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Georgia
Public Expenditure Review

Diagnostics of Public Investment Management System

Volume 2: Background Notes

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I. INTRODUCTION

1. **Georgia has begun to make some progress in improving capital budgeting, and the new Government is committed to implementing deeper reforms in this area.** Efforts have been made both in the narrow sense of enhancing the information content of budget documentation in relation to capital expenditures, and also in the wider sense of initiating more systematic processes to raise the overall efficiency and effectiveness of public investment. Nevertheless, only tentative steps in the right direction have been taken so far and these need to be consolidated and extended if Georgia is to have a public investment management system that compares well with international good practice.

2. **A World Bank programmatic public expenditure review (PPER 1) delivered in 2012 made some short- and medium-term recommendations for improving public investment management (PIM) in Georgia.** These were:

- Further improve the content and presentation of capital budget.
- Introduce a systematic preliminary assessment and project identification process.
- Develop uniform methodological guidance on project appraisal techniques.
- Strengthen strategic guidance for public investment identification and prioritisation.
- Develop systematic guidelines for public investment management.

3. **So far, limited progress has been made on implementing these recommendations.** Following from PPER 1, it was agreed that the PIM system should again be one of the focal areas in the second programmatic public expenditure review (PPER 2). In this respect, the Concept Note for the PPER posed several guiding questions in relation to public investment management:

- What are the key performance gaps in the Georgian PIM system?
- How could these gaps be addressed, learning from international good practice?
- What are the implications for growth prospects of failing to improve project selection and of cutting capital spending in an unplanned way?

4. **To further advance the PIM agenda, a diagnostic of Georgia's PIM system was undertaken based on the qualitative assessment framework proposed by the World Bank.**[1] This analysis has been supplemented by applying selected elements of a potentially more rigorous indicator framework[2] which has recently been tested successfully in Ukraine[3]. This benchmarking exercise is designed to assist in cataloguing current strengths and weaknesses, developing a shared understanding of where priority reform efforts should be directed and setting a baseline against which future progress can be measured.

5. **The Bank's proposed diagnostic framework identifies the minimum elements that make up a fully functional PIM system.** These are:[4]

- Strategic guidance for public investment and preliminary screening on the basis of a project profile
- A formal project appraisal process
- Independent review of appraisal

[1] 'A Diagnostic Framework for Assessing Public Investment Management' A. Rajaram, Tuan Minh Le, N. Biletska & J. Brumby, World Bank Policy Research Working Paper 5397, 2010.
[2] 'Strengthening Public Investment Management: Indicator Framework – Preliminary Revised Draft', World Bank, June 2011. Applies a scoring system using a similar approach to the Public Expenditure and Financial Accountability (PEFA) assessment framework.
[3] 'Ukraine Public Investment Management Performance Assessment', World Bank, 2012
[4] These requirements were previously identified in PPER 1: 'Managing Expenditure Pressures for Sustainability and Growth: Georgia Public Expenditure Review', World Bank, November 2012

- Project selection through a well-managed budget process
- Efficient processes for project implementation
- Flexibility to make project adjustments
- Provision for sustainable operation of facilities
- Basic completion review and *ex post* evaluation

These elements are also captured by the more recent indicator framework as presented in Annex1.

6. **As a basis for the PIM assessment, the PER team agreed with the Ministry of Finance to examine a small sample of projects from identification to implementation to identify the processes and decision-making process employed by the responsible ministries.** To facilitate the assessment of individual projects a questionnaire was developed, which is presented in Annex 2. At the suggestion of the Ministry of Finance it was decided to select the projects from the investment portfolios of the Ministry of Regional Development and Infrastructure and the Ministry of Education. In subsequent discussions with the Ministry of Regional Development, it was initially decided to examine two road projects – one fully domestically financed and one donor financed – and a domestically financed water supply & sanitation project. It was also agreed with the Ministry of Education to look closely at two school building projects as case studies. The following projects were reviewed by the PER team:

- **Tbilisi City Hall**
    - Tunnel at the beginning of the Agmashenebeli Alley – 9,310,000 GEL
- **Ministry of Education and Science**
    - School Construction at Lambalo village
    - Rehabilitation of the School #215 in Tbilisi
- **Ministry of Infrastructure and Development**[5]
    - Rehabilitation of road in Vani municipality – 398,000 GEL
    - Terjola Water supply rehabilitation project - 400,000 GEL
- **Ministry of Finance**
    - Sarpi customs – 17,000,000 GEL

8. **This background paper examines Georgia's PIM system and assesses the extent to which the minimum elements identified above are represented.** It then goes on to make recommendations on improvements that might be made by the Government of Georgia to put in place a minimally functional PIM system. These recommendations draw on examples from recognised international good practices. A more systematic assessment using the scoring system developed for the PIM indicator framework is presented in Annex 1. This gives more substance to the overall assessment. The report concludes by looking at possible ways of promoting an environment for change in PIM systems.

9. **The focus of the analysis in this paper is on national PIM systems for nationally funded projects.** A significant share of Georgia's public investment is financed by international financial institutions or donors who invariably have their own rigorous requirements for planning and managing the projects that they finance. There is limited purpose in assessing the efficacy of these systems and therefore this paper focuses on the domestic arrangements in PIM.

10. The main recommendations have been summarized in the table below:

[5] The Ministry of Infrastructure and Development eventually declined to provide information on fully domestically funded projects. Both these projects received foreign financing and were subject to donor procedures.

Table 1: Summary of Recommendations Resulting From the PIM Assessment

System Component	Recommendations	Priority
Investment guidance, project development & preliminary screening	1. Improve the forward-looking, strategic guidance for public investment.	Short to medium term
	2. Institute formal preliminary screening for project concepts on the basis of a completed project profile.	Short term
Formal project appraisal	3. Introduce regulated requirements for project preparation and appraisal so that there is a rigorous national procedure with a clear allocation of roles and responsibilities that applies to all public capital investment projects.	Short term
	4. Develop and disseminate formalised technical guidance on methodologies for assessing projects, tailoring it to the nature and scale of the project proposals.	Short term
Independent review of appraisal	5. Consider options for institutional arrangements for independently reviewing project feasibility studies and appraisal decisions and take a decision taken on the most appropriate.	Short to medium term
Project selection and budgeting	6. Introduce more specific criteria for selection of projects for budget funding, including a stringent criterion regarding adequate preparation and a positive appraisal decision.	Short term
	7. Consider taking further steps towards implementing fully the recommendations contained in PER-1 for improving the information content of the capital budget annex.	Short term
Project implementation	8. Some simple project implementation guidelines should be introduced for operational staff.	Medium term
Predictability in the availability of funds for commitment of capital expenditures	9. Reduce the use of non-competitive procedures, by addressing some of the legal loopholes and applying more restraint in the use of executive decrees.	Medium term
	10. Explore ways of paying more attention to ensuring quality in procurement while not jeopardising the very significant progress that has been made in cleaning up procurement processes using the price-based e-procurement system.	Short to medium term
Effectiveness of internal controls and internal audit	11. Begin to develop the capabilities of internal audit units in major investing ministries to undertake performance audits of capital investment projects.	Short to medium term
Project adjustment	12. Initiate a system for undertaking fundamental reviews of major projects with problems, including externally financed projects.	Long term
Facility operation	13. Institute a systematic survey of usage on opening, at least for major projects.	Medium term
Basic completion review and evaluation	14. Make an analytical project completion report a requirement of the PIM system.	Short to medium term
	15. Introduce systematic evaluation of the impacts of completed projects.	Long term

II. ASSESSMENT OF THE PERFORMANCE OF GEORGIA'S PIM SYSTEM

A. Strategic Investment Guidance and Preliminary Screening

Rationale

A high-level and authoritative statement of the government's economic and social strategies is important to make sure that investment planning is aligned with medium to long term national economic and social priorities. Projects should then be initiated through a formal process that involves preparation of a project profile (or 'project concept note') that situates any new project idea within this strategic context. The profile then needs to be submitted to higher level authorities for screening with respect to policy relevance, amongst other things, leading to an approval to proceed with project development. This is the first line of defence, and perhaps the most important, against poorly conceived and ineffective investment proposals gaining planning momentum and ending up in wasting budgetary resources.

9. **Georgia has no overarching, medium to long term national development strategy.** There has been some work on national strategy development in key infrastructure sectors such as transport, but this has been piecemeal and is not kept up-to-date. Interestingly, Tbilisi City seems to have adopted a more strategic approach to investment planning and the sampled road improvement project derived from a wider plan for improving transportation in the city. There is also a City Development Strategy, identifying priority areas for investment, both public and private.

10. **The ministries responsible for the surveyed projects refer to annual action plans as providing the strategic context for their investment projects.** However action plans are too short-term to be considered as sector strategies and offer no guidance on future investment directions. Good investment planning requires a relatively stable long-term planning environment within which major investment proposals can be developed, adjusted and implemented. A heavily 'top-down' leadership culture - which does not encourage planning by technocrats - combined with the more conflictual nature of politics in Georgia, has inhibited the development of longer term strategic thinking with a minimum level of consensus support from different political parties and stakeholders.

11. **Georgia's annual Basic Data and Directions document, which is enshrined in the Budget Code, does not address infrastructure investment plans and expenditures.** It only provides a medium-term expenditure framework for the annual budget and gives some indications of priority areas. For example, Section 5 of BDD 2012-2015 is titled, 'Improved infrastructure: multi-modal transport and energy hub for the entire region', thus giving some vision of where government sees priorities as lying. In addition, the discussion of expenditure priorities for spending ministries and sub-national governments contain some pointers towards priority sectors and sub-sectors for investment. On the other hand, the BDD tends to be less forward looking than is required for early-stage, investment planning: it looks back at what has been achieved and considers the expenditure implications of projects that are ongoing or have already been decided. As such, it offers limited concrete guidance on where new investment proposals should be being generated.

12. **Georgia has formally introduced expenditure programs into its budgeting system recently.** In other countries with performance-oriented budgeting systems, the project profile would be used to identify how a particular project would be expected to contribute to improving program outputs and achieving program objectives. This linkage is not yet being adequately made in Georgia.

13. **So far asset management systems are poorly developed in Georgia[6].** In many countries, asset management systems are important tools for supporting strategic investment planning, helping to identify life-expired assets and the resulting investment requirements.

14. **When asked whether any kind of initial project profile had been prepared for the projects in question, all surveyed ministries responded negatively.** Project identification and conceptual design is based on informal discussions in Georgia, which are not required to be systematically recorded in any form. It is therefore very difficult after the event to uncover the reasons why project ideas came forward, to what problems they were seen as responding and how their further development was decided. Not infrequently, investment projects are responses to short-term political imperatives, driven by the desire of political leaders to be seen to be responsive to their constituencies' apparent needs and decided in isolation from a broader strategic framework and without a thorough analysis of the underlying problems. Invariably, this leads to a focus on more visible physical inputs - creation of capital assets - rather than on specifying improvements to the delivery of public services and the wider outcomes that result. This is at odds with the principles that are usually central to the kind of program budgeting approach that Georgia has adopted and with which the public investment management system deserves to be more carefully integrated.

15. **Potential project alternatives are not always given sufficient consideration during project development in Georgia.** The project profile is the place where potential project alternatives, i.e. different means of dealing with an identified problem, should be first introduced for later assessment. As part of the recently introduced capital budgeting procedures, ministries are now required to submit some summary information on projects proposed for funding, but this is too late in the project cycle and relates to the request for funding of developed project proposals.

16. **Surveyed ministries could not identify any systematic screening process to verify the policy relevance of project ideas and approve their continued development.** There is no legally mandated process of this kind existing in Georgia. The decision to proceed with a project comes out of unstructured higher-level management discussions within the budgetary entity promoting the project - or often, a ministerial decision with no discussion - and is not subject to an external review of the policy appropriateness or to an approval to proceed further from a higher authority. The process remains largely verbal and there are no written records of the basis for decisions to proceed with project development.

[6] The development of a comprehensive asset management system for the roads sub-sector - '…for the integrated management of the network, including the determination and optimisation of economically warranted projects, programmes, strategies and budgets for both network development and maintenance - was a recommendation of PER-1 in 2012.
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B. Formal Project Appraisal Process

Rationale

Irrespective of country, ex post evaluations of projects that have performed poorly draw attention to weak planning during project development and subsequent, poor appraisal decisions as being amongst the more frequent underlying causes of failure. Decision-makers need sound technical advice on the (society-wide) costs and benefits of project proposals and on the choices available to them in order to make good decisions. High quality project preparation and systematic analysis is, therefore, at the heart of any well performing public investment management system. This is the stage of the project cycle when flexibility is highest and amendment costs are lowest, so from an efficiency perspective it makes sense to focus planning and management effort at this stage. This is also the stage of the cycle when information availability is lowest and the risks are the costliest, so the pay-off from efforts to improve information and reduce risks is likely to be highest.

A good system involves: i) a clear allocation of roles in the project preparation process; ii) adequate and proportional technical guidance on methods; iii) properly sequenced and disciplined procedures, incorporating formal decisions at key points; and iv) a sound appraisal process by which prepared projects are assessed against critical criteria to verify their economic and technical feasibility and financial, environmental and social sustainability.

While the default analytical approach should be socio-economic cost-benefit analysis, procedures need to be sufficiently flexible to: i) adopt other approaches - cost-effectiveness analysis and/or multi-criteria analysis - when it is not feasible to put monetary values on benefits and/or external costs; ii) or to waive this requirement for lower value or repeat projects where complex analysis may not be required or may not be an efficient use of scarce analytical skills.

Even where a project is amenable to socio-economic cost-benefit analysis, the appraisal decision still needs to take into account major effects that have not been valued, environmental impacts, for example, and to consider differential impacts on disadvantaged groups, the poor, internally displaced people or ethnic minorities, for example. Financial and fiscal analyses are also important to determine a project's financial sustainable and the net impact on the public finances, both important factors to take into account when making the appraisal decision.

17. **The survey of projects has revealed that the project planning process is very informal and nowhere are the roles and responsibilities of the different participants clearly established.** In the absence of a formal allocation of roles within government, planning remains largely focused at the level of the entity promoting the project, where internal procedures - again largely informal - apply. Neither the Ministry of Finance nor any other central agency assumes a higher-level guiding or coordinating role over the project preparation and appraisal process.

18. **Economic and financial departments in ministries generally have a weak role in project planning.** Planning remains largely a technical, engineering activity, carried out by technical departments, rather than being a holistic approach to project design and assessment. The political leadership of a ministry tends to have a stronger involvement in technical dimensions of a project than would normally be expected and the responsible minister will generally exercise a significant leadership role in an individual project. The demand for considered advisory input from appropriately qualified experts is generally given a relatively low weight in the decision-making process.

