Effective PFM Reforms: Role of Donors and Facilitated Peer to Peer Mentoring to Put Results-Oriented Budgeting in Place

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Familiar Challenges of Ineffectual PFM Reforms

Inadequate sequencing of reforms attributable to (i) donor pressure (ii) governments’ failure to set and embrace an across-the-board PFM reform agenda

Fragmented approach to reforms and limited leadership in government: technical reform versus systemic / institutional change

Limited monitoring of progress with focus on inputs -> few lessons learned

Capacity constraints

Lack of realistic assessment of what can be achieved

Other Challenges to the effectiveness of donor support
Putting a Genuinely Results-Oriented Budgeting in Place in Georgia’s Autonomous Region

- Policy and Management Consulting Group (PMCG) conducted an intensive six-month on-the-job training for all major public spenders in Adjara Autonomous Republic in 2013.

- Following the training the Government spenders put together their 2014-2017 and subsequent program budgets that set a unique precedent of responsible results-oriented budgeting in Eastern Europe by showing that:
  - costing in the public sector can be taken to a completely new level that had been inconceivable before;
  - objectively verifiable and, mostly, quantitative output targets can be both identified and achieved in 12 months;
  - objectively verifiable and, mostly, quantitative outcome targets can be both identified and achieved in 4 years;
  - results-oriented budgeting has the potential to eventually put the government on a business-like footing and cause a culture shift in the public sector.
What Made Genuinely Results-Oriented Budgeting in the Autonomous Republic of Adjara (Georgia) Possible

Political will

Readiness to take responsibility and be held against their commitments

Reforming zeal: Government of Adjara budget template offers a stark departure from the central government’s straitjacket of programme budget format
Best Practices in Results-Oriented Budgeting

Best practices in results-oriented budgeting come from the first world nations, rather than transition economies, which find it hard to emulate the first world experience:

- Australia
- The United Kingdom
- South Africa
- New Zealand
Political Sensitivities of Results-Oriented Budgeting

- Genuine program budgeting implies commitment on the part of spending agencies, which they are often extremely loath to make across the developing world.
- This noncommittal is the reason why the governments in these and other countries prefer general wordings over detail in their program budgets.
- So many transition countries, including Georgia, hopelessly, mess up their program budgets.
Replicating the Good Practice

- Transition countries can put a comparable results-oriented budgeting arrangement in place through an externally facilitated peer to peer mentoring by the Government of Adjara spenders, which have a unique experience putting their state of art program budgets together.
Outcomes of the good practice in numbers

Adjara’s Road Rehabilitation Budget: 2014-2016

Significant improvements in quality achieved through detailed costings, viz:

- the exact square metre dimensions of holes in the roads
- the exact number of traffic signs required, the exact length of pipes, maintenance costs even down to the insurance cost of maintenance equipment or uniforms for workmen
- detailed breakdown of wages and salaries linked to performance.

We have very rarely, if ever, seen (meaningful) costings in any of the publicly available government budgets

- Road rehabilitation program expenditures decreased by 25% (a further 5 percentage point reduction to be achieved in 2017)
- The savings made it possible to transfer funds from the road rehabilitation program to a healthcare program.
Outcomes of the good practice in numbers


Adjara Department for Environmental Protection and Natural Resources came up with output and outcome targets and identified inputs to achieve those.

- Exact GPS coordinates to measure coastline abrasion
- Exact number of lab tests for sea water, sewage water washing into the sea, and air, and scores of other inputs to meet the targets

15% SAVINGS IN THE ENVIRONMENTAL BUDGET AFTER A SYSTEM OF COASTAL MANAGEMENT WAS SET UP.
Outcomes of the good practice in numbers

Adjara’s Environmental Budget 2014-2015

- slow down deforestation
  - Exact output targets of trees to be cut
  - exact areas of diseased coniferous and deciduous forests to be treated each year between 2014-2017 (even though there are no accurate estimates of the rate of slowdown in the absence of baseline indicators)

The savings made it possible to make adjustments to cope with inundation, raising coastal land and buildings vertically, etc.
Outcomes of the good practice in numbers
Adjara’s Healthcare Budget 2014-2016

- Overhaul of the social and healthcare programs in the 2014-2017 program social and healthcare budgets allowed 10% decrease in the appropriation, which was achieved through extensive means-testing, viz.,

  ✓ weeding out beneficiaries that were not eligible for the social and healthcare programs.

