



Anti-Corruption Expertise of State Budget Revenues



The Eurasia Foundation

Georgia Office

Monitoring of State Budget Execution

2005

Despite the fact that over last two years the budget in Georgia has been executed with surplus the Government has been constantly correcting its revenues and expenditures. Preliminary plans of the budget often changes, including, mostly after the fact occurs. At the same time information regarding both revenues and expenditures is not always accessible and perfect.

The performed monitoring indicates that process of budget planning in the country is far from ideal and raises many questions. In Particular, the analysis of the basic parameters demonstrates that both planning and execution of budget in the country takes place basically at the expense of two-three so called basic taxes, such as, for example Value Add Tax and Excise. It also should be taken into consideration that the Budget Year is not proportionally planned and burden of both revenues and expenditures mainly comes to the last period of the Year.

It is noteworthy that to date counting and analysis of the budget revenues through certain taxes and their comparison does not take place in the country. Absence of analysis and respectively weakness of public control creates fertile ground for various machinations and corrupt type activities.

It is especially interesting that the quite scanty information is delivered to public on the expenditures and often questions are left without questions why in the light of the Government's declaration about the excessive execution of budget it is impossible to finance variety of expenditures.

Ultimately, without detailed analysis of the budget revenues (according to taxes) both real sources of revenues and existence of real budget reserves remain unclear, and all these again and again is "digested" inside fiscal bodies and is deprived of the public control, that impedes with the process of filling in corruption holes and creates fertile ground for striking new corruption deals.

* "Economic Policy Research Center" through financial aid of the USAID and the grant received from the Eurasia Foundation is implementing the project "Anti Corruption Expertise of the Budget Revenues". Despite this fact, the views expressed through publications published within the frameworks of the project do not express official position of the USAID or the Government of the US. "Economic Policy Research Center" is responsible for the content of the materials.

State Budget 2005 Execution Condition in Georgia

Indicators of the revenue part of 2005 Georgian State Budget looks as following:

In accordance with the prognosis of the Ministry of Finance during that period 2 billion 498 million Lari should have entered the Budget, in real 2 billion and 608 million Lari was mobilized (that is 110 million Lari more than planned as a result of which plan was executed by 104%)

Tax revenues mobilized over the year(1 billion 836 Million Lari) exceeded indicator of the 2004 by 35% (1 billion 836 Million Lari), and in comparison with the results of 2003 (803, 78 Million Lari) growth made 128%. And the difference between analogous periods of 2003 and 2004 made 70% (Diagram 1 and Table 1)