19. **The survey revealed that Georgia does not have a regulated set of national procedures governing project preparation and appraisal, establishing the sequence of steps, associated activities and resulting decisions.** There are no structured requirements, breaking project preparation and appraisal down into its components, and no formal, documented decision is necessary to proceed to detailed design. The decision to go to detailed design is taken on an ad hoc basis according to the informal procedures of an individual ministry.

20. **There is no manual or set of guidelines setting out the analytical methodologies applicable in Georgia for assessing the feasibility and sustainability of projects.** This means that the spending entities developing projects and their responsible line ministries do not have consistent guidance on how to apply cost-benefit analysis, or other analytical approaches, when examining the feasibility of their proposals. Neither the Ministry of Finance nor any other central agency of government regards it as its role to offer technical support to spending ministries in developing and analysing project proposals to reach a conclusion on their feasibility. No advice has been issued to spending ministries on the internationally recognised guidelines that might be applied in the absence of national technical guidance.

21. **Appraisal is not applied comprehensively in Georgia.** The survey confirmed the clear distinction between the treatment of nationally-funded and donor-funded projects. Donor-funded projects are subject to systematic appraisal according to donor requirements, while nationally funded projects largely escape a formalised appraisal.

22. **No official distinction is made in the treatment of projects of different scales and complexities.** Donor-funded projects are generally more significant in scale than nationally funded projects, so because the former are almost universally subject to rigorous appraisal by funding agencies a degree of proportionality is automatically applied. However, this is not a conscious policy decision by the Georgian government and there are still some significant nationally funded projects that are not subject to the same standard of analysis and appraisal as donor-funded projects.

C. Independent Review of Appraisal

Rationale

For a number of reasons, it is good practice to subject appraisal decisions and underlying studies to review by an independent agency. It is a good practice to challenge underlying assumptions, forecasts and conclusions of a sponsoring entity. Firstly, the incentives for a sponsoring entity to deliver a high quality project proposal may be weak, even though it may be in possession of the best information to formulate and analyse such a proposal. Secondly, officials in an agency sponsoring a project may find it difficult to challenge 'momentum' projects that have been championed by the political leadership of that agency. Lastly, there is a demonstrated tendency across countries and through time for project planners to over-estimate the benefits and under-estimate the costs of their proposals. This is known as 'optimism bias' and impartial review is one of the few ways to check it.

Generally, independent review should take place well in advance of a project being proposed for budget funding, so that budget decisions are made from within a pool of externally quality assured projects. Independent review also needs to be proportionate, so the depth of the review for small or repeat projects may be lower.

23. **The survey of projects confirmed that there are no formal (or informal) arrangements for an external assessment of the decision to proceed with a project and the analysis upon which such a decision is made.** This would anyway be difficult in the present circumstances because of the currently unstructured way that projects are appraised in Georgia: there is no formal documentation, including a record of the appraisal decision and the reasoning behind it that could form the basis for such a review.

24. **There is some external review of capital cost estimates, but only at detailed design stage and not feasibility stage.** This is voluntary, but most sponsors of major projects choose to do it, partly to avoid later accusations of wasting public money from financial controllers and auditors. This service can be procured from any qualified provider, but the majority use the National Forensics Bureau. Detailed design is, however, usually too late in the project cycle to have a significant effect on reducing optimism bias with respect to capital costs, particularly as there is no comparison with project alternatives at this stage.

D. **Project Selection through a Well-Managed Budget Process**

Rationale

Once projects are properly prepared and appraised, it is important that they are prioritised in a transparent way for inclusion in the budget. Good public investment management systems ensure first that adequate funding for efficient physical completion of ongoing projects is provided through the budget before considering the allocation of funding to new projects.

New projects must also be verified as having been well prepared and carefully appraised. In weaker systems inadequately prepared projects often slip through the net during budget preparation. Even in the best systems, there are likely to be more positively appraised new projects than there is funding and explicit prioritisation criteria must be applied reflecting national and sectoral priorities and practical factors, like readiness to go. Box 7 illustrates the kind of criteria that are frequently applied in the more robust systems. In the more advanced systems, prioritisation of new projects is done by spending ministries within sector expenditure limits approved by the government on the basis technical advice from the finance ministry. Ideally, credible expenditure limits should be set for the medium-term to aid implementation planning for multi-year projects.

Major infrastructure projects usually take several years to complete and efficient implementation demands that the implementing agency be able to enter into multi-year contracts. There should be knowledge that budgetary resources will be made available in future years to meet these contractual commitments. This can be handled in various ways without undermining the annualarity of the budget. Adequate funding for project preparation should also be assured through the budget and for major infrastructure projects this may extend over more than one budget year.

Inadequate budgetary funding for the recurrent expenditure needs of newly completed capital investment projects is a frequent problem of poor budgeting systems. The budgetary process must be sufficiently integrated to allow capital and recurrent expenditures to be planned together. This is often best done within a medium-term horizon for expenditure planning.

25. **Since the beginning of 2012 and in line with provisions of the 2009 Budget Code, Georgia has introduced a form of program budgeting supported by methodological guidelines[7].** Included within these guidelines are short instructions on preparing submissions for a capital budget annex to the main budget, which is also a requirement of the Budget Code. These give very general guidance on prioritising and selecting capital investment projects for inclusion in the budget: projects should be related to priorities defined by the government and should either support economic development or social development priorities. As set out in Article 34 of the Budget Code, the draft Basic Data and Directions[8] document is prepared as a precursor to annual budget preparation. It sets out the government's policy priorities and the medium-term expenditure allocations to spending agencies within which these priorities should be addressed[9]. The 2012-2015 BDD, for example, sets out medium-term investment priorities in broad terms and indicates the major projects that will be implemented in line with these priorities[10]. It can thus be said that there are some explicit criteria for project selection in place, but these are of a general nature and not as specific as those given in Box 7. It is therefore not always easy to determine the basis on which some projects are given preference for budget funding over others.

26. **None of the projects in the sample surveyed had suffered from shortage of funding during implementation, although some of them did not extend over more than one budget year.**

[7] See Decree of the Minister of Finance on Approval of the Program Budgeting Methodology, 11th July 2011
[8] The equivalent of a medium-term expenditure framework.
[9] It is notable that PI-12, multi-year perspective in fiscal planning, expenditure policy and budgeting, was scored 'B+' in the recent PEFA self-assessment for Georgia.
[10] See Section 5, 'Improved Infrastructure', of the 2012-2015 BDD for example.

Discussions with the Ministry of Finance indicate that completion of ongoing projects is given priority in budget allocations and none of the spending ministries interviewed raised this as a problem.

27. **There are no restrictions on budgetary entities entering into multi-year contracts in Georgia.** As in most countries, multi-year budgetary appropriations are not made, but resources are consistently allocated in annual budgets to honour existing contractual commitments.

28. **The BDD provides an appropriate framework for integrating the planning of capital and recurrent expenditures:** because it has a four year perspective (budget year +3 outer years), the forward recurrent expenditure implications of newly created capital assets can be adequately planned. Supporting this, the relevant dimension of PI-12,' Linkages between investment budgets and forward expenditure estimates', was given a score of 'B' in the recently completed PEFA self-assessment. The assessment of this dimension concluded that: 'The majority of investments derive from the sector strategies, and recurrent cost implications are included in budget estimates.' Although it was a very small sample, there was no evidence from the survey of any projects suffering from poor planning of expenditures for operations and maintenance once operational.

E. Efficient Processes for Project Implementation

i.) Management Arrangements for Project Implementation

Rationale

Effective management arrangements are necessary to make sure that capital investment projects are delivered on time, to budget and to specification once the funding decision has been made through the budget process.

Good guidance on implementing projects is important. This can either be issued centrally or by individual spending agencies. Some of the required information could be available elsewhere, in procurement or accounting legislation and regulations for example, but in the better PIM systems those are brought together in one place as a reference document that is continually updated. Ideally, basic guidance should cover:

- *The roles of project managers and supervisors*
- *Delegations of authority*
- *Overview of government procurement policies and practices*
- *Financial management and reporting requirements*
- *Monitoring of implementation progress*
- *Project revisions*
- *Arrangements for project completion and post-completion reporting*

Projects need to have comprehensive implementation plans and a clear allocation of responsibility for delivering on them. Plans should incorporate a timeline, critical path (for major projects) and key milestones, procurement plans and an expenditure cash flow forecast. Systems need to be in place to monitor and manage total project costs, not just annual allocations and individual contracts, and there should be a formal project completion process, including verification that specifications and standards have been met.

29. **For some of the projects surveyed, respondents pointed to the internal guidelines of the organisation, while others referred to the relevant laws and regulations covering different aspects of project implementation.** For projects benefiting from international funding, there is usually a project implementation manual agreed between the beneficiary and the donor. It is clear that, at least as far as nationally funded projects are concerned, guidance is patchy and *ad hoc*. No support is given from central agencies in designing project implementation arrangements.

30. **Respondents for all of the surveyed projects indicated that implementation plans had been prepared, although it was not possible to verify the comprehensiveness of these plans.** Usually heads of department are responsible for managing project implementation, rather than a designated appointee or team with project management skills. An overly hierarchical management structure is one of the weaknesses of the Georgian public administration. The resulting unwillingness to delegate responsibilities for project management may sometimes be an impediment to efficient implementation, since it is not necessarily the case that senior managers will have the specific skills or the time required for managing the implementation of a major capital project. Claims by senior managers that capacities are too weak to delegate can then become self-fulfilling, if responsibilities are retained and project management skills never developed or exercised.

31. **There is no specific system for managing the total costs of multi-year projects, but the finance departments of spending agencies monitor costs closely using the government's Treasury Information System (TIS).** Contracts are downloaded into the TIS from procurement contracts that have been entered into the Unified Electronic System of Public Procurement, so that there is an automatic sharing of information between procurement and financial management systems. The recent PEFA self-assessment indicates that commitment controls are strong in Georgia (a score of

‘A’ against this dimension), however, the basis for the assessment is control of expenditure against annual budget appropriations: this does not necessarily mean that the same degree of control is exercised over the life-time of a multi-year project. It is also not clear how systems cope with managing the total cost of a complex, multi-contract, multi-year project. All the same, the very real threat of legal action for wasting public money acts as a strong incentive for responsible managers to monitor costs closely and keep within any contracted amounts. As indicated below, project completion reporting has a strong focus on cost control and exposing any overspending.

32. **The Municipal Development Fund, now a dedicated project implementation agency largely for donor-financed projects, has more systematic procedures for tracking total project costs against the originally approved budget and uses its systems for cost control purposes.**

33. **There are procedures in place for formal project completion and subsequent handover to the operating entity.** Specific reports must be completed (Forms #2 and #3) verifying that projects have been completed to specification and comparing the final costs with the originally contracted amounts. Independent verification is required and the National Forensics Bureau is often used for this purpose, although this is not an obligation (other service providers may be used). Handover to the operating entity is also formally documented.

F. Predictability in the Availability of Funds for Commitment of Expenditures

Rationale

Efficient project implementation requires that the funds approved in the budget be made available in-year to the responsible budget entity in a predictable and timely fashion. An unpredictable flow of funds makes it difficult to enter into and honour commitments. Slowing down implementation puts back the time when the benefits of the project start flowing. Severe cash shortages leading to a stop-go implementation can increase total project costs because of remobilisation charges. If there is a need to make changes to approved budgets, this needs to be done in a transparent way so as to assist implementation planning and adjustment.

34. **Quarterly appropriations are prepared by the MOF following approval of the annual budget.** Budget entities are authorised to enter into commitments within these allocations. The e-treasury system has automated contract registration, commitments, payment authorisation requests and authorisation of payments. Budget entities receive reliable real-time information through the system.

35. **The Treasury Department forecasts and monitors cash flows in line with the cash planning procedures introduced in 2005 and updated in 2010.** Financial plans for budget disbursements are prepared monthly, based on quarterly budget appropriations as well as cash inflow forecasts.

36. **According to the Treasury Department, no cash shortages have been experience in the last 6-7 years and no project has been stalled because cash availability did not meet the budget appropriation.** Unreliability of in-year cash flows was not reported as a problem for any of the projects in the sample. It has been the case that budget appropriations have been adjusted in-year (either within virement limits or the through relatively infrequent supplementary budgets), but this is a budgeting issue (under the Budget Department) not a cash management issue.

37. **According to the Budget Code, any changes to the appropriations approved through the annual State Budget Law can only be made with the approval of Parliament.** Budget supplements are generally prepared and voted two or three times during the fiscal year. In the period covered by the PEFA assessment, adjustments were generally made to take account of higher than forecast revenues; however, above-expectation revenues were not enjoyed in 2013.

G. **Value for Money in Procurement**

> **Rationale**
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> *A sound public procurement system is vital for public investment management because capital projects are generally implemented on behalf of government by private contractors. A good procurement system needs a well-defined legal framework that embodies transparency and competition as the means to obtain fair and reasonable prices and overall value for money. A good procurement system also requires the submission and resolution of complaints in a fair, open, independent and timely manner. Public dissemination of information on procurement processes and outcomes is an important element of transparency.*

38. **As established in the 2012 PEFA assessment, the Public Procurement Law[11] and the supporting regulatory framework establish a system that meets all six of the criteria for the dimension of PI-19 covering transparency, comprehensiveness and competition.** Notably, the user manual for the Unified Electronic System of Public Procurement introduced in 2012 is publicly available. Open competitive procurement using electronic tendering is the default method. Other methods are available and their use and justification is explained in the law.

39. **Remarkable progress has been made in setting up an e-procurement system that has a high degree of transparency and an emphasis on using open competitive bidding.** The main system was introduced in 2010, but it has been refined over time, with a focus on increasing transparency. The CSPA continues to work on refinements, including internal analytical checks to identify risky tenders and detect signs of possible malpractice by bidders, bid rigging and collusive behaviour for example. As reported in the PEFA assessment, bidding opportunities, contract awards and data on resolution of complaints are available to anyone who accesses the procurement website. Procurement plans are only available to registered users, but since registration is free, this documentation can be easily obtained.

40. **While it is true that the primary factor in deciding on winning bids is price, qualitative factors may also be taken into account provided they can be captured in simple pass/fail criteria**. All possibilities for the exercise of judgement in evaluating bids are excluded from the procurement process at the moment. This has been done deliberately to make the system consistent with the current governance characteristics of Georgia and it is certainly evident that opportunities for corruption and/or collusion have been drastically reduced by the new system.