The freed-up resource was directed towards including around 5,000 beneficiaries, who, by contrast, had been left out, even though they were below the eligibility threshold.
Governments see results-oriented budgeting as a threat rather than opportunity.

Governments’ reluctance to commit themselves to targets and be held against their commitments that can be measured with objectively verifiable output and outcome indicators of achievement.
Questions to Ponder

1. How can both willing and unwilling transition countries switch to a genuinely results-oriented budgeting?

2. Why/how Government of Adjara agencies made the most out of the technical assistance (a six-month on the job-training in 2013 conducted by PMCG) to enable them to switch from line-item to programme budgeting?

3. Why the technical assistance provided to quite a number of transition countries, which dwarfs the assistance to Adjara, has not delivered any comparable results?
PFM Reform in Georgia

Strengthening Fiscal Discipline

Tax Administration and Customs Reform

Assessment of fiscal risks, Introduction of fiscal rule to contain pressures to overspend and ensure responsibility and debt sustainability.

ESTABLISHING AN INDEPENDENT FISCAL INSTITUTION: PARLIAMENTARY BUDGET OFFICE - PBO
PFM Reform in Georgia

- Introduction of a Results-Based Budgeting in Georgia
- Medium term Expenditure Framework (Basic data and Direction Document-BDD)

- Responsible Institutions: MOF, Line ministries, Budgetary entities
PFM Reform in Georgia

Introduction of a Treasury Single Account (TSA) and integration of all public spenders into the E-Treasury’s Single Account

- Responsible Institutions: MOF, Line ministries, Budgetary entities
PFM Reform in Georgia

Accounting & Reporting

- Full compliance with IPSAS by 2020
- Supreme Audit: reforms in the State Audit Office of Georgia (SAO)
PFM Reform in Georgia: Public Procurement Reform: International Recognition


- European Bank for Reconstruction and Development (EBRD). On the Way to WTO GPA Accession: Georgia
Paper tenders and “geographical inequality” before 2010

- High transaction costs
- Limited access to information
- High compliance costs

• Bidders had to pay at least 4 physical visits to a procuring entity, and the winner – an additional 5th visit to sign a contract.

20 mln paper copies – in the last 5 years.
Collection of documents from state bodies (paper tenders)

- Waste of administrative resources
- Waste of paper
- Waste of money
- Waste of time

Some of the visualisations in the presentation were borrowed from SPA's presentation, September 2012
What we Wanted

- Transparency
- Non-discrimination
- Fair evaluation
- Streamlined and easy to follow procedures

..and get rid of papers!!!
What we got

- Everyone sees everything
- No physical visits
- Minimum transaction costs
- Geographical “inequality eliminated”
- Increased competition
- Maximum efficiency
- Fair evaluation
- Electronic dispute resolution
- Minimum paperwork

- Bidders do not make physical visits to procuring entity. Only the winner once visit procuring entity to sign a contract
Georgian Electronic Government Procurement - Ge-GP

