

Public Financial Management in the South Caucasus

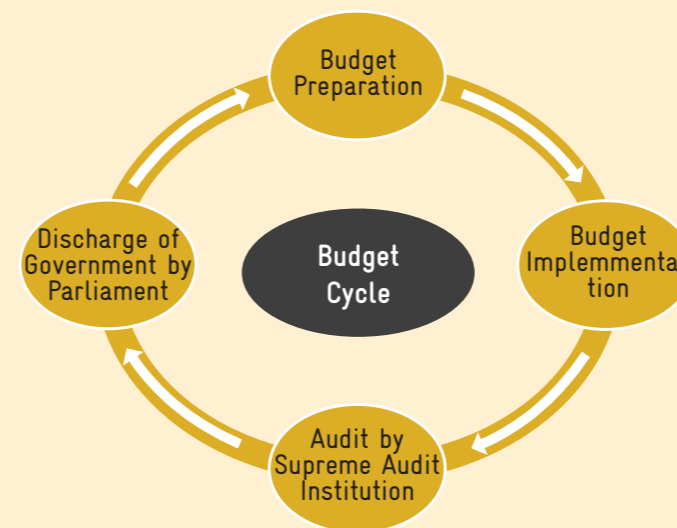
Targeted, effective and transparent use of public funds

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European Union (EU) in Armenia
Partners: ministries of finance, parliaments, supreme audit institutions
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Countries: Armenia, Georgia

◀ An example from the field – how we achieve results:

Internal financial control is a key area of public policy reform in the South Caucasus. Facilitated by the project, the finance ministries of Armenia and Georgia have therefore jointly drawn up a plan of action for the introduction of a concept for European standards in this field – the Public Internal Financial Control (PIFC) system. As a result of implementing the plan of action, the following results have been achieved since 2014:

PIFC has been enshrined in law as an instrument for the independent and objective auditing of public institutions. Thirteen pilot audits have been carried out on the basis of the new standards. The findings have led to more detailed market analyses ahead of public procurements, to procurement control reforms, and to the optimisation of internal processes. The lessons learned from the pilot audits have been discussed with other public institutions in order to maximise impact across the public administration apparatus. Georgia's guidelines for system audits were adapted to the Armenian country context and are now being used by internal auditors in Armenia.



◀ Challenges:

To be able to provide their citizens with public services, Armenia and Georgia need to raise, use and control public funds fairly, efficiently and transparently as well as in a results-oriented manner. To ensure this foundation for a viable relationship between citizens and the state, our partners are currently undergoing a complex transformation process that affects fundamental aspects of the interplay between government, parliament and supreme audit institution in the budget cycle.

◀ Objectives:

The objective is to align the use of public funds more closely with national development strategies by introducing European and international standards while maintaining transparency and efficiency and improving accountability.

◀ Activities:

We are advising our partners on introducing results-oriented budget management, on improving internal, external and parliamentary control mechanisms, as well as on taxation and customs regulations. European standards are the yardstick. To help make the change process sustainable, we are training the actors involved and fostering cooperation between the key stakeholders.

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For the first time in its history, the Georgian parliament has systematically debated 18 State Audit Office audit reports in a rule-based process since 2013. 13 of these reports were performance audits, five of which were supported by the project as an on-the-job training measure.

900 employees of public institutions in Georgia and Armenia have been trained in effective revenue management, results-based expenditure management, and external and parliamentary financial control. They are now contributing towards a transparent and results-based use of public funds in the two countries.

Also in Georgia, a model for negotiating double taxation agreements was developed (based on OECD rules) that has already been used to negotiate or renegotiate five agreements. The model also strengthens Georgia's position in such negotiations as well as the application of international standards.

Results: ➡

The most recent constitutional reform in Armenia provides for an amendment to the definition of roles and responsibilities of the Government, Parliament and Chamber of Control (CoC) in the budget cycle, bringing them into line with international standards. These changes are to be incorporated into Armenia's new law on the CoC.

The Armenian Parliament has decided to make a complete switch to a results-based budget. The Government, Parliament and CoC have agreed on a joint implementation strategy for the period to 2018.

Our contribution in Armenia

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◀ A country-specific example

The project has supported the Armenian Ministry of Labour and Social Affairs in developing budget programmes in line with the policy directives of the Armenian Development Strategy 2014–2025. The "Family, Women and Children Support Programme" was assigned measurable objectives and indicators in order to better monitor improvements in the lives of these groups whose situations are particularly difficult.

As a result, budget officials within the Ministry are now better able to guarantee the cost-effective use of budget funds. At the same time, Parliament, the Audit Chamber and civil society are able to use the information contained in the budget report to verify that goals have been achieved efficiently and cost-effectively. The Government can be called to account to show that it is using tax revenues to deliver maximum benefit for the population of Armenia.

◀ Result oriented budget management

» We are supporting the switch to results-based budgeting by facilitating development of an enabling legislative and methodological framework. Staff of the Ministry of Finance, line ministries and the Audit Chamber, as well as members of Parliament, are receiving training on how to apply the new budget methodology.

◀ Internal control systems

» The project is supporting further development of internal control by delivering strategic advice on coordination of the reform process, advising on the legislative framework and methodology, providing training and conducting pilot audits. Short-term assignments involving practitioners from European administrations are delivering sophisticated technical and in-process consultancy, raising the level of training and making an important contribution towards a transparent, orderly and economically efficient use of funds.

◀ Transparency and Accountability

» The most recent constitutional reform in Armenia provides for a strengthening of responsibilities of Parliament and the Audit Chamber in the budget cycle. The project is therefore supporting the ongoing development of the Audit Chamber and the improvement of the legislative framework within which it performs its work – Armenia's new Audit Chamber Law. The project has supported the establishment of a budget office which provides members of Parliament with information relevant for decision-making. Seminars on results-oriented budgeting for members and staff of parliament are fostering understanding of linkage of state expenditures with policy objectives.

◀ Mobilising Domestic Revenue

» The project supports the Armenian tax administration in strategic planning to improve its effectiveness and efficiency. The cooperation is aimed at increasing revenue collection in order to have more financial leeway for the implementation of the Armenian national development goals.



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