41. **Based on publicly available procurement statistics for 2011, the PEFA assessment reports that 66% of procurements were carried out competitively through the e-procurement system.** Simplified procurement methods - direct contracting/single source – were used for 34% of procurements. A small proportion of simplified procurements were case of emergency (3%) or below the monetary threshold of GEL 5,000 (3%), which is anyway not very relevant for public investment. In 2011, around two thirds of procurement using simplified methods was based on a government or presidential decree. The PEFA assessment points out that simplified methods have been used in full compliance with the law and with the appropriate justification; on the other hand, a recent report by Transparency International[12] based on 2012 figures, suggests that legal loopholes and opaque procedures allow too high a proportion of procurement to bypass competitive processes. The report points to exemptions in the law on state procurement that have allowed certain state-owned entities (Georgian Railways for example), the Government’s and President’s Reserve Funds and the Ministry of Defence to sign contracts without using the electronic procurement system. According to the annual report of the CSPA[13], the proportion of contracts awarded through e-tenders had fallen to 55% in 2012, while the proportion using non-competitive, simplified procedures had increased to 45% (compared to 34% in 2012). This growth in the use of simplified procedures was largely explained by

[11] as amended in 2009
[12] http://transparency.ge/en/node/3117
[13] http://procurement.gov.ge/files/_data/eng/about_agency/cspa_report_2012_eng.pdf

an increase of GEL 200 million in the value of exemptions granted by the Government and President. Unfortunately, the use of simplified procedures has applied disproportionately to public investment projects. All the same, it should be noted that all the projects in the sample surveyed for this PIM assessment were procured through open competitive bidding using the e-procurement system.

42. **The e-procurement system has been designed to allow the use of a two-stage procurement process -** evaluation of bidders on the basis of quality as the first stage and then ranking of those that score sufficiently highly on quality according to price - however, this capability is not used. Presently, after a 'Dutch auction', bids are ranked according to price and then assessed to make sure that they pass all the pass/fail criteria. The winning bid is the lowest price meeting the specified criteria.

43. **One area of concern is the technical quality of consultancy services for preparation of studies for projects.** Some stakeholders have suggested that a focus on price as a unique evaluation criterion is to the detriment of quality and that serious players are not participating in the market. This may be true, but while the findings of feasibility studies continue to carry little weight in the decision-making process there will also be little pressure from the demand side to improve quality by rejecting weak studies and driving out poor performers. Another related issue is that there is also little experience within government of realistic costs for good quality consultancy work, so that low quality, low price bids can set precedents which are difficult to escape - for fear of accusations of wasting public money - when officials are making cost estimates[14].

44. **Procurement complaints are made simply and at no charge through the unified electronic system to an appropriately constituted Disputes Resolution Board (DRB).** Board members come from the state and civil society and have no involvement in the procurement process. In 2011, the DRB dealt with 67 complaints, of which 34 decisions favoured the complainant and 27 were against, while 6 cases were rejected. Very few cases go to court, the next level of complaint. Disputes are settled in a timely fashion - within 10 days - in line with the rules. All complaints and outcomes are made public. Any registered user of the e-procurement system can also freeze a tender if they consider it suspect.

45. **The biggest problem now besetting the procurement system is lack of suitably qualified procurement professionals, both in the public sector and the private sector.** This is compounded by the absence of mandatory standards for project documentation, e.g., standards for the level of detail required for the project design upon which bids are based. The quality of the technical specifications for tenders is not strong enough and the quality of documents submitted by bidders can also be weak. Beginning with new premises, the CSPA is expanding its capability to deliver training to help build procurement capacities in the public sector.

[14] The estimate of the cost of services (or works) plays a central part in the procurement system, being a ceiling above which bidders are not able to quote prices.

H. Effectiveness of Internal Controls and Internal Audit of Capital Project Expenditure

Rationale

Sound internal financial control - relevant, comprehensive, cost-effective, widely understood and complied with, and circumvented only in emergencies - is essential to efficient project implementation. Management also needs to be kept informed on a regular basis about the effectiveness of internal control systems, through a modern internal audit function.

46. **According to the recent PEFA assessment, internal control rules and procedures appear relevant, comprehensive and cost effective.** Controls limiting commitments to the approved budget allocation were introduced in 2005 and have been further strengthened subsequently. Expenditures, including those of the LEPLs, are processed through the Treasury Information System (TIS) and paid from the Treasury Single Account on the basis of a properly approved request that conforms to established rules. Commitments are only registered in the TIS if there are sufficient uncommitted resources. Contracts are downloaded to the TIS from the electronic procurement system. Projects falling outside of the scope of public procurement are entered directly, provided that their exemption is confirmed by the Treasury Service. Discussions with the Treasury Department confirmed that the effectiveness of the commitment system applies equally to recurrent and capital expenditure.

47. **The PEFA assessment finds that compliance with the rules - which apply to all payments implemented by budgetary means - is very high and any misuse of simplified and emergency procedure is very low.** The Treasury Department has confirmed that there is good discipline in complying with the rules for processing and recording transactions in relation to capital projects. Contracts must be registered within 10 days of signature and the associated payment schedule is recorded in the system. Liability for a payment can only be incurred on the basis of an agreement that has been properly registered in the treasury system. Without this, a budgetary organisation cannot be liable for payment.

48. **Georgia now has a solid legal basis for internal audit consistent with EU practice[15].** The PEFA assessment reports that 29 internal audit units have been established in 12 ministries out of 16[16], accounting for 54% of total State Budget expenditures. The assessment also quotes a 2012 EU assessment that confirms that Georgia's legal framework and the generally applicable internal audit methodology, standards and code of ethics are aligned with international standards[17].

49. **The professional capacities of the internal audit units still need substantial strengthening.** Lack of suitably trained and qualified internal auditors is an important constraint as is the problem of attracting qualified internal auditors to the public sector and then retaining them, because of poor remuneration compared to the private sector. The Central Harmonisation Unit (CHU) currently situated in the Internal Audit Department of the MOF is charged with training auditors and building a professional cadre of internal auditors. A high turnover of staff in target ministries handicaps the unit's training initiatives though, with trained internal auditors often leaving for better pay and conditions in the private sector. Discussions with the Internal Audit Department of the MOF confirmed these weaknesses.

50. **The continued association – both in terms of attitudes and in terms of organisational arrangement in some institutions - of internal audit with inspection functions is not helpful in developing a modern internal audit function[18].** The development of the 'financial management and

[15] The policy regime for internal audit was established in 2009. There followed a law in in internal audit and inspection in 2010. This was subsequently revised to bring it in line with international standards, in particular EU standards as embodied in the concept of public internal financial control (PIFC).
[16] The public order and security ministries are not yet covered.
[17] 'Guidelines for internal control standards for the public sector' issued by the International Organisation of Supreme Audit Institutions (INTOSAI) and standards and guidance of the Institute of Internal Auditors.
[18] Internal audit units were created out of the old Inspectorate General and many inspectors retrained as auditors. This partly explains the association made between inspection and internal audit.

control' (FMC) concept[19] also lags a long way behind the development of the internal audit function. This dilutes the usefulness of internal audit and limits its potential to add value. With support from SIGMA, steps are being taken to develop FMC, but this initiative is still at an early stage. The CHU is leading the initiative to harmonise FMC and is responsible for raising awareness, developing methodologies and guidelines, and training. So far, the connection between FMC – a performance management system – and recently introduced performance-based budgeting[20] does not seem to have been made: program budgeting, within which capital investment budgeting should be situated, seems to be regarded as a budget classification issue rather than as part of a broader performance management system.

51. **All the projects sampled for this assessment had been audited by the relevant internal audit unit, but the focus of these audits has generally been on compliance and financial regularity rather than systems, as is the case with most internal audit across central government.** The law now allows for performance audit, systems-based audit and IT audit. So far, two pilot systems audits have been performed. The intention is to pilot performance audits[21]. These are likely to be performance audits of projects, rather than budget programs.

52. The 2012 EU assessment quoted in the PEFA assessment found that management responses to internal audit findings appeared to be prompt, but that there was a shortage of hard data to make an objective assessment. In line with the Audit Manual, internal audit units are now supposed to monitor and follow up on previous audit findings and recommendations. According to the Internal Audit Department of the Ministry of Finance, the responsiveness of managers to internal audits has been gradually improving, assisted by the increasing concreteness of the recommendations.

[19] An accountability system whereby managers set their objectives, identify risks, establish control mechanisms and a reporting framework, and then assess and evaluate performance. In a well-developed system, internal audit then verifies the soundness of the internal control mechanism.

[20] The 2009 Budget Code required program budgeting to be introduced across central government for the 2012 budget year.

[21] Establishment of FMC and piloting performance audits in at least two ministries are contained within the draft policy matrix under discussion with the EU as part of its support to strengthening PFM.

I. Flexibility to Make Project Adjustments

Rationale

Because projects generally take an extended time to implement, there need to be effective procedures in place for reporting and monitoring progress, as well as for adjusting projects in the face of changing conditions. An objective, external view of project progress is also required.

Appropriate arrangements for regular and routine (i.e. not ad hoc) reporting on the implementation of projects are required: information needs to flow within the implementing entity; from implementing entities to responsible spending ministries; and from ministries to central agencies, with the level of detail declining up the hierarchy. Risks to future progress as well as achieved progress should be identified.

Adjustment to projects also needs to be managed in a disciplined way. Departures from plans, in terms of costs, deliverables and timetable, need to be recognised and explained, and appropriate solutions then proposed. The relevant central agencies need to monitor adjustments and be ready to challenge implementing agencies and propose alternative solutions.

For the largest projects, it is useful to have a mechanism for triggering a review of the rationale and continued justification for a project, when costs or benefits change significantly for example.

53. **All projects in the survey indicated that regular and timely reporting was taking place within the implementing agency and to the responsible main budget holder.** The reports tend to focus on financial issues and non-financial issues tend to be dealt with in a more ad hoc fashion by senior managers when crises arise.

54. **There is no reporting to central agencies and no current desire on the part of the Ministry of Finance to have any significant involvement in monitoring projects, even major ones.** While it makes sense for the Ministry of Finance not to seek to micro-manage the capital investment program – this is best left to the responsible ministries - there is a case for it having a high level overview and maintaining a closer watch on the progress and problems of projects of national significance.

55. **The Budget Code sets relatively generous limits on virements allowing substantial in-year adjustment to projects without recourse to Parliament.** Virements require Ministry of Finance authorisation, but generally this is only a formality and, in practice, is rarely withheld provided some sort of justification, however limited, is given. This gives ministries significant scope for shifting resources between projects according to in-year progress. The facility with which virements can be made could have the effect of removing some of the incentive for good budget planning, but there is no direct evidence of this. From the sample of projects surveyed, adjustments were generally due to relatively minor unforeseen circumstances, unmapped underground services for example, which could be handled through variation orders to contracts. There are strong incentives – fear of prosecution for wasting public monies for example - to bring projects in within budgets.

56. **There are no formal systems in place for fundamental reviews of major, nationally-funded projects that are, for whatever reason, off-track.** Such procedures usually form part of donor systems, so apply to the large part of the project portfolio that is externally financed; however, the current assessment is focused on national systems.

J. Provision for Sustainable Operation of New Facilities

> **Rationale**
>
> *The ultimate purpose of capital investment is to deliver new or better public services or sustain the delivery of existing ones. So as well as focusing on project management – whether projects are being delivered on time and to budget – a broader emphasis includes assessing the extent to which newly created assets are delivering the expected public services in the right quantity and at the right quality. This indicator therefore tries to capture the degree to which the PIM system verifies adequate facility operation.*
>
> *A good system requires a formal handover of assets to those with management responsibility for operating and managing them, together with a systemised process for registering new assets in appropriately informative asset registers, which are kept up-to-date. The latter is also particularly important for Georgia from a broader PFM perspective because the country has adopted GFS 2001. Verification that facilities are fit for the purpose intended, have not required significant adaptation or are not experiencing dramatic under-utilisation - is also an important element of ensuring facilities are operating as planned. Adequate provision of financial resources for operations and maintenance is also vital for sustainable service delivery from a new facility.*

57. **All projects in the sample were reported as being entered into comprehensive asset registers on completion.** This seems to be standard practice and relates to the shift to GFS 2001 which requires government to be able value its non-financial assets for its balance sheet. There is no systematic process by which information is collected on the use of facilities once in operation.

58. **There is a formal handover process by which assets are verified as being in conformity with the design specification and certified for use.** In many cases, verification is done by the National Forensics Bureau on a fee-for-service basis.

59. **It is known that in certain sectors maintenance of existing and new capital assets is not optimal.** The 2012 PPER, for example, identifies suboptimal maintenance of the road network, particularly the secondary and local networks, as a problem and recommended raising levels of spending on routine and periodic maintenance to economically efficient levels, as determined by the optimisation module of HDM 4. Funding of operations and maintenance expenditure was not highlighted as a problem for any of the projects surveyed.

K. **Basic Completion Review and Ex Post Evaluation**

Rationale

In a properly functioning PIM system, there should be a systematic review of projects once completed, principally as a basis for lesson learning both at the level of projects and at the strategic level. In its simplest form, this would be a project completion report that verifies whether a project has been completed on time, to budget and to specification. To be useful though, this needs to be more than a certification process: as well as identifying departures from plan, a project completion report should analyse the reasons for these departures and suggest corrective action applicable to future projects. The completion report would also include the results of and analysis of service delivery surveys mentioned as a dimension of the previous indicator. In its more advanced form, systematic review extends to an evaluation of whether a project has delivered the forecast social benefits and whether value for money has been achieved. For a sample of projects, this might involve re-running any cost-benefit analysis on the basis of achieved costs and benefits rather than forecasts. Evaluation would normally be conducted some years after completion so as to allow sufficient time for impacts to be assessed and attributed to a project. To ensure objectivity impact evaluation is best performed by independent evaluators.

60. **At present, there is no national policy or supporting guidance on reviews to be carried out on completion of projects.** Consistent with the absence of national policy and guidance, the survey revealed that none of the fully nationally funded projects had been subject to a basic review of success upon completion. The certification/handover process mentioned in relation to the previous indicator does not fall into the category of a post-project review because there is no analytical component allowing lessons to be learned and acted upon.

61. **No systematic evaluations of the impacts of projects are carried out in the Georgian system.** This is, however, common practice for donor-funded projects.

III. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

62. The heat chart shown as Figure 1 gives a striking image of the strengths and weaknesses of the components of the PIM system in Georgia, at least as far as these apply to nationally funded projects[22]. The heat chart reflects the scores derived from the application of the indicator framework described in Annex 1 but is entirely consistent with the findings of the preceding qualitative assessment. Upstream processes prior to selection of capital investment projects for State Budget funding are to be extremely weak[23]. This weakness stands out as areas of red. On the other hand, budgeting, implementation processes and operations have been found to be very much stronger, reflecting both the success of wider PFM reforms, in procurement and financial control for example, as well as PIM-specific features, like project handover. These stand out as areas of light green[24] and dark green[25]. Only effectiveness of internal controls and internal audit is noticeably poorer among indicators capturing project implementation. This shows up as an area of amber[26]. In contrast to relatively solid performance in the implementation stages, the post-completion review stage in the PIM system is extremely weak, like the preparatory stages.