100% e-tenders - since December 1, 2010

Developed in-house...in a year

$1.5 billion went through the system in 2015

$1.5 billion in public funds savings

About 30,000 registered users
Some Features of Ge-GP

<table>
<thead>
<tr>
<th>Non discrimination</th>
<th>• No local preference/ No local presence/ ~100 foreign bidders/ contracts won &gt; 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart system preventing mistakes / warning</td>
<td>• Deadlines / Thresholds / Homogeneity / Abnormally low price / Documents</td>
</tr>
<tr>
<td>Internal messaging system</td>
<td>• Topics of interest / News / Updates / Legal and procedural amendments / more than 3 million messages sent</td>
</tr>
<tr>
<td>Fast and transparent dispute resolution</td>
<td>• E-submission of complaint/ Free of charge / Standstill Period/ Very fast -10 days / Civil society equally involved in decision making / Standstill Period is a period of at least ten calendar days following the notification of an award decision, before the contract is signed with the successful supplier(s). Its purpose is to allow unsuccessful bidders to challenge the decision before the contract is signed.</td>
</tr>
<tr>
<td>Minimum administrative barriers</td>
<td>• No administrative documents in advance / No physical visits / Electronic bid bonds /</td>
</tr>
</tbody>
</table>
Bilingual system. Georgian - English

System prevents mechanical and procedural mistakes
System provides subscription and internal messaging options

All activities are logged
Integrated appeal mechanism
Electronic payments module/ linkage with State Treasury

Prepare tender announcement
Upload tender documentation
Register tender
Tender is announced

Bidding Started

Upload technical proposal

No

Yes

Bidding finished?

Yes

No

Tender time finished

At least one bidder?

Winner identified?

Selection/ Evaluation

Yes

No

Winner identified

Finalization of contract

sign contract?

Yes

No

Contract awarded

Contract awarded

Tender with no bidder

No

Yes

Tender with no bidder

Register tender

System prevents mechanical and procedural mistakes
System provides subscription and internal messaging options

Electronic payments module/ linkage with State Treasury

All activities are logged
Integrated appeal mechanism

Delivering Progress
www.pmcg-i.com

Enhancing Gender Equality in Georgia
Everyone Sees Everything

1. Annual Procurement Plan
2. Tender Notice
3. Tender Documentation
4. Tender Proposal/Bids
5. Minutes of evaluation Committee
6. All related documents and correspondence
7. All data on disputes, including application and decision
8. Contracts and amendments
9. Payments under the contracts
What we Learned

- Reform boldly, broadly and communicate
- Start small and leverage on demonstrable results
- Businesses love change they understand
- More transparency – less corruption
- Streamline then automate
- Simplicity is power
- Keep on identifying the next biggest binding constraint, reform in series
- Reform unilaterally, don’t wait for reciprocity

*Communicate reforms... Results inspire*
PFM Reform in Georgia – International Donors

- United States Agency for International Development (USAID)
- World Bank
- International Monetary Fund
- GIZ
- UNDP
- Good Governance Fund
- Westminster Foundation for Democracy
- Delivering Progress
- www.pmcg-i.com
- Gabriel Al-Salem Foundation
Prerequisites of Successful PFM Reforms

Designing a prioritized and sequenced reform program

Some key factors

- Policy objectives of government: what are government’s key priorities?
- The risks of the PFM system: what are the main weaknesses of the PFM system?
- Technical sequence of reforms: what are the building blocks to move towards a well-functioning PFM system?
- Government Capacity to implement reforms
Prerequisites of Successful PFM Reforms

Monitoring of progress to assess success and challenges of reform process and make decisions accordingly.

- Standard set of indicators at different levels of the reform
- Reform measures/activities (training, new law, etc.).
- Implemented institutional and systemic changes (IFMS, new budget calendar, etc.).
- Changes in the performance of the PFM system over the years.
Prerequisites of Successful PFM Reforms

Donor coordination around the PFM reform agenda of the government:

- Coordinated policy dialogue between government and donors would facilitate sequencing and prioritization of reforms.

- The limited available external resources for technical assistance, capacity-building and financial support should be allocated to the reform priorities of the government.

- Multiple requirements of donors and competition between donors should not burden the limited capacities of government.
Effective Donor Support

Key factors for effective donor support: Georgian Experience

- Short term vs long term focus - importance of considering long term perspective rather than immediate needs

- Expert support for specific tasks vs building capacities of beneficiaries

- Can international best practice fit everyone? Why country specifics matter?
Effective Donor Support

Why Facilitated Peer to Peer Mentoring by Adjara Autonomous Republic Spenders
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THANK YOU!