Diagram 1*

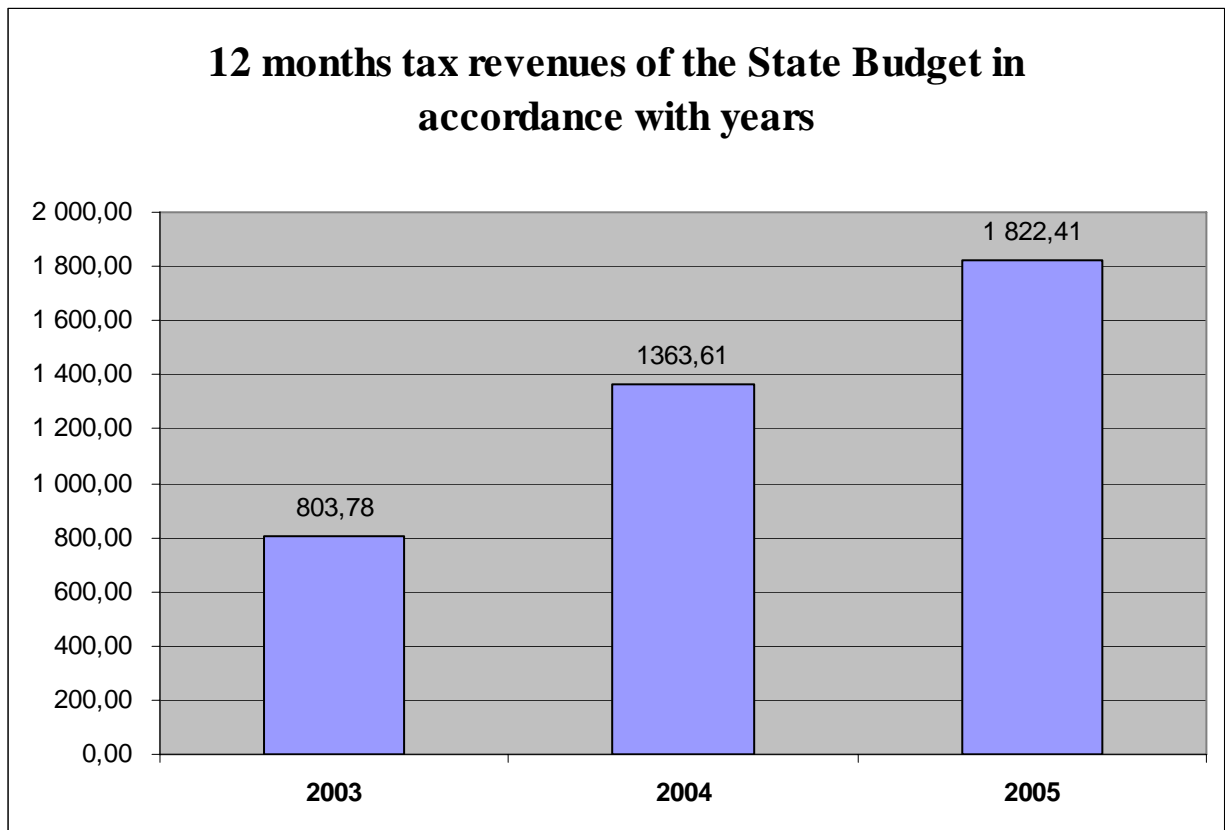


Table 1*

2003	2004	2005
803,78	1363,61	1 836,07

70%	35%
	128%

Combined during the year in the area of tax revenues out of 1 billion 836 Million Lari the Tax Department mobilized 866 Million Lari that is the planned parameter(803 Million Lari) was executed by 108%.

And the Customs Department mobilized 970 Million Lari that exceeded the planned parameter (923 Million Lari) by 5%.

The plan was executed with surplus in the area of mobilization of none tax revenues as well: instead of anticipated 263, 7 Million Lari the execution made 280, 4 Million Lari (106.5%).

The annual plan was precisely executed in the area of capital revenues as well (386, 9 Million lari)

Deficit was observed only in grants: instead of planned – 121, 4 Million Lari only 108, 3 Million Lari (deficit 11%) was mobilized (Table 2).

Table 2*

State Budget revenues and plan for 2005 year (Million Lari)							
	<i>Custom Department</i>	<i>Tax Department</i>	<i>Non tax revenues</i>	<i>Capital ravenous</i>	<i>grants</i>	<i>Source of financing of Deficit</i>	<i>Total budget Revenues</i>
Annual plan of revenues (mln. lari)	923,37	802,79	263,71	386,80	121,40	344,39	2497,68
Execution	969,89	866,92	280,41	386,90	108,32	138,83	2606,01
Expenditure	105%	108%	106,5%	100%	89%	40%	104%

The analysis of the Georgian State Budget execution indicates that in the budget policy of the country those tendencies remain unchanged that have been observed in it over several past years.

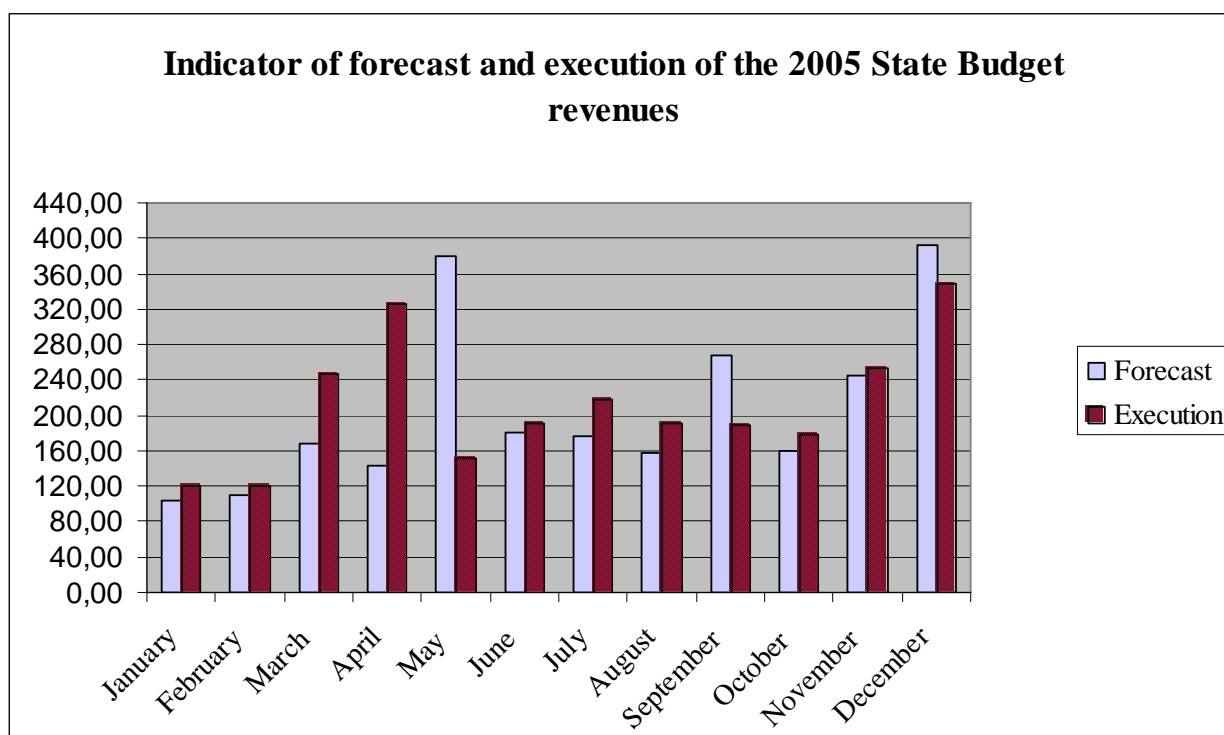
In particular, parameter of the tax revenues (both in areas of Tax and Customs Departments) from the very beginning is planned and places in the budget in less quantity than in real, which ensures excessive execution of the tax revenues during most months of the year. And in those months when the quarterly data have to be corrected, the deficit is observed, so called correction of forecast and execution

takes place. Something like that occurred twice during past year – in May and September (Table 3 and Diagram 2)