63. It should be remembered that this analysis has been based on a small sample of projects, supplemented by discussions with ministries and information gained during PPER 1. The recent PEFA Self-Assessment also provided important insights into project implementation. All the same, the findings are considered to be reliable and applicable more generally to the wider system.

64. The weaknesses highlighted in the assessment relate to the policy, planning and decision-making functions and can be seen as a symptom of broader problems in the Georgian public administration, where decision-making is extremely hierarchical, often ad hoc and not evidence-based, and usually not subject to a formal record. The introduction of more systematic processes in such a context will face significant resistance to change.

[22] As indicated earlier, the assessment has been of national systems, not the donor systems applied to a significant proportion of public investment in Georgia.
[23] 'D' scores for all three indicators PIM-11 to PIM-13
[24] A score of 'B'
[25] A score of 'A'
[26] PIM 20 is scored 'C' because of weaknesses in one dimension, the coverage and quality of internal audit, which is emphasised by the application of the scoring method M1 for this indicator.

Table 2: Heat Chart of the Georgian PIM System

Investment guidance, project development and preliminary screening	
Formal project appraisal	
Independent review of appraisal	
Project selection and budgeting	
Project implementation	
Predictability in availability of funds for commitment of expenditures	
Value for money in procurement	
Effectiveness of internal controls and internal audit of capital expenditures	
Project adjustment	
Facility operation	
Basic completion review and evaluation	

Recommendations from the PIM Assessment

66. **The systematic assessment of the Georgian PIM system has yielded a number of important recommendations to be implemented over the short and long term.** Evidently in view of the preceding discussion, the focus of these recommendations is on the upstream PIM processes, but there are also recommendations in relation to elements of implementation and in relation to initiating some form of post-completion review. The recommendations are supported by examples from international experience (in boxes). These examples are for the sake of illustration only and are not intended to be adopted without properly accounting for the institutional and political context in Georgia.

Recommendation 1: Improve the forward-looking, strategic guidance for public investment.

67. **Georgia should consider developing an over-arching, long-term national infrastructure strategy or plan.** An example, Denmark's 10 year strategy, 'Investing in Denmark's Future', is presented in Box 1. Another example is Ireland's 'Infrastructure Investment Priorities 2010-2016: A Financial Framework', which was prepared in the wake of the financial crisis, sets out an affordable medium-term investment plan in the light of the reduced possibilities faced by that country.

Box 1: Investing in Denmark's Future

In 2001, Denmark published 'Investing in Denmark's Future' outlining the country's strategic ambitions for public investment in the following 10 years.

The strategy begins by outlining the Government's priorities for public investment:

1. Public investment must help secure the future framework of Denmark's welfare state.
2. Denmark must make strategic investments that help secure the basis for national prosperity
3. Everything that is built must be properly maintained

The strategy then establishes the main policy-based criteria for prioritising new investment proposals, with emphasis directed towards investment projects that:

- Place Denmark at the forefront of IT development and the knowledge-based society
- Ensure a more efficient public sector
- Create a better infrastructure in the form of public facilities, buildings and roads
- Enhance the quality of public services
- Strengthen the maintenance of existing facilities, buildings and roads

For each of these priority areas, the strategy identifies concrete investment examples. Thus for investment in better infrastructure, investment would be directed at:

- Solving road network and railway capacity problems.
- A fixed link across the Femer Belt - linking Denmark and Germany by means of a 17.6km long immersed tunnel for combined rail and road traffic
- Neighbourhood improvement in socially deprived urban areas
- Dwellings for students in cities housing major educational establishments.

In 2013 Denmark was preparing a new national infrastructure strategy looking beyond 2020.

Other countries too have developed long term national infrastructure plans or strategies. Examples are:

- Canada's 'New Building Canada Plan' (2014-2024)
- Australia's National Infrastructure Plan 2013 (looking up to 50 years ahead)
- UK's National Infrastructure Plan 2013-2020 (and beyond)

68. **Any infrastructure strategy should be developed, as much as possible, in a consensual way, drawing in different political actors and stakeholders**. This will ensure that it has a life that extends beyond the electoral cycle and allows continuity in addressing the nations long-term public capital investment needs. Even without a higher-level strategy or plan, individual sector investment strategies should be developed for the major infrastructure sectors. These would probably also be needed to underpin any framing strategy, depending on the level of detail.

69. **Strategic planning needs to be supported by a good information base.** To this end, the development of dynamic asset management systems will be important in identifying rehabilitation and replacement requirements. These will take time to develop across the whole of government and the PPER 1 proposal to put in place a road asset management system (RAMS) would be a good starting point.

Recommendation 2: Institute formal preliminary screening for project concepts on the basis of a completed project profile.

70. **Georgia needs to institute a formal process by which new project concepts, whether to be nationally or internationally funded, are outlined according to a consistent format**. On this basis a decision should be made to proceed to preparation and appraisal. This decision should rest primarily on the strength of the intervention logic and on the policy relevance of the project. Other factors might also be taken into account but, whatever the case may be, the minutes of the decision meeting, including the reasons for deciding to proceed, must be formally recorded and become part of the project 'file'. This process should have legal backing through a government decision or similar instrument making it impossible to circumvent.

Box 2: Some Examples of Formats for Project Profiles

Although the detail varies between countries, information requirements for project profiles are generally similar, covering the nature of the problem to be addressed, the beneficiaries, possible alternatives and the links with national and sector strategies. Sometimes, rough cost estimates and indicators of value for money may be required. South Africa, Colombia and Moldova offer some typical examples of formats for project profiles:

South Africa:

- The problem that has given rise to the need for the project
- The statistical data, baseline information and service-delivery indicators pointing to the current need
- The extent and urgency of the need
- The consequences if the need is not met
- The proportion of the need a given request is intended to meet
- How the project fits into the ministry's long-term strategic delivery plan

Colombia:

- Identification of the current situation and the expected future situation
- Diagnosis of the problem or need to be addressed, including identification of target population and their social and economic characteristics
- Rationale for the project solution and its objectives
- Identification of alternative solutions

Moldova:

- Project objective and place in the national or sectoral strategy
- Issues the project will address and analysis of possible alternative ways of addressing these issues
- Expected benefits and outcomes of project implementation and services the project will provide
- Activities to be carried out for the project implementation
- Project duration and implementation capacity
- Estimated project implementation costs, including subsequent operational and maintenance costs
- Basic value-for-money ratio analysis (capital cost per user, for example)
- Project funding sources.

71. **Numerous international good practice examples support the introduction of a preliminary screening process.** In the UK, projects are examined for economy, efficiency and effectiveness through the development of a series of three 'business cases'. The first, the Strategic Outline Case, is equivalent to a preliminary project assessment, when the strategic rationale for the project is tested. Ireland's guidelines for the appraisal and management of capital expenditure proposals include a preliminary assessment stage on the basis of which the sponsoring agency decides whether it is worthwhile to move forward to preparation and appraisal. Albania introduced a simplified preliminary project assessment and formal decision as a first step in its public investment

management system, while Colombia has also introduced a formal identification step. Box 2 offers some examples of project profiles as applied in some middle income countries, including Colombia.

Recommendation 3: Regulated requirements for project preparation and appraisal should be introduced in Georgia so that there is a rigorous national procedure with a clear allocation of roles and responsibilities that applies to all public capital investment projects.

72. **Procedures for preparing and appraising projects need to be carefully set down**. The documentary requirements should be standardised and formal decisions on the feasibility of projects taken and recorded. Procedures also need to contain an explicit exposition of roles and responsibilities, defining clearly who does what and when. A strong demarcation between project sponsors and decision-makers needs to be delineated to foster objectivity in decision-making, especially for major projects. In formally centrally planned countries, a government decision is generally required to give sufficient legal weight to establishing rigorous public investment procedures. Tbilisi City has recently been working on formal procedures for capital investment planning[27] and these give a good indication of the direction that should be followed at the national level, even though the specific procedural arrangements will be different from those being considered by the capital city.

Box 3: Possible Project Appraisal Criteria

- The project logic is convincing and the strategic ‘fit’, meaning its consistency with the Government’s medium to long term strategic objectives, is reconfirmed.
- The engineering/technical feasibility of the project has been validated and realistic cost estimates prepared.
- Realistic estimates of the demand for the public services delivered by the project have been prepared.
- The economic viability of the project has been confirmed with reasonable certainty, meaning that the net benefits are expected to be positive, there are no better ways of achieving the project purpose and the public financial resources employed in the project are unlikely to be employed better elsewhere.
- The project has been shown to be affordable, meaning that all funding sources are assured, and it will be financially and fiscally sustainable once operating.
- Environmental and social impacts are acceptable or, where negative impacts are foreseen, adequate mitigation measures are proposed.
- Satisfactory project management arrangements will be put in place for delivering the project to specification, on time and to budget.
- Organizational arrangements for operation of the project will adequate for the sustainable delivery of the proposed services.
- Implementation and operational risks have been assessed and necessary mitigation measures foreseen for the most significant risks.
- The proposed approach to procurement has been designed to secure best value for public money and the key contractual issues have been clearly identified.
- Appropriate indicators of project progress and performance have been defined and suitable monitoring and evaluation arrangements designed.

[27] See ‘Development of CIP Methodology and Procedural Guidelines for Tbilisi City Hall’, Anna Drozdowska, December 2012, prepare through the World Bank supported Capital Investment Planning project.

73. **Procedures should establish the requirements for feasibility studies and, where appropriate, for pre-feasibility studies.** The scope and content of feasibility studies and pre-feasibility studies should also be defined. The criteria to be used in determining if a project is feasible need to be specified. Box 3 gives some basic criteria that ought to be considered when deciding on the viability of a project and whether to seek funding for detailed design and implementation.

74. **The informality of decision-making is a severe impediment to transparency and accountability in public investment management in Georgia.** The priority should therefore be to introduce more formality into the process, including recording of decisions, the basis upon which they have been made and the participants. Ideally, this improvement could be introduced even before specific procedures for project preparation and appraisal are defined and adopted, since they represent the fundamental elements of a sound public administration.

Recommendation 4: Develop and disseminate formalised technical guidance on methodologies for assessing projects tailoring it to the nature and scale of the project proposals.

75. **Technical guidance is required on analytical methods so that similar projects are analysed consistently using the same approach.** The aim should be to introduce a general methodology first and then to develop sector or sub-sector specific methodologies as required, starting with the most important infrastructure sectors first.

Box 4: Contents of UK's 'Green Book' on Appraisal and Evaluation

When considering the design of technical guidance it is instructive to examine the contents of the UK's 'Green Book', which is considered to be one of the better examples from international experience:

1. Introduction and background
2. Overview of appraisal and [ex post] evaluation
3. Justifying action [including reasons for government intervention]
4. Setting Objectives: objectives, outcomes, outputs and targets
5. Appraising the options
    a. Creating options
    b. Valuing the costs and benefits of options
    c. Adjustment to values of costs and benefits
    d. Discounting
    e. Adjusting for differences in tax between options
    f. Risk and uncertainty: assessment, prevention and mitigation
    g. Considering unvalued costs and benefits
6. Developing and implementing the solution
    a. Selecting the best option
    b. Developing the solution
    c. Implementation arrangements
7. [*Ex post*] Evaluation

Annex 1: [Rationale for] Government intervention
Annex 2: Valuing non-market impacts
Annex 3: Land and buildings
Annex 4: Risk and uncertainty
Annex 5: Distributional impacts
Annex 6: Discount rate

76. **Although there is some variation among countries, it is usual practice for general guidance on analytical methods to be supplemented by guidelines on sector-specific**

methodologies[28]. The UK finance ministry, for instance, has produced technical guidance for the whole of central government - 'The Green Book - Appraisal and Evaluation in Central Government'. The main spending ministries have then supplemented this guidance with their own sector-specific methodological guidelines, which are consistent with the general guidance, the transport ministry's COBA methodology for economic analysis of major road projects being one example. In Chile by contrast, the planning ministry produces both the general and the specific guidance, the latter covering 32 different types of project. Box 4 presents the summarised contents of the UK's Green Book as an example of what general methodological guidelines might be expected to cover. Box 5 lists the specific guidelines made available in Chile. These guidelines distinguish clearly between projects where cost-benefit analysis is expected to be used and those where cost-effectiveness analysis is expected to be used because benefits are difficult to monetise.

[28] France is something of an exception: there is no general guidance produced by a central agency and individual spending ministries prepare specific guidance for their own sectors.

Box 5: Chile's Guidelines on Analytical Methods

Chile's general methodology for the presentation and appraisal of projects is supported by 32 sub-sector specific guidelines. As indicated in the table below, 18 of these guidelines concern the application of cost-benefit analysis (CBA) to projects in the sub-sector, 12 concern the application of cost-effectiveness analysis (CEA) and 2 offer the option of CBA or CEA.

Prescribed Methodological Approach	**Type of Project Covered by Guideline**
Cost-benefit analysis	1. Airports 2. Fishing ports 3. Low standard roads 4. Bicycle paths 5. Fluvial defences 6. Public buildings 7. Rural electrification 8. Multipurpose dams 9. Traffic management 10. Ancillary investments related to roads 11. Small airfields 12. Equipment replacement 13. Burying electric cables 14. National network of community telecenters 15. Rural telephony 16. Interurban transport 17. Intermediate roads 18. Urban roads
Cost-effectiveness analysis	1. Drinking water 2. Replacement street lighting 3. Primary healthcare 4. Sports facilities 5. Educational projects 6. Juvenile housing and detention centers 7. Police infrastructure and equipment 8. Regional development master plans 9. Jails 10. Sustainable reconstruction plans 11. Information technology 12. Police surveillance
CBA or CEA	1. Rainwater drainage 2. Residential waste management

Source: 'Institutional Safeguards for Cost-Benefit Analysis: Lessons from the Chilean National Investment System', Andres Gomez-Lobo, Journal of Benefit-Cost Analysis, Volume 3, Issue 1, 2012

77. **As illustrated in the Chilean example (Box 5), methods need to be adapted to the nature of the project,** so that cost-benefit analysis is not required where benefits are not amenable to valuation. The sophistication of methods should also be tailored to the scale and complexity of the proposed investment project.

