform Strategy*** 2022-2026 and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities:

- Programme budgeting and performance information
- Financial monitoring of public corporations, subnational governments and contingent liabilities
- Management of public investments and state assets
- Internal financial control and managerial accountability
- Improving taxpayer compliance and services
- Strengthening the SAO mandate and audit of tax revenues
- Strengthening the follow-up mechanism of SAO recommendations and compliance to the fiscal rules
- Fiscal Decentralisation and application of PFM reforms at sub-national level

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante or at the latest by the end of the first quarter of the period under review applicable to the indicators and targets.
In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values
In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

Variable tranches will be used for non-targeted budget support.
Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Georgian lari will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Implementation Modalities for complementary support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[23].

4.4.1. Direct Management (Grants)

a) Purpose of the grant(s)
The grants will contribute to the implementation of the Specific Objective 2.

b) Type of applicants targeted
The potential applicants eligible for funding will be non-profit-making legal entities such as: non-governmental organisations, local authorities and/or public sector operators.

4.4.2. Direct Management (Procurement)

The procurement will contribute to achieving part of Specific Objective 1.

[23] www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4.3. Changes from indirect to direct management (and vice versa) mode due to exceptional circumstances

The alternative option for implementing the part of the Action described under section 4.4.1, is Indirect Management with entrusted entity (ies)[24], if the preferred implementation modality (direct management) cannot be implemented due to circumstances outside of the Commission's control. The following selection criteria shall be applied in this case:

- Specific expertise and experience in respective areas.
- Experience and presence in the country. In depth understanding of the situation, its strengths and weaknesses in Georgia in respective field of operation.
- Available necessary organisational, human and management capacity also to mobilise specific expertise in short time.
- Added value as well as innovative approaches proposed by the organisation to effectively reach sustainable results.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in EUR
Budget support - cf. section 4.3	**12 000 000.00**	
Implementation modalities – cf. section 4.4		
Part of Objective 1 composed of	**150 000.00**	
Procurement (direct management) – external review missions; cf. section 4.4.2	N.A.	
Objective 2 composed of	**11 650 000.00**	550 000.00
Grants (direct management) – cf. section 4.4.1	N.A.	
Grants – total envelope under section 4.4.1	**11 650 000.00**	550 000.00
Procurement – total envelope under section 4.4.2	**150 000.00**	N.A.
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	**100 000.00** **100 000.00**	N.A.
Totals	**24 000 000.00**	550 000.00

[24] The signature of a contribution agreement with the chosen entity is subject to the completion of the necessary pillar assessments

4.7. Organisational Set-up and Responsibilities

The action will be directly managed by the European Commission through its Delegation in Georgia. All contracts and payments are made by the Commission on behalf of the beneficiary. All initiatives will be conducted with the support and engagement of the authorities, civil society and development partners ensuring that implementation of economic governance policies is well coordinated.

The steering of the programme will be entrusted to the PFM Coordination Council under the MoF, which will oversee and guide the overall direction and policy of the programme. It will assess progress in the implementation of the action and decide if any modifications are needed. It shall devote separate session on the implementation of this Action once a year and can be convened whenever the programme implementation requires strategic decisions.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

By the end of the first quarter of the year, the external review mission will submit to the EU Delegation an evidence-based technical report assessing the degree of compliance in line with mutually agreed conditions for disbursement.

The Ministry of Finance shall use the PFM Coordination Council as a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. The State Audit Office and the Parliament will provide inputs regularly for the progress report in an agreed format.

Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the strategy, policy or reform action plan of the partner country (for budget support). For project modality, the report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: national government financial statistics and reports, provided by GEOSTAT and MoF/Treasury Service, are of adequate quality and relevance and will be used to monitor the implementation of the Action.

5.2. Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Programme targets priority areas of cooperation within the MIP.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least three months in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions* (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

For communication on Team Europe Initiatives, the EU and its Member States can rely on the specific guidance on the Team Europe visual identity.

Each Financing Agreement including a budget support component shall include an annex detailing the obligations of the Partner Country within communication and visibility.