Table 3*

State budget 2005 (mln. lari)			
Month	Forecast	execution	difference
January	103,30	119,53	16,23
February	109,91	119,37	9,46
March	168,98	246,91	77,93
April	142,90	326,55	183,65
May	379,19	151,62	-227,57
June	180,90	191,27	10,37
July	176,24	217,68	41,44
August	158,69	191,55	32,86
September	268,03	188,94	-79,09
October	160,67	179,41	18,74
November	245,94	252,34	6,4
December *	393,25	422,70	29,45
Total	2 497,68	2 607,87	110,19

Diagram 2*



In the area of tax revenues despite excessive execution of the plan expenditure parameter given in the budget have not been fully executed. (see Table 4). Instead 2 billion 842 Million Lari planned according to the Budget Law in 2005 only 2

Billion 618 Million Lari was spent , that is almost 8 % of expenditures were left without financing that in fiscal terms made 224 Million Lari.

Table 4 *

Expenditures	Annual plan	12 Month Expenditure	Execution towards annual plan in %
Total State Budget Expenditure *	2 842	2 618	92,12%

The tendency of growth of expenditure part through specific indicators looks like this: the amount of expenditure made in 2005 (2 Billion 618,56 Million Lari) exceeds expenditures made during 2004 (1 Billion 514, 35 Million Lari) by 73 %, and in comparison with 2003 expenditures (885,52 Million Lari) the growth makes 196%. 2004 indicator exceeds the previous year's one by 71% (Diagram 3 and Table 5).

Diagram 3*

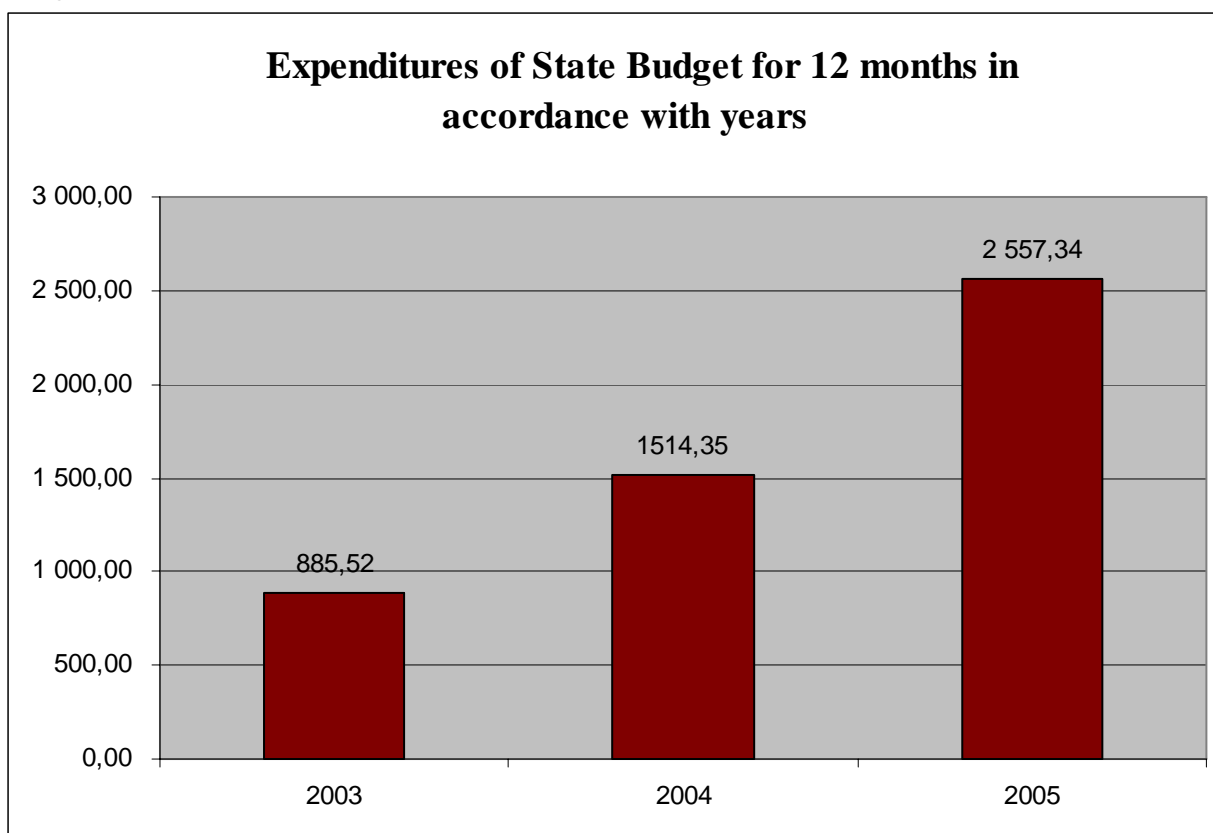


Table 5 *

2003	2004	2005
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885,52	1514,35	2 618,56
	71%	73%
		196%

Most of expenditures made in 2005 (49%) is directed to subsidies and current transfers. Out of other large expenditures it is worth mentioning expenditures made in the area of “other goods and service” which in combination makes 15 % (in fiscal terms 390,16 Million Lari). However, through thorough analysis it becomes evident that 62 % expenditures made in accordance with this article (in fiscal terms 240, 83) is directed to so called “other expenditures”, which traditionally lack transparency quality. (Table 6).