78. **Many countries set thresholds for the application of more sophisticated analytical methods.** Above those thresholds full feasibility studies involving socio-economic cost benefit analysis are a mandatory requirement and above which simpler methods, including qualitative benefit assessment and multi-criteria analysis, are applied. The value thresholds vary between country depending on national preferences, capacities in project analysis and the distribution of projects by value. Ireland, for example, requires feasibility studies involving economic cost-benefit analysis to be completed for investment projects with a total cost in excess of euro 20 million. Slovenia, on the other

hand, requires a feasibility study and full economic cost-benefit analysis for projects costing in excess of euro 5 million. In terms of international experience, Ireland is at the upper end of the scale and Slovenia closer to the median.

Recommendation 5: Consider the options for institutional arrangements for independently reviewing project feasibility studies and appraisal decisions and take a decision on the most appropriate.

79. **Independent review is critical to a minimally functional public investment system and yet it is not immediately evident how this function might be established in Georgia.** The Ministry of Finance remains reluctant to take the lead role in reviewing and challenging project proposals from spending ministries at the feasibility stage. On the other hand, there are no other central agencies with an evident fit for this role and no obvious non-governmental candidates to take it on, an independent think-tank for example. This points to the need to establish a new agency, perhaps subordinated to the Ministry of Finance, to perform impartial appraisals. This might have the advantage of allowing more attractive remuneration packages to attract suitably qualified staff. Such an arrangement would mirror South Korea's system (see Box 6). An alternative might be for the Ministry of Finance to contract out reviews of the most significant projects to appropriately qualified private sector consultants, including international consultants, as Norway does (see Box 6). This might seem like a potentially costly option, but the value of an independent opinion from an appropriately incentivised agent, i.e., with nothing to gain or lose from the final decision, will probably outweigh the cost for the most significant projects.

Box 6: The Problem of Optimism Bias in Projects

Optimism bias is the systematic tendency for project costs to be under-estimated and for project benefits to be over-estimated. A research group on large infrastructure at Aalborg University (Denmark) tried to quantify the extent of the problem and offer explanations, working from a large sample of major transport projects. This research (summarized in Flyvbjerg, 2005) finds that significant cost over-runs were seen across a sample of 258 major transportation projects, irrespective of country, continent or transport mode, and with no tendency to diminish. Nine out of 10 projects had a cost over-run, and the average (real) cost over-run was 45 percent for rail, 34 percent for bridges and tunnels and 20 percent for roads. From a sample of 208 rail and road projects, nine out of 10 rail projects had overestimated traffic, with actual passenger traffic 51 percent lower on average than forecast.

Because errors are systematically biased in one direction, poor techniques cannot explain the bias. The plausible explanation is that project promoters and planners systematically make projects look better than they are to obtain funding approval.

In South Korea, the approach to dealing with this problem is for an independent institution under the finance ministry (the Public and Private Infrastructure Investment Management Centre) to carry out preliminary feasibility studies of major (>USD 50 million) investments proposed by ministries as a prior step to allowing them to proceed with full feasibility studies. Norway's finance ministry contracts consultancy firms to perform independent reviews of very large project proposals (>USD 120 million) on its behalf.

Source: 'Policy and Planning for Large Infrastructure Projects: Problems, Causes and Cures', Bent Flyvbjerg, World Bank Policy Research Working Paper, no. 3781, 2005.

Recommendation 6: Consider introducing more specific criteria for selection of projects for budget funding, including a stringent criterion regarding adequate preparation and a positive appraisal decision.

80. **As indicated above, the current criteria for project prioritisation and selection are very general and do not allow for fine distinctions to be made between competing projects.** A more specific set of criteria would allow a more careful screening of projects and would make the prioritisation process more transparent. At present, because the criteria are general, the basis for decisions is not apparent. Some ideas for project selection criteria have also been given in Box 7.

Box 7: Example of Prioritisation Criteria for Project Selection

- Alignment of the project with Government's expressed national spending priorities and with sector investment plans.
- Priority Government attaches to improving services to the target beneficiaries of the project.
- Consistency of the proposed spending with the balance of spending between different sub-sectors within its sector.
- Indications that the project will deliver better value for public money than competing and comparable projects as indicated by feasibility studies.
- Readiness for implementation, including land acquisition and completeness of detailed designs, implementation plan, bid documents and procurement plan.
- Assuredness of any co-funding for projects funded from multiple financing sources.
- Managerial capacities of the implementing agency to deliver the project according to plan.
- Fiscal space for project implementation over the medium term, i.e., consistency of the proposed implementation timetable with commitments for on-going projects and the sector/organisation capital expenditure limits.
- Adequacy and reliability of provision for operating and maintenance expenditures upon completion of the project.

81. **Tbilisi City has been elaborating a new approach to capital investment planning and budgeting[29], which includes the prioritisation criteria presented in Box 8.** While national criteria might be different from those for the capital city, these give some idea of what more specific criteria might look like.

[29] Through the World Bank funded Capital Investment Planning Project.

Box 8: Proposed Prioritisation Criteria for Capital Investment by Tbilisi City

Prioritisation Criterion	Basis for Assessment
Main Criteria	
1. Compliance with the City Development Strategy	Main assumption is to put on the top of hierarchical list projects which are strongly related to the strategy.
2. Compliance with the City Hall's priorities for the coming budget year and medium term	Main assumption is to put on the top of hierarchical list projects which are especially related to the medium term priorities.
3. Social benefits	Main assumption is to put on the top of hierarchical list projects which can contribute to benefits for the most of the society.
4. Economic benefits	Main assumption is to put on the top of hierarchical list projects which can contribute to better economic development of the City or increase the number of beneficiaries.
Additional Criteria (for projects prioritised according to main criteria	
1. Availability of external financing	Main assumption is to put on the top of hierarchical list projects which can be co-financed from external sources next to own sources of the budget.
2. Credibility of financing	Main assumption is to strengthen the evaluation of external sources of co-financing projects.

Source: 'Development of CIP Methodology and Procedural Guidelines for Tbilisi City Hall', Anna Drozdowska, December 2012

Recommendation 7: Consider what further steps can be taken towards implementing fully the recommendations contained in PPER 1 for improving the information content of the capital budget annex. These were:

- Improve the financial information in the capital budget annex by:
    - Ensuring comprehensive coverage for all capital investment projects funded through the budget, even if they do not add to central government's balance sheet, for example on-lending and capital transfers.
    - Classify capital investment projects by organisation, function and program.
    - Demonstrate the consistency between the capital budget, the main budget, the program budget and the BDD.
    - Ensure the application of definitions consistent with GFS 2001[30].
- Improve the non-financial information in the capital budget annex by:
    - Elaborating on the strategic fit, value for money and sustainability of major projects in an extended project summary form.
    - Introduce performance indicators that are defined in accordance with a more carefully defined hierarchy of performance terminology for projects, i.e., differentiating clearly between project inputs, activities, outputs, outcome and impacts.

[30] Whereas the capital budget instructions have been consistent with GFS 2001, their application has not; some non-routine maintenance continues to be classified as capital expenditure.

Recommendation 8: Introduce some simple project implementation guidelines for operational staff.

82. **The Ministry of Regional Development and Infrastructure may be best placed to develop some basic guidelines on project implementation.** These would establish standardised organisational arrangements and promote the appointment of dedicated project managers within implementing organisations. As well as providing guidance on new areas relating to efficient implementation, the guidelines should bring together in one place and in a simplified format the requirements already set out in separate existing regulations, such as provisions for procurement and project completion.

Recommendation 9: Introduce stricter limitations on the use of non-competitive procedures, by addressing some of the legal loopholes and applying more restraint in the use of executive decrees.

83. **Although perfectly legal, the use of non-competitive procedures appears high and has shown signs of increasing.** The authorities should begin by carefully reviewing past uses of simplified procurement and deciding whether competitive procurement might have been an option. They should then consider how to adjust the legislation to make the conditions for using non-competitive methods more stringent according to the findings of this review. Ideally, the use of government or presidential decisions to bypass procurement systems ought to be seen as the exception, rather than a commonly used approach and greater restraint should be considered.

Recommendation 10: Explore ways of paying more attention to ensuring quality in procurement while not jeopardising the very significant progress that has been made in cleaning up procurement processes using the price-based e-procurement system.

84. **This issue deserves to be taken seriously by the authorities, particularly in relation to procuring quality consultancy services for future, rigorous project preparation.** At the same time, systems need to be in place to limit the opportunity for the exercise of subjective judgement in evaluating bids. The previously mentioned report by Transparency International adds weight to this recommendation:

'…the procurement system should better reflect the quality of a product or the expertise and experience of a supplier, to ensure that tax-payer money is spent to maximize the value for the public.'

Recommendation 11: Begin to develop the capabilities of internal audit units in major investing ministries to undertake performance audits of capital investment projects[31].

85. **A focus on the efficiency and effectiveness of individual projects and on the performance of internal public investment systems could provide an impetus for improvements and bring a pay-off in terms of demonstrating the usefulness of this function to the ministry leadership.** Internal audit is still developing in Georgia and faces many constraints and competing priorities. Implementing this recommendation would require development of the necessary capabilities, which would need the support of the Internal Audit Department of the Ministry of Finance.

Recommendation 12: In the longer term, consider instigating a system for undertaking fundamental reviews of major projects with problems, including externally financed projects.

86. **In the longer term, an automatic review of projects with excessive cost overruns or revisions to expected benefit streams could be an important part of a sound public investment**

[31] More generally, internal audit can be strengthened by developing and delivering appropriate training, introducing requirements for continual professional development of auditors, elaboration of quality assurance mechanisms and establishment of qualification requirements. However, these are broader recommendations for PFM as a whole and not specific to PIM.

management system for the country. At this stage though, it should not be seen as the first priority when project preparation and appraisal systems for nationally funded projects are in a poor state of development and project implementation systems, are by comparison, reasonably strong. A fundamental review needs sound feasibility analysis against which to gauge the impacts of new conditions: this does not at present exist for national capital investment projects. As an example of what might be possible in the longer term, Box 9 summarises South Korea's system for re-assessing projects which is triggered by major departures on both the cost and demand side.

Box 9: Project Monitoring, Re-assessment and Adjustment in South Korea

South Korea has developed three useful instruments for identifying and reacting to changes in project conditions that risk undermining the forecast economic returns from the investment:

- Total Project Cost Management System (TPCM): The TPCM is used to monitor closely the total cost of major multi-year projects and to prevent significant cost escalation. The system is based on strict principles limiting the justifications for cost increases and the authority to agree to such increases.
- Re-assessment of Demand Forecast (RDF): Demand forecasts for major projects are re-examined when there are important changes in the project environment that could affect the continued adequacy of the forecasts. The RDF can be carried out during any phase of the project cycle from planning to construction.
- Re-assessment Study of Feasibility (RSF): A RSF is performed for projects in the TPCM if:
    - The total cost for a project increases by more than 20 percent in real terms (excluding land acquisition) compared to the previously approved cost.
    - When the demand forecast for a project falls by 30 percent or more (on the basis of the RDF).
    - On the basis of the results of the new RFS, a decision is taken on whether to continue or stop the project. Ways of reducing the size and cost of the project are also examined to achieve continued viability and avoid cancellation.

Sources: Presentation by Korean Development Institute to International Conference on Public Investment Management in Hanoi, 2010; 'Public Investment Management Functionality', presentation given in Mongolia by James Brumby, World Bank, 2010; and Guidelines for Total Project Cost Management, Ministry of Strategy and Finance, 2009.

Recommendation 13: At least for major projects, institute a systematic survey of usage on opening.

87. Greater attention to service delivery once completed facilities start functioning would provide information for subsequent evaluation (see next section) and could potentially guide the design of future projects in the same area. Compared to improving the upstream PIM processes this is probably a lower priority though.

Recommendation 14: Make an analytical project completion report a requirement of the PIM system.

88. This requirement could be introduced as a matter of urgency since it entails the application of basic analytical skills for which significant capability development should not be necessary. The results from basic project completion reports could then be immediately useful in an improved project preparation process.

Recommendation 15: In the longer term, introduce systematic evaluation of the impacts of completed projects.

89. This is a longer term priority because it will require significant capacity building in performance evaluation and also because evaluation relies on solid project planning, including the identification of monitoring and evaluation indicators against which performance can be judged. Few countries carry out evaluations of all projects, but usually a sample is taken. This is the recommended approach for Georgia, probably beginning with the largest or most problematic projects.

90. **The preceding recommendations are summarised in Table 1 in introductory section together with an indication of their priority/phasing.**

91. **Recommendations in relation to strengthening preliminary project screening and project appraisal are considered to be high priorities requiring urgent attention if the quality of public investment in Georgia is to be improved.** The pay-off from introducing the proposed improvements, in terms of the improved efficiency and effectiveness of public investment expenditure, is difficult to gauge precisely, but the rejection rate in countries that have significantly improved their systems gives some idea. For example in Chile, a country with a strong system of appraisal, between 54% and 67% of projects (69-77% by value) have been assessed as being feasible - 'socially recommended' - depending on the year. In South Korea, between 1999 and 2009, only 58.6% of major projects assessed through the country's rigorous preliminary assessment process were found to be economically and socially feasible. The high rejection rate in both Chile and South Korea indicates opportunities for significant welfare gains in countries with weak systems from stopping poor projects from proceeding. Some attempts to put a figure on the scale of the potential savings have been made. A recent report by McKinsey consultants estimated the potential cost savings from eliminating wasteful projects through employing better project selection and optimising project portfolios as being in the region of 15-20%[32]. In a more theoretical exercise, Little and Mirrlees, pioneers of cost-benefit analysis, estimated the expected value of improved project appraisal to be in the region of at least 10% of capital costs[33]. So, by upgrading its systems, Georgia can expect to make significant gains.

92. **To a large extent, the recommendations concerning the pre-implementation stages of the PIM system are very similar to, or the same as, those put forward in PPER 1 (see 'Introduction' above).** Notwithstanding the fact that the Georgian authorities have had other priorities in the broader PFM arena, including the introduction of program budgeting, the lack of headway in strengthening PIM systems since PPER 1 is of considerable concern. This leads into the question of whether the demand-side drivers for reform of the PIM system need to be stimulated to make progress and, if so, what approaches might be pursued.

[32] 'Infrastructure Productivity: How to Save $1 Trillion a Year' McKinsey Global Institute, McKinsey Global Practice, January 2013. Estimate made on the basis of a review of academic literature and by talking to experts.

[33] 1994 article quoted in 'Evaluating Major Infrastructure Projects: How Robust Are Our Processes' a report by Henry Ergas and Alex Robson to Australia's Productivity Commission.

IV. PROMOTING AN ENVIRONMENT FOR CHANGE IN PIM SYSTEMS

Demand-Side Drivers

93. In many respects, it is not hard to see why demand for a more robust PIM system has not been strong in Georgia: some of the more likely drivers of change, such as external audit, parliamentarians and civil society have been relatively weak or inactive when it comes to pursuing issues related to the quality of public expenditure in general and of public capital investment in particular. There is some reason for guarded optimism about the future path of change though, as there are signs of stronger roles for these key institutions in the public space.

94. Whatever the case concerning external pressures for change, the Ministry of Finance will nevertheless have to be one of the prime movers when it comes to initiating and owning the reform. Outside demand for reform looks like being essential in the absence of an internal dynamic, but the Ministry of Finance will eventually have to take the lead and adopt the reforms as its own for them to be successful.

External Audit

95. **The State Audit Office of Georgia is a relatively new institution that has, in recent years, made commendable progress in developing its capabilities.** The recent PEFA self-assessment gives some measure of this, the scoring of PI-26 – 'Scope, nature and follow-up of external audit' - having risen from D+ in 2008 to B+ in 2012. The most impressive improvement has been in the dimension covering the scope and nature of audit, where the score rose from D to B, by increasing audit coverage and adopting auditing standards and methodologies that are close to international practices[34]. All the same, the SAOG has not yet developed the full range of capabilities of a modern external audit body: the focus of its work is mainly on compliance and financial audits and performance audit has, so far, only been developed to a modest extent.

96. **There is no auditing of the efficiency and effectiveness of individual projects from which broader conclusions about the overall quality of public investment management systems might be drawn.** This means that even if issues relating to capital investment projects will be picked up in the standard audits of budgetary institutions – as has been the case with the new parliament building at Kutaisi for example[35] - efficiency and effectiveness will not be assessed. So, the SAOG is not in a position to form an independent and holistic opinion on the quality of Georgia's PIM system as a whole and, in particular, to confirm the systemic weaknesses in planning and decision-making that have been identified in the PIM assessment carried out for PER. The SAOG is, therefore, not yet ready to provide the impetus for change that is badly needed in Georgia. However, the SAOG is continuing to develop its capabilities and to expand the scope of its auditing. In 2011, the SAOG developed and approved a Performance Audit Manual, based on international standards, and performance audits are being carried out, if on a limited scale.

97. **PIM is an area of interest for the organisation however, the priority until now has been to put in place the basic functions of an external audit body, before moving into more sophisticated auditing.** It is recognised within the organisation that Georgia needs more systematic procedures for screening, planning and appraising capital investment projects and that too much reliance is currently placed on informal and undocumented decisions, but it has as yet is no firm evidence base upon which to launch recommendations in this direction. In this respect, the possibility of the SAOG undertaking its own assessment of PIM systems was discussed during the PER, but this would have to be considered against other competing priorities in the development of the annual audit plan.

[34] International Standards of Supreme Audit Institutions issued by INTOSAI.
[35] The audit picked many examples of regulatory non-compliance, including planning irregularities and informal, undocumented decision making.

Parliamentary Budget Committee

98. **In Georgia, parliamentary oversight through the Parliamentary Budget Committee (PBC) has weakened in recent years and the level of cooperation between the SAOG and the PBC has been disappointing.** This deterioration is reflected in PEFA indicator PI-28 which fell from a score of C+ in 2008 to D+ in 2012. The weaknesses came from an unsystematic approach to holding hearings on audit findings[36] and the absence of recommendations from Parliament in relation to the audit reports[37]. If continued, this evidently does not represent an environment in which demand for improved PIM systems is likely to arise from the legislative branch of government. Fortunately, since the change of government following the 2012 elections, efforts are being made to redress the situation. During 2013, the PBC started to work more closely with the SAOG and to hold formal hearings on its reports[38], although these were limited to two hearings. The aim is to further improve in 2014[39]. The Parliamentary Budget Office (PBO) is also being strengthened to provide independent technical support to parliamentarians and the PBC[40]. The PBO is being restructured[41], the staff will be increased to 17, and proper job descriptions will be issued.

99. **The conditions therefore appear to be improving for a more active PBC backed up by an appropriate level of technical support.** However, while promising, these developments are still in their early stages and there is no indication yet that the PBC will prioritise PIM reform over other PFM issues.

Civil Society in Georgia

100. **Unfortunately, there are doubts about the sustainability and representativeness of the NGO sector in Georgia.** There are few indications that the quality of public expenditure in general and public capital investment in particular is seen as a priority issue. The voice of civil society can through well organised, representative and trusted NGOs be a powerful driver for improving the efficiency and effectiveness of public expenditure.

101. **Georgian NGOs tend to be disproportionately funded by external donor organisations and generally disconnected from wider society.** While there are many registered NGOs, very few citizens participate actively[42], volunteer their time or make donations. Local NGOs are also not generally trusted by citizens[43]. Overall, the long-run sustainability of Georgian NGOs is questionable[44]. USAID reports that the sector's image '…remains politically polarised with some groups being seen as pro-government and others pro-opposition'[45]. As a result, following the Rose Revolution the NGO sector lost a lot of capacity as many NGO staff moved into government positions and the same has occurred after the 2012 elections.

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[36] This dimension was scored C in 2012 compared to A in 2008: 'The Parliament conducted occasional hearings of audit findings, though no minutes documenting the scope and participants of the hearings are available.'

[37] This dimension was sored D in 2012 compared to C in 2008: '…No recommendations were issued by the Parliament on the latest audit report.'

[38] Compared to 2012 when only one report from the SAOG was formally submitted to Parliament by the executive, in 2013 all reports were submitted.

[39] Formal hearings on reports from the SAOG is a trigger for the current EU budget support operation.

[40] A fully functioning PBO by end-2015 is a trigger for the current EU budget support operation.

[41] Three units will be created: macroeconomic research and analysis; budgeting execution reporting and analysis; and fiscal impact assessment for new legislation.

[42] Only 4.8% of Georgians are actively engaged in NGOs. Figure quoted in' How to Finish a Revolution: Civil Society and Democracy in Georgia, Moldova and Ukraine', Orysia Lutsevych, Chatham House Briefing Paper, January 2013.

[43] In a survey, only 18% of Georgians said that they trusted local NGOs, far lower than the level of trust in other public institutions like the army, the police and local government. Figure quoted in 'How to Finish a Revolution: Civil Society and Democracy in Georgia, Moldova and Ukraine', Orysia Lutsevych, Chatham House Briefing Paper, January 2013.

[44] USAID's NGO Sustainability Index shows Georgian NGOs as in the 'sustainability evolving' category, having hardly improved their capacities over the last ten years.

[45] 'CSO Sustainability Index: Georgia 2012' USAID, 2013

102. **Overall then, the NGO sector is not yet well positioned to be a forceful driver for change in PIM. There are, however, a few encouraging signs of greater involvement in wider public spending and taxation issues.** The National Democratic Institute, with UNDP support, has sought to raise awareness of the budget and promote greater citizen involvement. Stakeholder meetings were held in six cities during preparation of the 2013 budget and were attended by the Chairman of the PBC and Deputy Minister of Finance. In another development, the 'Price of the State' Project implemented by the Economic Policy Research Centre with USAID funding is attempting to raise overall awareness of public finance issues including the cost of public service provision and the trade-offs involved in making budgetary decisions. These two initiatives show that gradually Georgian civil society may be becoming more engaged in the issue of the quality of public expenditure.

Some International Experience of PIM Reforms

103. **It is legitimate to ask about the catalyst for change in other countries, particularly those with PIM systems that are generally regarded as good performers.** The examples of South Korea, Norway and the United Kingdom illustrate that the stimulus for reform can come from different directions, but to be successful reforms need to be led from the centre of government once the need is confirmed.

South Korea

104. South Korea's reforms were a response to the Asian Financial Crisis in 1997, which hit the country very hard. Tax revenues did not keep up with rapidly increasing public spending - largely as a result of increased welfare payments - resulting in recourse to deficit financing and increasing indebtedness. The public's trust in the government plummeted, and a strong demand for administrative reform could no longer be ignored by politicians and bureaucrats. The opportunity was therefore present for adopting aggressive PFM reforms. At the same time, there was evidence that the quality of infrastructure spending had been declining as the country's infrastructure gap closed after a period of heavy investment, and that public investment was becoming a significant cause of waste. The spiralling costs and unrealised benefits of many projects meant that, *ex post*, many project could not be shown to be economically viable, although over-optimistic *ex ante* feasibility studies had demonstrated the contrary.

105. The finance ministry led the reform first by organising a review process to expose the failures of the existing system and to gain public support for the reforms. The review, carried out in 1999, took four months and provided critical evidence of bad performance through cost and time overruns in major projects, as well as identifying several white elephant projects. The outcome was recognition of the need for a more objective process for determining the economic feasibility of major public investment projects and for a system to monitor and control the total cost of projects.

Norway

106. Norway's problems were very different from those encountered by South Korea, arising out of the resource boom from oil and gas exploitation, and the poor incentives for cost control that resulted. The country began reforming its public investment management system in 2000 following public and political concern about unrealistic budget estimates and huge cost overruns for public sector projects, e.g., Oslo opera house and offshore oil and gas development projects[46]. Another motivation was the drawback of a largely bottom-up decision-making process that constrained the scope of the central political authorities to prioritise and select from among project alternatives, often presenting them with a *fait accompli* (see Box 10 for the example of Oslo opera house and strategic

[46] At the time Statoil was a state-owned enterprise. In 2001, it became a public limited company with majority state share ownership.

decision making)[47]. There was a desire, therefore, to institute more 'top-down' control from the centre of government[48].

Box 10: Oslo Opera House – an Example of 'Strategic Budgeting'

"The Oslo opera also illustrates a commonly used technique in major public projects, termed 'strategic budgeting', i.e., to initiate the project using a low budget to 'get the ball rolling' before the project concept is settled, including the project's objectives and strategy. In this case this was one by commissions at an early stage a competition for the design of the opera building. Once the planning had gained momentum, the possibilities for reversing or terminating the project were limited."

Source: 'Ensuring Quality-at-Entry: Challenges in Front-end Management of Projects', N. Olsson, K. Austeng, K. Samset & O. Laedre, Concept Research Programme

107. The focus of attention in the reforms has been on the 'front-end' processes of the project cycle. The decision to focus on this phase stemmed from experience that poor planning and decision-making were leading to cost overruns and other problems, supported by evidence to the same effect from the rest of the world.

108. Aiming to ensure quality and consistency of analysis and decisions, the new quality assurance system, known as the 'Quality at Entry Regime', began with a single quality assurance step and decision point, but was subsequently expanded in 2005 to include an earlier step which focuses more closely on the policy relevance of projects.

United Kingdom

109. Recent reforms in the United Kingdom have been driven by investigations by the supreme audit institution, the National Audit Office (NAO), into the poor performance of a number of major infrastructure and IT projects. The track record of government was widely regarded as poor, with projects frequently being delivered late and over-budget or failing to deliver intended benefits. The NAO highlighted the need for greater central oversight of high risk projects and called for a central, mandatory system of project assurance[49] to be established for government. The report also highlighted the shortage of project management skills and identified the need for a central role in ensuring that critical projects have access to the right expertise.

110. As a result of the NAO report and following hearings of the parliamentary Public Accounts Committee, the Major Projects Authority was created within the Cabinet Office, with a mandate to, amongst other things, develop the government major projects portfolio, with regular reporting to ministers, and to require integrated assurance and approval plans for each major project.

Improving the Transparency and Public Awareness

111. **Improving transparency by raising public awareness of public infrastructure projects can be a powerful way of motivating performance improvements and sustaining a results oriented focus.** Some examples of successful websites from OECD countries that fulfil this aim are:

- Website of France's Ministry of Environment, Sustainable Development, Transport and Housing providing information on major projects:

  http://www.developpement-durable.gouv.fr/-Grands-projets,1857-.html

[47] See 'The Norwegian Front-End Governance Regime of Major Public Projects - a Theoretically Based Analysis' T. Christensen, Concept rapport No. 23, Concept Research Programme, 2009

[48] The need for reform was resisted by major spending ministries, but promoted by the finance ministry. In the end, the reform impetus came from the highest levels of Government.

[49] Project assurance is about providing and independent view of how a project is progressing. It involves checking that the project remains viable in terms of costs and benefits (business assurance), checking that the users' requirements are being met (user assurance), and that the project is delivering a suitable solution (technical assurance). PRINCE2 the UK government's project management standard.

- The website for Ireland's national transport infrastructure plan 2005-120, Transport 21 (no longer current as a new plan is under preparation).

  http://www.transport21.ie/

- The UK Highway Agency's road project search tool:

  http://www.highways.gov.uk/roads/29639.aspx

- Infrastructure Canada's tool for identifying projects in regions

  http://www.infrastructure.gc.ca/regions/regions-eng.html

- The UK Major Project Authority's Annual Report on the Government's portfolio of major projects:

  https://engage.cabinetoffice.gov.uk/major-projects-authority/

112. **Appropriate governance arrangements need to be in place to ensure reasonable editorial independence if a website to fulfil its purpose of instilling greater public confidence in the efficiency and effectiveness of the investment program.** Without these a website risks becoming a political tool, more likely to be used to announce project start-ups than projects completed on time and to budget. Adequate resourcing also needs to be in place to keep the information current and accurate, and the ministry needs to be sure that it can generate from its own monitoring systems the kind of data that will keep the site interesting. The possible advantages of this recommendation will need to be carefully balanced against the costs and the competing priorities. For it to work effectively, prior investment in upgrading monitoring systems will probably be required so that they can report on completion of milestones for major projects. The introduction of project completion reports, as previously recommended, could also be a useful source.

ANNEX 1: AN APPLICATION OF THE PROPOSED PIM INDICATOR FRAMEWORK TO GEORGIA

Overview of PIM Indicator Framework

7. **Like the PEFA[50] assessment tool, the Bank's new PIM drill-down tool consists of a series of indicators that are scored according to predetermined criteria.** It is not intended to measure systems against best international practice but to gauge the extent to which the system achieves commonly accepted good practice standards.[51] As such, it seems appropriate to the Georgian context. Some of the indicators are taken directly from PEFA - but focused on capital expenditure – and capture dimensions of the broader PFM system that are critical for PIM. The rest of the indicators are PIM-specific.

8. **The PER team focused on a subset of the PIM benchmark indicators, which captures the "must-have" features of a functioning PIM system while.** The full indicator set consists of 28 indicators with a total of 95 dimensions. The subset used in assessing the Georgian system consists of 11 indicators as highlighted in Table A.1.