Table 6*

Expenditure	Annual Plan	Payment	%
Reimbursement of work of employees	277 935,9	276 461,3	11%
Taxes from employer	60 770,2	60 221,3	2%
Business leaves	30 362,4	29 951,5	1%
Other goods	450 843,5	390 163,8	15%
Including			0%
Office Expenditures		18 011,4	1%
Communal Expenditures		42 388,3	2%
Food Expenditures	18 851,9	18 309,6	1%
Medical Expenditures		11 570,1	0%
Expenditures of Soft Furniture and Uniforms		11 405,9	0%
Expenditures of Maintenance of Transport and Equipment		47 645,9	2%
Other Expenses		240 832,6	9%
Payment of Interests	121 420,3	120 130,1	5%
Including			0%
Service of State External Obligations	39 770,3	38 509,6	1%
Service of State Internal Obligations	81 650,0	81 620,5	3%
Subsidies and Current Transfers	1 380 891,9	1 275 156,1	49%
Capital Expenditures	272 188,5	270 757,8	10%
Crediting Excluding Coverage	247 660,3	195 715,0	7%
Coverage of Basic Sum of External Debt	165 952,3	161 910,3	6%
Internal Crediting – Credit for non-Financed State Expenditures	938,0	938,0	0%
Investment Projects to be implemented through financial sources and grants received from abroad	80 770,0	32 866,7	1%
Total *	2 842 073,0	2 618 557,0	100%

In terms of officially indicated revenues and expenditures 2005 precisely repeats the tendency established in previous years: in the end of the year in December record amount of revenues and expenditures were stated, which twice , sometimes even more than that, exceeded average indicator of previous months (Diagram 4 and 5).