Table A.1: **PIM Indicator Set and Relation to Minimum Elements of PIM Diagnostic Framework**

	Area/Indicator	Relation to PEFA	Relation to minimum elements from World Bank's diagnostic framework
A. PFM OUT-TURNS: Credibility of the Budget			
PIM -1	Aggregate capital expenditure out-turn compared to original budget	PEFA PI-1 indicator adapted to capital spending	
PIM -2	Composition of capital expenditure out-turn compared to original budget	PEFA PI-2 indicator adapted to capital spending	
PIM -3	Aggregate revenue out-turn compared to original budget	PEFA PI-3 indicator adapted to include donor budget support	
PIM -4	Stock and monitoring of capital expenditure payment arrears	PEFA PI-4 indicator adapted to capital spending	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PIM -5	Classification of the budget	PEFA PI-5 adapted by addition of project classification	
PIM -6	Comprehensiveness of information included in budget documentation	PEFA PI-6 changed to focus on capital spending	
PIM -7	Extent of unreported capital spending	PEFA PI-7 adapted to focus on capital spending	
PIM -8	PIM-related inter-governmental fiscal relations	PEFA PI-8 adapted to focus on capital spending	
PIM -9	Management of fiscal risks from	Adaptation of PEFA PI-9	

[50] The latest Public Expenditure and Financial Accountability (PEFA) assessment report for Georgia was produced in early 2013.
[51] See ' Strengthening Public Investment Management: Indicator Framework', Preliminary Revised Draft, World Bank, 2011

	capital spending outside central government		
PIM -10	Public access to key information on capital spending	PEFA PI-10 adapted to focus on capital spending	
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PIM -11	Investment guidance, project development, and preliminary screening	Not in PEFA	**I. Investment Guidance, Project Development & Preliminary Screening**
PIM -12	Formal project appraisal	Not in PEFA	**II. Project Appraisal**
PIM -13	Independent review of appraisal	Not in PEFA	**III. Independent Review of Appraisal**
PIM -14	Orderliness and participation in the annual budget process	Same as PEFA PI-11	
PIM -15	Multi-year perspective	Adapted from PEFA PI-12	
PIM -16	Project selection and budgeting	Not in PEFA	**IV. Project Selection and Budgeting**
C(ii) Predictability and Control in Budget Execution			
PIM -17	Project implementation	Not in PEFA	**V. Project Implementation**
PIM -18	Predictability in the availability of funds	Same as PEFA PI-16	**V. Project Implementation**
PIM -19	Procurement	Same as PEFA PI-19	**V. . Project Implementation**
PIM -20	Effectiveness of internal controls and audit for capital spending	PEFA PI-20 focused on capital spending	**V. . Project Implementation**
PIM -21	Project adjustment	Not in PEFA	**VI. Project Adjustment**
PIM -22	Facility operation	Not in PEFA	**VI. Facility Operation**
C(iii) Accounting, Recording, and Reporting			
PIM -23	Basic completion review and evaluation	Not in PEFA	**(8) Basic Completion Review and Evaluation**
PIM -24	Quality and timeliness of in-year budget reports	PEFA 24 focused on capital spending	
PIM -25	Quality and timeliness of annual financial statements	PEFA 25 focused on capital spending	
	C(iv) External scrutiny and audit		
PIM -26	Scope, nature and follow-up of external audit	PEFA 26 focused on capital spending	

PIM -27	Legislative scrutiny of capital spending in the annual budget	PEFA 27 focused on capital spending	
PIM—28	Legislative scrutiny of external audit reports	PEFA 28 focused on capital spending	
D. DONOR PRACTICES			
PIM D-1	Financial information provided by donors	Same as PEFA D-2, for capital spending	
PIM D-1	Proportion of aid that is managed by use of national procedures	PEFA D-3 focused on capital spending	

Scoring of Georgia PIM system

Table A.2: Georgia: Summary of Scores of Selected Indicators

Indicator	Description	Score	Scoring Method
PIM-11	Investment guidance, project development and preliminary screening	D+	M2
PIM-12	Formal project appraisal	D	M2
PIM-13	Independent review of appraisal	D	n/a
PIM-16	Project selection and budgeting	B+	M2
PIM-17	Project implementation	B	M2
PIM-18	Predictability in the availability of funds for commitment of expenditures	A	M1
PIM-19	Value for money in procurement	A	M2
PIM-20	Effectiveness of internal controls and internal audit of capital expenditures	C+	M1
PIM-21	Project adjustment	B	M2
PIM-22	Facility operation	B	M2
PIM-23	Basic completion review and evaluation	D	M2

Table A.3. Georgia: Deatils of Scores for Selected Indicator/ Dimensions

PIM-11 Investment Guidance, Project Development and Preliminary Screening		
Indicator & Dimensions	**Basis for Assessment**	**Score**
PIM-11 Investment Guidance, Project Development and	**Scoring method M2**[52]	**D+**

[52] Scoring method M2 is based on averaging the scores for individual dimensions of an indicator. It is prescribed for multi-dimensional indicators where a low score on one dimension does not necessarily undermine the impact of a high score on other dimensions of the same indicator. There is a look-up table for determining the overall score from the scores for individual dimensions.

Preliminary Screening		
i) Strategic guidance	A national development strategy, or a statement of national policy priorities, is in place that provides only a general basis for capital expenditure prioritisation or is somewhat dated, and there are no or inadequate sector strategies.	C
ii) Project profile	Ministries and other agencies often fail to submit project profiles, and when they do they contain little of the necessary information.	D
iii) Preliminary screening	There is no process for preliminary screening of projects for strategic alignment.	D
PIM-12 Formal Project Appraisal		
Indicator & Dimensions	**Basis for Assessment**	**Score**
PIM-11 Formal Project Appraisal	**Scoring method M2**	D
i) Definition of steps in project development	There is little or no definition of the steps in project preparation.	D
ii) Technical guidance	There is little or no written technical guidance available to MDAs in preparing and appraising projects, and little or no technical assistance from central agency staff.	D
iii) Quality of project appraisal	Very few if any large or mega projects are subject to in-depth appraisal and projects are essentially treated the same irrespective of size.	D
PIM-13 Independent Review of Appraisal		
Indicator & Dimensions	**Assessment**	**Score**
Independent review of appraisal	There is minimal or no independent review of appraisal.	D
PIM-16 Project Selection and Budgeting		
Indicator & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M2	**B+**
i) Transparent criteria for project selection	Criteria are in place that provide some guidance for project prioritisation, but there are many instances where the criteria used for project selection are not clear, and this is not limited to politically sponsored projects.	B

ii)	Ongoing projects receive sufficient funding	In the last three years, ongoing projects have always had first call on available budget authority to ensure efficient physical progress.	A
iii)	Multi-year budget authority	The financial management framework provides for multi-year commitment of spending for capital projects, and there are no hindrances in practice to multi-year contracting.	A
iv)	Capital and current spending are fully integrated	For most projects, the recurrent cost implications of capital spending are fully incorporated in budgets.	B
PIM-17 Project Implementation			
Indicator and Dimensions		**Basis for Assessment**	**Score**
		Scoring method M2	**B**
i)	Guidelines in project implementation	Guidelines are limited in scope and not supported by advice from central agencies.	C
ii)	Clear accountability and implementation plans	Management accountability is reasonably clear and implementation plans contain the main elements.	B
iii)	Total project cost management system	There is capacity to track total project costs over time against the total approved budget, but in practice this is not always used to control spending.	B
iv)	Formal project completion and handover	There is always a formal project completion report, with sign-offs that the project has been completed according to specifications and relevant standards, and always formal handover of responsibility for the ongoing operation and maintenance of the assets.	A
PIM-18 Predictability in the Availability of Funds for Commitment of Expenditures			
Indicator & Dimensions		**Basis for Assessment**	**Score**
		Scoring method M1[53]	**A**
i)	Cash flow forecasting and monitoring	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.	A
ii)	In-year information on ceilings for expenditure	Budget entities are able to plan and commit expenditures for at least 6 months in advance	A

[53] Scoring method M1 is used for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator. The overall score is determined by the lowest score given for any dimension. If any other dimension has a higher score, a '+' is added to the lowest score.

commitments	in accordance with the budgeted appropriations.	
iii) In-year adjustments to budget allocations	If significant in-year adjustments to budget allocations take place due to cash shortages, they occur only once or twice a year and are done in a transparent and predictable way.	A
PIM-19 Value for Money in Procurement		
Indicator & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M2	**A**
i) Transparency, comprehensiveness, and competition in the legal and regulatory framework	The legal framework meets all 6 of the key requirements.	A
ii) Use of competitive procurement methods	All awards, based on non-competitive procurement methods are justified according to the legal requirements.	A
iii) Public access to complete, reliable and timely procurement information	All key procurement information is made publicly available.	A
iv) Existence of an independent administrative procurement complaints mechanism	The procurement complaints system meets all 7 of the defined requirements.	A
PIM-20 Effectiveness of Internal Controls and Internal Audit of Capital Expenditure		
Indicators & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M1	**C+**
i) Effectiveness of expenditure commitment controls	Comprehensive expenditure commitment controls are in place and effectively limit project commitments to actual cash availability and approved budget allocations (as revised).	A
ii) Degree of compliance with rules for processing and recording transactions	Compliance with rules is very high and any misuse of simplified or emergency procedures is insignificant.	A
iii) Coverage and quality of the internal audit function	The function is operational for at least the most important central government entities and undertakes some systems review, but may not	C

	meet recognised professional standards.	
iv) Extent of management response to internal audit findings	Prompt and comprehensive action is taken by many (but not all) managers.	B
PIM-21 Project Adjustment		
Indicator & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M2	**B**
i) Project progress reports and monitoring	Reasonably comprehensive, regular and timely in-year reports are submitted n key elements of progress, with some reporting of physical progress. There is some explanation of variances and some evidence of management response.	B
ii) Virement between projects	There is active monitoring of spending and transfer of budget authority between projects during the budget year as necessary to facilitate high rates of budget execution.	A
iii) Nature of project adjustments	In general, projects have been subject to only small adjustments during implementation, except for instances where circumstances have changed unforeseeably	A
iv) Triggers for fundamental reviews	There is little or no review of the continued justification for any projects during project implementation.	D
PIM-22 Facility Operation		
Indicator & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M2	**B**
i) Asset registers	All newly completed capital assets are added to an asset registry and comprehensive details are recorded and maintained over time.	A
ii) Assets fit for purpose	Assets are fit for purpose when handed over for service delivery, with only minor post-completion adaptations or ancillary investment required in a few cases.	A
iii) Sufficient funding for operations and maintenance	There is generally sufficient funding in budgets to operate and maintain newly completed assets, but performance is weaker in some sectors.	B
iv) Monitoring of service	There is little effort to capture administrative data on service delivery or to track utilisation	D

delivery	of newly completed assets.	
PIM-23 Basic Completion Review and Evaluation		
Indicator & Dimensions	**Basis for Assessment**	**Score**
	Scoring method M2	**D**
i) Policy and guidance on post-project review	There is no policy or guidance on post-project reviews.	D
ii) Basic post-project reviews	Few or no project are subject to post-project review	D
iii) Project impact evaluations	There is little or no impact evaluation.	D

Notes on Assessment

PIM-11 Investment Guidance, Project Development and Preliminary Screening

9. Donor-funded projects are excluded from the dimension scores relating to PIM-11. The evidence collected indicates that projects funded by donors conform to a well specified project cycle, including a proper identification and concept approval process. Counting them in would thus raise the scores considerably as donor-funded projects make up a significant share of Georgia's total public capital investment; however, the motivation behind the diagnostic analysis is to look at national systems and not donor systems. What the analysis of donor-funded projects does show though is that Georgian agencies are capable of implementing better processes, provided they are required to do so and there is adequate support for capacity development. This is amply illustrated by the two projects within the sample that were managed by the Municipal Development Fund.

PIM-12 Formal Project Appraisal

10. Donor-funded projects are excluded from the scores relating to PIM-12. The evidence collected indicates that well designed feasibility studies are consistently performed for donor-funded projects and used as part of a systematic appraisal process leading to a decision to proceed (or not). Counting these projects in would thus raise the scores for the dimensions of PIM-12 considerably; however, as already indicated, the motivation behind the diagnostic analysis is to look at national systems and not donor systems. This again illustrates the need for introducing the same demanding requirements for nationally funded projects as for internationally funded projects (see recommendations below). The capabilities for applying a rigorous process already exist in Georgia and can be ramped up through capacity development, but the main constraint at present is the absence of an appropriate regulatory framework.

PIM-18 Predictability in the Availability of Funds for Commitment of Expenditures

11. This indicator is the same as the PEFA indicator PI-16, predictability in the availability of funds for commitment of expenditure. The indicator assesses the extent to which the MOF provides reliable information on the availability of funds to the budget entities that manage the general government budget.

12. The 2012 PEFA self-assessment scored the overall indicator 'A'. This compares to a score of 'B+' in the 2008 assessment. Discussions with the Treasury Department confirm that the overall 'A' score and the 'A' scores in all the dimensions of the indicator are equally applicable to capital expenditure and recurrent expenditure.

PIM-19 Value for Money in Procurement

13. The indicator evaluates the public procurement system and its core components - transparency, competition, and the complaints mechanism. It is also concerned with the existence and scope of the legal and regulatory framework. This indicator is the same as the PEFA indicator PI-19, 'Transparency, competition and complaints mechanism in procurement'.

14. The 2012 PEFA self-assessment scored the overall indicator of PI-19 at 'A', a very significant improvement compared to a score of 'D+' in 2008 and reflecting the rapid and deep reforms. The basis for the scores is summarised in the table above. The Competition and State Procurement Agency (CSPA) confirmed that the PEFA scores for this indicator and its dimensions (all 'A's) are transferable to the PIM assessment, i.e., there are no particularities in the procurement processes for capital investment projects that could lead to a lower score.

PIM-20 Effectiveness of Internal Controls and Internal Audit of Capital Project Expenditure

15. This indicator is very close to PEFA indicators PI-20 -'Effectiveness of internal controls for non-salary expenditure', and PI-21, 'Effectiveness of internal audit'. The assessment of this indicator therefore draws principally from the 2012 PEFA. Based on the PEFA assessment and discussions with the Treasury Department, both dimensions i) and ii) of this PIM indicator merit being scored 'A'.

16. For comparison, the overall score for PI-20 in the 2012 PEFA assessment was 'A' compared to 'C+' in 2008. The overall score for PI-21 was 'C+', compared to 'D+' in 2008. Evidently, there has been substantial improvement in the quality of internal financial controls, but less so in internal audit.