Diagram 4*

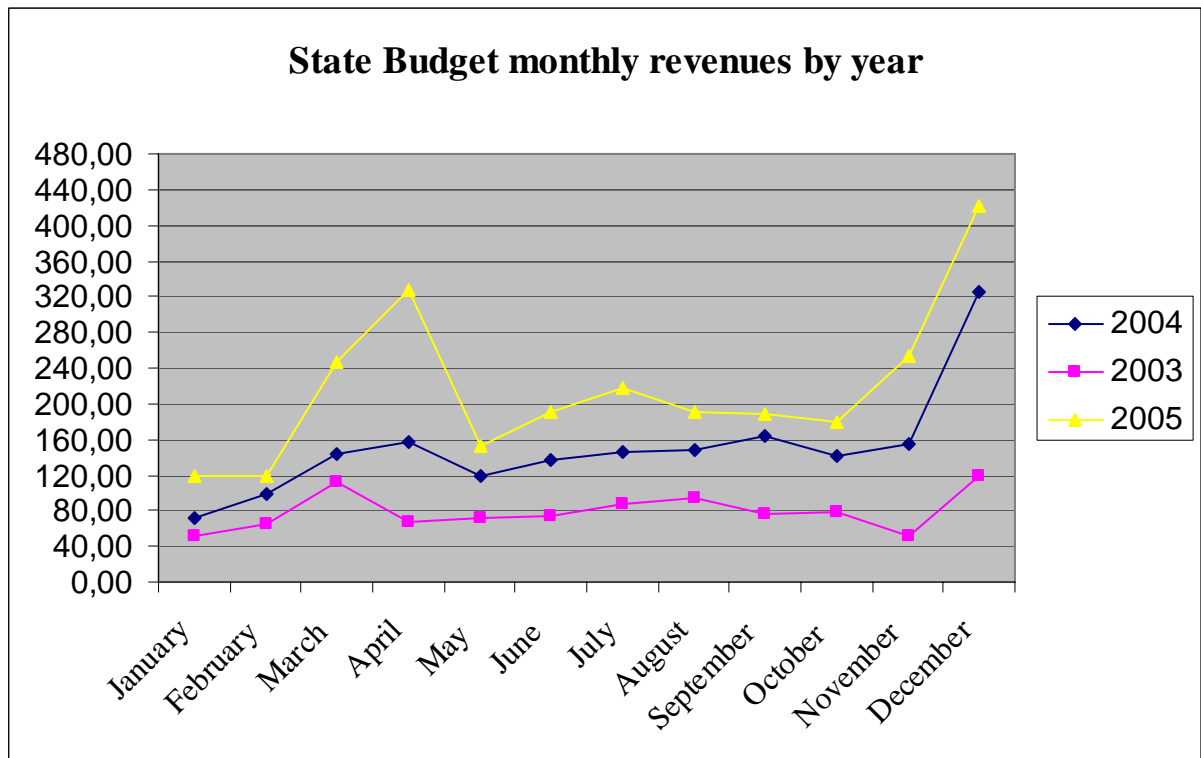
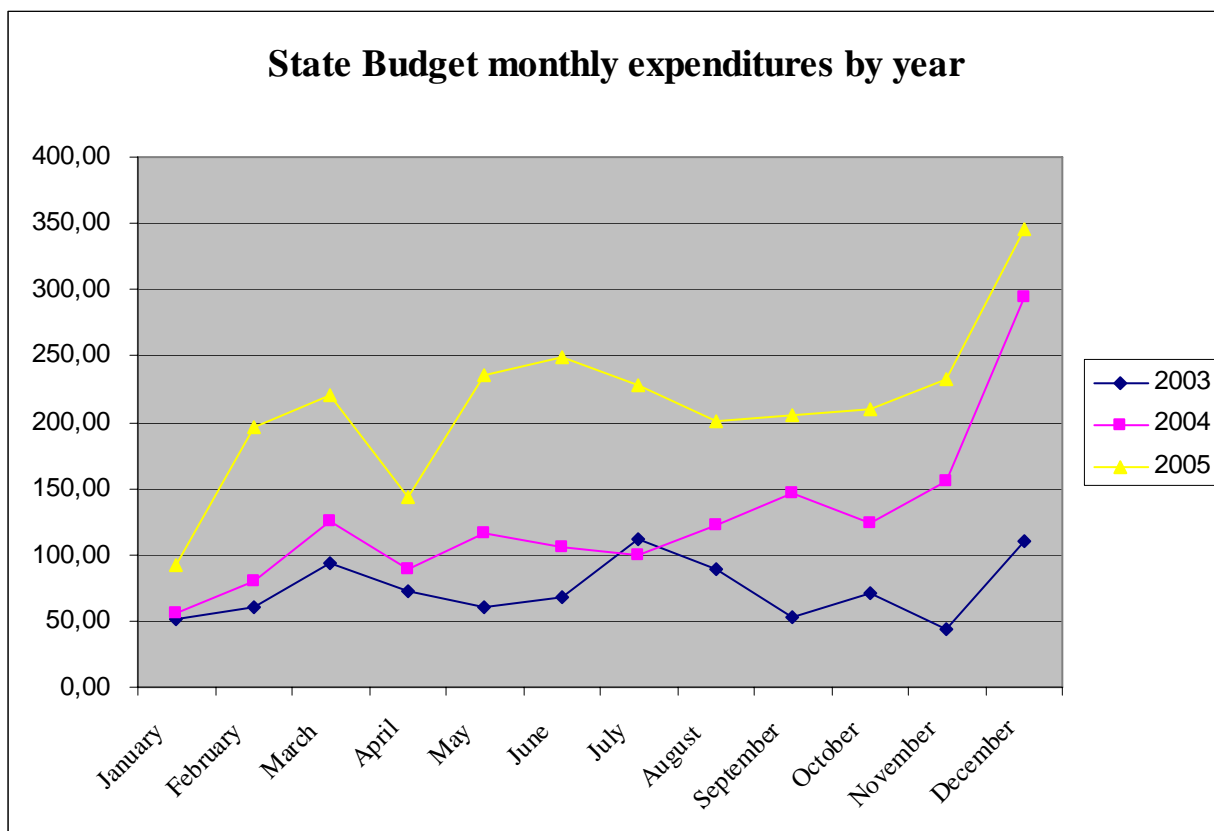
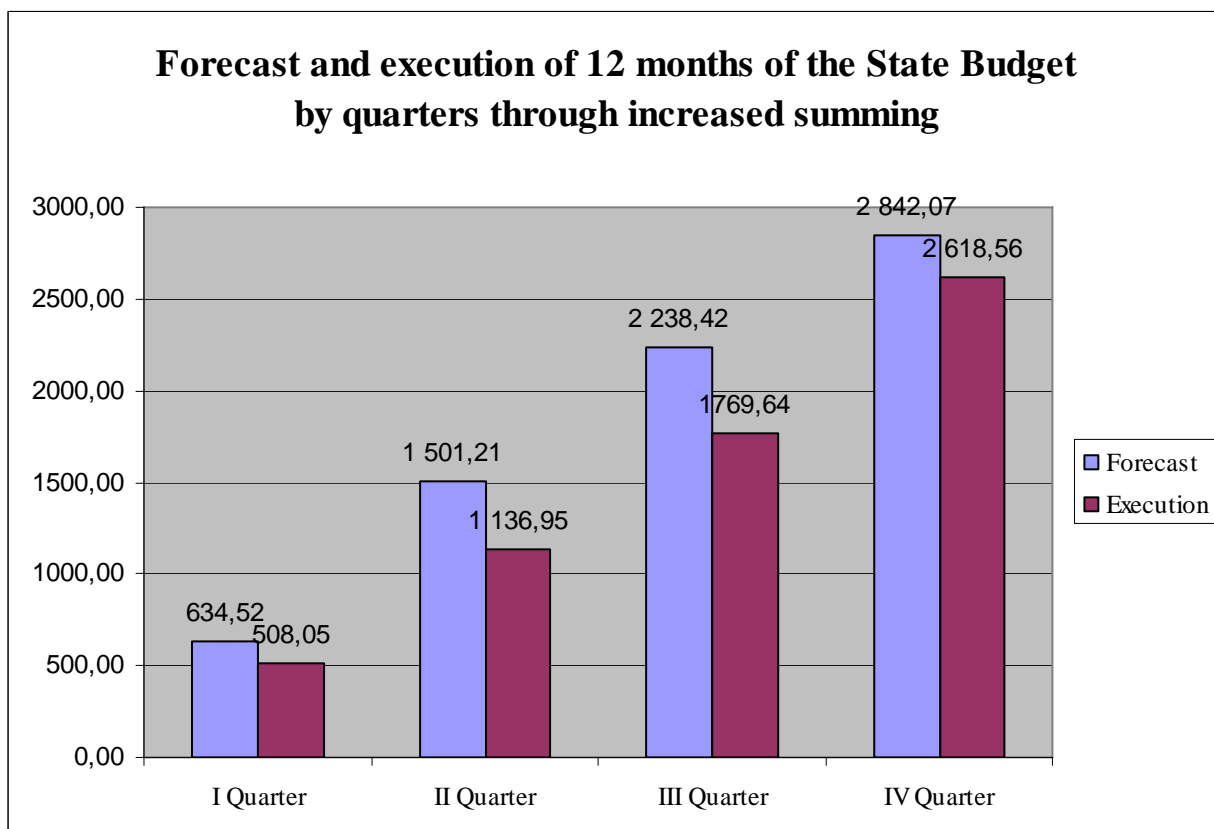