Table A.4: Guiding Questions to Investigate Individual Projects in relation to PIM indicators

Indicator/Dimension	Question/Information Requirement
PIM-11 Investment guidance, project development and preliminary screening	
i) Strategic guidance	• Is there any evidence that the original idea for the project was derived from a formal national or sector strategy or other type of plan? • If so, give the titles and dates of the relevant documents and the level at which they were approved. • Was the project mentioned specifically in these documents? Does it fit within a larger programme mentioned in the documents? Or do the documents just give general guidance on areas for investment?
ii) Project profiles	• Was an initial description of the project concept prepared as a basis for further planning and development? • If so, what sort of information does the initial description of the project concept contain? Is any of the following information given? o Administrative information and brief project description o Discussion of the strategic case for the project o Preliminary economic or social case for the project, including identification of specific problem or constraint to be addressed, the potential demand for the services of the project and the likely nature of the costs and benefits. o Project financing arrangements o Project implementation and management arrangements o Operational sustainability of the project, covering management arrangements and financing for operations and maintenance o Discussion of the next steps, e.g., requirements for

	further studies and the approach to these?
iii) Preliminary screening	• Is there any evidence that the project underwent any sort of preliminary assessment to decide whether it would be worth developing further? • If such an assessment took place, who carried it out and what factors were taken into account in making a decision to proceed further with the project concept? Who - official position - was responsible for making the decision? • If there is a description of the project concept, was this used in the decision-making process? • Was the decision to proceed reviewed by any external organisation? • Is there any evidence that the project concept was altered at this stage to take account of issues raised during preliminary screening?
PIM-12 Formal project appraisal	
i) Clarity of planning roles	• What organisation was responsible for planning and analysing the feasibility of the project? • Was any of this work contracted out to third party organisations? • Who - official position & organisation - was responsible for reaching a decision on the overall feasibility (technical and economic) of the project? • Who - official position & organisation - was responsible for deciding to proceed with the project and request budget funding? Is there a formal record of this decision? If so, does it summarise the basis upon which the decision was made?

ii) Definition of steps in project development	• What studies or other analytical and design work were carried out to inform the decision to proceed with the project?
	• Was a feasibility study or similar in-depth analysis prepared for the project? If so, what analyses - from among the following - do these studies cover?
	  ○ Analysis of the existing context for the project
	  ○ Demand analysis, including assessment of current capacity constraints
	  ○ Technical feasibility and examination of options
	  ○ Spatial planning issues
	  ○ Environmental and social impact
	  ○ Financial and fiscal analysis
	  ○ Economic analysis
	  ○ Risk analysis and management
	• Is there any evidence in the studies or other documentation that different technical variants or alternatives to the project were considered?
	• If economic analysis has been undertaken is this clearly distinguished from financial analysis? This means converting financial values to economic values (shadow prices) and putting monetary values on non-market costs and benefits.
	• If a social cost-benefit analysis has been carried out, what measures of economic performance have been estimated – economic internal rate of return, net present value or others?
	• If social cost-benefit analysis has not been carried out are there clear reasons why this is so? Has a cost-effectiveness analysis been carried out instead? If so, how are the results reported?

		• If neither social cost-benefit analysis nor cost-effectiveness analysis have been carried out, have external economic costs and economic benefits been examined systematically in another way (even if only qualitatively)?
iii)	Technical guidance	• Is there any reference in the preparatory documents to technical guidance used in preparing and appraising new capital projects? If so, what is the title of this guidance and who was responsible for issuing it?
PIM-13 Independent review of appraisal		
i)	Independent review of appraisal	• Were the results of the project feasibility study or any other preparatory studies subject to independent review and confirmation by an entity independent of the agency promoting the project? This might be the parent ministry of a subordinated agency or a central agency of government, like the Ministry of Finance. If so, is there a record of this review and what issues did it focus on? Were the results of the review taken into account in the approved project design?
PIM-16 Project selection and budgeting		
i)	Transparent criteria for project selection	• Is there a record of the decision to include the project in the responsible ministry's budget submission? What criteria (formal or informal) were used to decide on giving priority to this project over other projects under consideration by the ministry? • Who made the final decision to include the project in the draft budget submitted to Parliament? Was it the decision of the responsible ministry working within expenditure ceilings set by the Ministry of Finance or was the decision made by the Ministry of Finance or other external authority? If the decision was made outside the responsible ministry, is it clear what criteria were used in making it?
ii)	On-going projects receive sufficient funding	• Is there any evidence that the project has ever suffered from a shortage of funding within the budget year leading to slower physical implementation than planned? If so, was this due to rationing of funds by the Ministry of Finance, or was it because of new, competing priorities introduced by the ministry responsible for the project?
iii)	Multi-year budget authority	• Was the project carried out over a number of years? If so, is there any evidence of problems in providing continuity of funding from one year to the next?
PIM-17 Project Implementation		
i)	Guidelines on project implementation	• Were any formal guidelines on project implementation procedures and management followed by the implementing agency? If so, who issued these guidelines and when?
ii)	Clear accountability and implementation plans	• Is it clear who was responsible within the implementing agency for delivering the project on time, to budget and to specification? If so, how is this responsibility defined? • Were implementation plans prepared for the project prior to commencement? If so, what level of detail was included in the plans? Was there a procurement plan?
iii)	Total project costs management system	• Were movements in total project costs tracked against the originally approved budget? If so, to what extent was this information used to control spending actively and by whom?
iv)	Formal project	• Was a formal project completion report prepared when the

completion and handover	project was finished? • Was there a formal acceptance that the project had been completed to specification? • Was there a formal hand-over of responsibility for on-going operation and maintenance of the new asset?
PIM-18 Predictability in the availability of funds for commitment of expenditure	
	• Were regular forecasts of in-year funding requirements made for the project for onward transmission to the Ministry of Finance? • Were there any problems concerning the reliability of the flow of funds during project implementation? If so, how serious were the effects on implementation progress? ***This indicator will be scored mainly by using information provided for the PEFA indicator PI-16.***
PIM-19 Value for money in procurement	
	• What procurement method was used for the project? Open competitive bidding or another method? If another method give details. • Was the e-procurement system used? • Were there any problems during procurement, for example complaints from unsuccessful bidders, and if so how were these dealt with? ***This indicator will be scored mainly by using information provided for PEFA indicator PI-19.***
PIM-20 Effectiveness of internal controls and internal audit of capital expenditure	
	Has the project ever been audited by the responsible ministry's internal audit unit? If so did this lead to any changes to the project or its implementation procedures? ***This indicator will be scored mainly by using information provided for the PEFA indicator PI-16.***
PIM-21 Project adjustment	
i) Project progress reports and monitoring	• What has been the coverage of in-year progress reports on the project? Have they covered both physical and financial progress against plan? • How regular has reporting been to: a) senior managers in responsible ministries; and b) central agencies? • Do reports include explanations for variances between plan and actual achievements? If so, is there any evidence that senior managers in the implementing agency acted on this information?
ii) Virement between projects	• Is there any indication that funding allocations for the project were changed in-year because of progress being better than or worse than expected? • If such adjustments took place, at what level were they agreed? By the responsible ministry? By the Ministry of Finance? Or through a supplementary budget?
iii) Nature of project adjustments	• Have there been any significant adjustments to project scope or design during implementation? • To what extent could these adjustments have been foreseen

	during planning and to what extent were they due to unforeseeable factors?
iv) Mechanism to trigger review of project justification	• Have there been any in-depth reviews of the justification for the project during implementation?
PIM-22 Facility Operation	
i) Asset registers	• On completion, were the capital assets created by the project added to an asset registry? • What details were recorded in the asset registry? • Is the asset registry kept up to date? • Does the asset registry include up to date information on the condition of existing assets?
ii) Assets fit for purpose	• When handed over for use, were the assets created by the project suitable for the purposes for which they were designed or has there been a need for additional expenditure or modification for them to achieve full performance?
iii) Sufficient operations and maintenance funding	• Has adequate funding been provided in the budget for operating and maintaining the new assets created by the project? If not, what has been the impact on project performance?
iv) Monitoring service delivery using newly completed capital assets	• Have there been any surveys of the level of use of the new assets by the intended recipients? If so, how does usage compare with forecasts?
PIM-23 Basic Completion Review and Evaluation	
i) Policy and guidance on post-project review	
ii) Completion of basic post-project reviews	• Was there any formal review of the project upon completion looking at whether it has been delivered on time, to budget and to specification? If so, did the review go as far as analysing reasons for departures from plan?
iii) Completion of impact evaluations	• Has there been any sort of systematic evaluation of the impact of the project once operating? (Note that a systematic evaluation examines the extent to which the expected social benefits have been achieved and to what extent improvements can be attributed to the project.) • If there has been a systematic evaluation, what did it cover and which organisation carried it out?

Table A.5: Descroption of Dimensions of the Selected Indicators and the Assessment Criteria

Indicator/Dimension	***Assessment Criterion***
PIM-11 Investment Guidance, Project Development and Preliminary Screening	
i) ***Strategic guidance***	A national economic and social strategy is in place which helps to guide prioritisation of capital decisions, supported by detailed sector strategies for at least the main sectors.
ii) ***Project profiles***	MDAs[54] initiate projects by submitting a project profile for central agency/line ministry review.

[54] Ministries, departments and agencies. A term used to capture all budget using entities.

iii) ***Preliminary screening***	Evidence that preliminary screening is applied to large projects and has an impact on decision-making.
PIM-12 Formal Project Appraisal	
i) ***Clarity of planning roles***	Roles in project preparation are clearly defined so as to distinguish the distribution of responsibilities within individual MDAs, between MDAs and central agencies, and between different central agencies.
ii) ***Definition of steps in project development***	Properly sequenced and disciplined procedures for preparation and appraisal of projects, with formal decisions at key stages including an appraisal decision to proceed to detailed design.
iii) ***Technical guidance***	Clear, comprehensive and practical technical guidance is available on the substantive requirements for preparing and appraising new capital spending proposals.
iv) ***Quality of project appraisal***	Appraisal is applied comprehensively as well as proportionately.
PIM-13 Independent Review of Appraisal	
Single dimension indicator	A review of the appraisal findings and underlying analysis is carried out by an unbiased organisation which will gain no advantage from the project going ahead.
PIM-16 Project Selection and Budgeting	
i) ***Transparent criteria for project selection***	Transparent criteria are in place and generally adhered to for selecting projects for budget funding based on contribution to national and relevant sector strategies.
ii) ***Ongoing project receive sufficient funding***	Explicit attention is given to ensuring that ongoing projects receive sufficient funding to allow efficient physical progress.
iii) ***Multi-year budget authority***	There is provision for multi-year budget authority.
iv) ***Integration of capital and recurrent budgets***	The extent to which capital and future ongoing recurrent spending requirements of projects are integrated within MDA budgets.
PIM-17 Project Implementation	
i) ***Guidelines on project implementation***	Existence of comprehensive guidelines on project implementation for operational staff in MDAs.
ii) ***Clear accountability and implementation plans***	Clear organisational and management responsibilities for delivering on a comprehensive implementation plan.
iii) ***Total project cost management system***	Existence of multi-year total project cost management system
iv) ***Formal project completion and handover***	Existence of formal documentation confirming completion and handover to user institution.

PIM-18 Predictability in the Availability of Funds for Commitment of Expenditures	
i) ***Cash flow forecasting and monitoring***	Existence of an annual cash flow forecast and regularity of updating.
ii) ***In-year information on ceilings for expenditure commitments***	Reliability and horizon of periodic in-year information to budget entities on ceilings for expenditure commitment.
iii) ***In-year adjustment to budget allocations***	Frequency and transparency of adjustments to budget allocations which are decided above the level of management of the budget entities.
PIM-19 Value for Money in Procurement	
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	Extent to which six key requirements of the legal and regulatory framework are fulfilled. These are that it should: • Be organised hierarchically and precedence is clearly established; • Be freely and easily accessible to the public through the appropriate means; • Apply to all procurement undertaken using government funds; • Make open procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified; • Provide for public access to all of the following procurement information: government procurement plans; bidding documents; contract awards; and data on resolution of procurement complaints; • Provide for an independent administrative procurement review process for handling procurement.
ii) ***Use of competitive procurement methods***	Share of contracts awarded not using open procurement that is justified in accordance with legal requirements.
iii) ***Public access to complete, reliable and timely procurement information***	Share (by value) of procurement operations for which complete and reliable key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of complaints) is made available to the public expressed.
iv) ***Existence of independent procurement complaints mechanism***	Extent to which seven key requirements for the complaints review body are fulfilled. These are that it should: • Be comprised of experienced professionals, familiar with the legal framework for procurement, and include members drawn from the private sector and civil society as well as government; • Not be involved in any capacity in procurement transactions or in the process leading to contract award decisions; • Not charge fees that prohibit access by concerned parties; • Follow processes for submission and resolution of complaints

	that are clearly defined and publicly available; • Exercise the authority to suspend the procurement process; • Issue decisions within the timeframe specified in the rules/regulations; and • Issue decisions that are binding on all parties – without precluding subsequent access to an external higher authority.
PIM-20 Effectiveness of Internal Controls and Internal Audit of Capital Project Expenditure	
i) ***Effectiveness of expenditure commitment controls***	The comprehensiveness of commitment controls and their effectiveness in limiting project commitments to actual cash availability and approved budget allocations.
ii) ***Rules for processing and recording transactions***	The degree of compliance with the rules for processing and recording transactions and the extent to which emergency or simplified procedures are misused.
iii) ***Adequacy of the internal audit function***	The coverage of internal audit internal audit within government, attainment of professional standards and the degree to which systemic issues are address in its work.
iv) ***Management response to internal audit findings***	The promptness and comprehensiveness of management responses to internal audit findings.
PIM-21 Project Adjustment	
i) ***Reporting on progress***	The comprehensiveness, regularity and timeliness of in-year progress reporting.
ii) ***Appropriate use of virement between projects***	Ability to transfer budget authority between projects in year to facilitate high rates of execution.
iii) ***Nature of project adjustments***	Extent of foreseeable adjustment in projects during implementation
iv) ***Mechanisms for triggering a fundamental review***	Existence and application of clear procedures for reviewing the justification for major multi-year projects where there have been significant changes to key parameters.
PIM-22 Facility Operation	
i.) ***Asset registers***	Comprehensiveness and detail of asset registers.
ii.) ***Assets fit for purpose***	Extent to which assets are fit for purpose when handed over for service delivery.
iii.) ***Funding for operations and maintenance***	Adequacy of funding for operating assets at intended capacity and for maintaining them over their planned life-times.
iv.) ***Monitoring of service delivery***	Extent to which there is systematic collection of data on service delivery

PIM-23 Basic Completion Review and Evaluation	
i.) ***Policy and guidance on post-project review***	Existence of a clear policy requiring systematic and comprehensive completion reviews by implementing agencies supported by appropriate guidance.
ii.) ***Basic post-project review***	Share of projects subject to basic post-project review.
iii.) ***Impact evaluations***	Existence of a systematic approach to project impact evaluation, including economic analysis of a selected sample of projects.