Diagram 5*



Indicators of forecast and real execution of 2005 State Budget points out that in all four quarters expenditure forecast indicators were not executed. (Diagram 6).

Diagram 6*



Revenues and Grants

As the tendency outlined throughout the year indicated Georgia executed 2005 State Budget with considerable surplus. Some experts explained that factor by inappropriate planning of the budget. In particular, the very fact that during the year the budget was for four times reexamined in the direction of its growth creates doubt that during planning artificially reduced planning parameters were inserted in the budget which afterwards required their recalculation.

According to final calculation , in accordance with 12 months forecast, total amount of revenues and grants should have been 2 Billion 497 Million Lari, whereas in real this indicator made 2 Billion 607 Million Lari, because of which the plan was executed 110 Million Lari surplus that is exceeded the planned parameter by 104%. This is a record indicator for the Georgian Budget through entire post Soviet period.

Tax revenues

As it was expected, in total of all mobilized revenues of the 2005 year Tax Revenues had the lion's share – more than 70%. In this area during the year 1 billion 836 million Lari was collected that exceeded the planed figure by 110 million Lari. The growth is more impressive in comparison with data of the year of 2004 (in 2004 only 1 billion and 514 million Lari was mobilized in that area)

In their respective parts the Tax Department (collected 866 million that is 108% of the Plan) and Customs Department (mobilized 970 million, 105% of the Plan) thus they fulfilled the Plan also with record indicator.

Revenues by Taxes

The results of 2005 make it evident that all four Principal Tax Plans are fulfilled by 100% or by higher figure: Out of this sum Social Taxes are mobilized in the largest quantity (429 million that is 12% more than planned), then comes Value Add Tax (987 million, 105% of the Plan), Excise-duty (286 million, 102%) and Customs Tax (123 million, 100%)

VAT still remains as the primary source of filling the Budget (in 2005 the share of VAT in Tax Revenues reached 54%) Social Taxes made 23 % of the Tax Revenues; Excise-duties made approximately 16 %, and from Customs Taxes around 7% was mobilized.

None Tax Revenue

In terms of received revenues surplus took place in the area of None Tax Revenues as well. Instead of planned 263 million it was managed to collect 280 million Lari in this area that ensured 6% surplus fulfillment of the Plan.

Capital Revenues

As for the area of the Capital Revenues here the revenues received from the sale of the fixed capital (privatization deals) have lion's share, though, it was impossible to fully fulfill the Plan (386 million) – shortage exceeded at least 3 million Lari (approximately 1 %). Though, in other areas of the capital revenues, in particular, in sale of land and other none material assets the biggest surplus of the Plan has been fixed – whole 638%. Though, in this case we have to underscore the small figure of the preliminary planned sum, that caused in its turn such big surplus. In general, it was managed to collect 452 million Lari in the area of None Budget Revenues, which is also record figure in comparison with data of previous years.

Shortcomings

As for shortcomings, it has to be particularly mentioned the relatively low indicator of return of credits allocated by the state (87%), also part of grants, where shortage made 14% that is in money terms more than 17 million (104 million Lari instead of planned 121)

Expenditures

The annual Plan of the State Budget of Georgia for 2005 was estimated in the amount of 2 billion and 842 million Lari. Though, as it becomes known from the final results the amount of real expenditure made only 2 billion and 617 Lari that is only 92% of the planned figure (difference-225 million Lari)

The current expenditure turned out to be the largest expenditure article (83% of all expenditures), though, even in this area 172 million Lari missed to fulfill the planned parameter (instead of 2 billion 322 million Lari only 150 million Lari was spent).

Record expenditures

If we look through structure of the expenditure for the 2005 State Budget we will witness quite an interesting scene: almost fifth of total expenditure was directed towards social insurance and social undertakings (19% of all expenditures that is 529 million Lari). Sadly, it is the fact that the second largest expenditure category are sums spent under so called article of “Other Expenditures”, which traditionally are less targeted and lack transparency. At the same time in this area 460 million Lari is spent during 2005. The third largest expenditure comes to defense sector, which reached 390 million Lari in 2005 that is 15% of total expenditures (for example: this figure has increased by 230 million Lari in comparison with 2004).

Deficit

Amount of deficit of the 2005 State Budget made around 344 million Lari. When making more detailed analysis several reasons can be outlined behind that result: In particular, planned funds did not arrive from the emission of state securities (it was envisaged to mobilize 20 million Lari from this area), instead 32 million Lari was allocated from the Budget for “extinguishing” securities issued during previous years.

Besides funds envisaged from the World Bank credits of structural transformation were not fully transferred (instead of 37 million Lari the country got only 24 million Lari about 13 million Lari shortage added to the deficit for this area as well.) And what is most important the country did not receive anticipated amount of long term privileged credits of investment character from international financial institutions and foreign countries’ governments – instead of 233 million Lari only 103 million :Lari was mobilized in this area as a result of which deficit figure only in this position made 130 Lari.

Transfers

Amounts of transfers transferred to regions are also characterized everywhere with more than 90% indicator (Kvemo Kartli region is financed with the least -93%). In accordance with final calculation as well expenditures envisaged in this parameter was financed by 92 % (by 1 billion 274 million Lari instead of planned 1 billion 380 million Lari).

Though, if we recall the example of some regions, the shortcoming is more evident: for example, in Khobi (only 55% of planned transfer was delivered), In Dmanisi (73%), In Tsalka (75%) and so on. Because of not full subsidizing the funds basically missed to finance social type undertakings. We have to also particularly outline the state of expenditures related with ensuring IDPs from not fully financed social undertakings: for example, expenditures of keeping IDPs in places of organized settlements was financed by 88%, other expenditures related with maintaining refugees and IDPs even less – only 85%.

Balances

By January 2006 amount of balance fixed on the account of Treasury exceeded 142 million. It is noteworthy that number of state bodies finished 2005 so that solid funds on their accounts remained unspent. The most conspicuous in this regard are situations at the Ministries of Finance and Energy: The Ministry of Finance instead of planned 696 million Lari utilized only 582 million Lari, and the Ministry of Energy instead of 292 million Lari spent only 230 million Lari. There is same situation in other executive governmental bodies: Ministry of Food and Agriculture (finance plan -54 million Lari, amount of really spent -41 million Lari), Ministry of Environmental and Natural Protection (plan-33 million Lari, real expenditure-25), same in other Ministries or their subordinate agencies. Because of this expenditure policy, by January 1 2006 the state bodies have left 224 million unspent Lari on their accounts.

Taxes

Inaction of new laws and norms derived from them specifically influenced 2005 State Budget planning and its execution, which played substantial role in the processes underway in the country. Among them first of all the new Tax Code should be mentioned which qualitatively altered situation in the economic dimension of the nation.

The Government of Georgia declared from the very beginning that because of the inaction of the Tax Code and series of unpredictable circumstances caused by it it would be quite difficult to precisely plan revenue part of the budget at the preliminary stage and during the year its correction would be inevitable. Tendencies revealed during the past period indicated that that expectation had grounds. Though, increase of revenue parameter of the budget for several times, by hundreds of million Lari indicates that preliminary calculations were very far from real picture and the appropriate estimation of and forecast of the situation at the preliminary stage either did not occur or it was not implemented in an appropriate way.

Reduced Revenues

Inaccuracy of preliminary planning and artificial reduction are best indicated by the figures which appeared in the end of the year. Indicators of once again increased project of the budget submitted to the Parliament at the end of December and its preliminary data turned out to be very different: in comparison with originally received version of the 2005 budget parameter of revenues and grants during the year grew, no more no less, by 610 million Lari (!). Especially this

refers to capital revenues part which instead of planned 94 million in the beginning of the year finally made whole 387 million Lari that is it turned out to exceed original parameter by 311%.

Failed plans

It should be stressed that despite combined increase of revenues still those segment were outlined in which the plan was not executed and the Government for compelled to cover those losses through various manipulations. Excise tax is a case in point, where the planned parameter in the end of the year reduced by 38 million Lari (from 318 to 280) that is by 12% of the plan. This actually confirms opinion of skeptics who often point out that for taxation of locally produced excise goods unjustifiably high tariff was inserted in the Tax Code. The failure took place in the area of taxation of excise good produced on the territory of Georgia. In this area instead of planned 119 million only 64 million was mobilized that is the deficit made 55 million Lari and could not be eradicated: though, the parameter of taxation of imported excise production increased by 17 million by the end of the year but that did not happen to be enough to overlap the losses.

The final outlined picture indicates that budget revenues forecast turned out to be severed from reality to certain extent in terms of import volume and its taxation as well, which was directly reflected in the area of Customs tax mobilization as well. Like the excise tax this year its parameters have also been finally reexamined towards its reduction. As a result, 123 million Lari added to budget from Customs tax. Though, if we take into consideration that until final correction of the budget this indicator equaled to 135 million Lari, it becomes obvious that expectation was higher in this regard as well.

By whom and how is the budget filled

As it is known, tax revenues in Georgia are being formed with sum collected from four basic forms of taxes. During 2005 once again was outlined which taxes to what extent ensure mobilization of budget revenues and what share they have in single basket of taxes.

As it was expected the Value Add Tax remains main filling source of the budget. In unified tax revenues the amount of which in the end is 1 billion 836 million Lari, VAT share was 982 million Lari and this by taking into consideration that from July 1 that is during the second half of the year tariff of VAT was reduced from 20%-to 18%. This is a record indicator in terms mobilizing VAT through entire post Soviet period of Georgia, also in accordance with its share in entire tax revenues which finally equaled to 54%. Respectively, only this single tax made more than half of the total tax revenues, which means that dependence of the budget on this type of tax became even higher.

In unified taxes according to share the second largest is social tax, upon which in the final draft of the budget 393 million Lari that is 22,2% of all tax revenues were defined. This share of the social tax has also permanent character and as analysis of the past days show in combination it is as much as the rest two taxes – excise and customs taken together. The amount of sums mobilized in the form of excise tax despite the failure of above mentioned plan still turned out to be enough that in that area 280 million Lari was collected which made 15,8% of the single basket of tax revenues.

And finally, the fourth source is customs tax, the share of which in the unified taxes is least. The plan which existed before final correction of budget and which we have mentioned also was characterized with tendency for reduction. Though, this will not much influence the final “weight” of this tax, which in 2005 unified taxes makes traditional 7%.

Threat for territorial budgets

In accordance with changes in legislation from 2006 instead of local budgets profit tax will be mobilized in the central budget. And in the form of this tax in 2005 around 200 million Lari was mobilized in the territorial budgets. This year these sums will be at disposal of central budget which bring to agenda both issues of inaction of new expenditure resource and finding additional transfer sources for regions. Otherwise, that will be quite a serious blow for territorial budgets, since they will lose the second largest source of income.

Amount of sums mobilized in local budgets through income tax is exceeded only by revenue tax (2005 that indicator was 280 million Lari). Other revenues are evidently less than this source. For comparison: from property tax in 2005 the local budgets received about 40 million Lari, mainly through selling capital (privatization income) – 33 million, land tax – 22 million, other taxes – even less amounts.

Respectively, new type of redistribution of taxes between the center and regions should be accompanied by the undertakings which will compensate losses for regions. Otherwise, budgetary process will be posed by new threats nationwide, and regions most of them are subsidized by the federal budget will be left without source for existence.

Conclusion

As in the previous years, the budget planning in 2005 did not occur in a proportional format either. Most of the monthly budget plans were much lower than what they should have been in reality, thus creating preconditions which guaranteed excessive execution of the yearly plan. A deficit was registered during correction of the quarterly data, which helped balance the forecast and real revenues.

Despite the irreversible increase of tax revenues, the expenditure policy was not rather adequate. This resulted in the planned expenditures for the year not being fully realized; these expenditures should be covered either in the year of 2006, or not at all. In terms of both mobilization of revenues and carrying out expenditures, the largest burden lay on the fourth quarter, especially November and December, due to the amount of collected taxes and financed expenditure being much higher compared to the previous months. Taking out such large sums out of the market within such short periods of time and releasing them into circulation within itself implies a serious treat of triggering inflation processes.

A solid portion of expenditures carried out in 2005 (10% of all budget expenditures) comes to so called category of “other expenses”, being far from transparent and comprising a high probability of corruption. In this regard, if we estimate fiscal expression of the spent sums in accordance with this article, the largest amount of money spent in 2005 was from these less transparent areas.

Every effort directed towards increasing revenues prioritized the revenue plan of the Customs Department, which basically relied on filling the budget with sums mobilized by taxation of imported goods with VAT.

In general, VAT still remains as the main source of filling the budget with its share within the total revenues irreversibly increasing (in comparison to 2004, this indicator grew by 14% in 2005), and even its tariff being cut by 2% did not effect its growth.

In terms of mobilized sums, the Georgian State Budget of 2005 was of distinctly large scale compared to all its predecessors. Practically, sums flowed from all

areas into the budget in larger quantities than they were planned, due to which the budget grew several times during the year, and rather solidly.

The complete reflection of the increase in revenues could not be reached in the part of expenditures of the State Budget; accordingly a portion of specific expenditures was left without being financed, while the purpose, necessity and cost-effectiveness of an important share of the expenditures carried out is under a question mark.

Unfortunately, similar tendencies are detected in the first months of the year 2006. This, in part, clearly denotes that the budgeting policy of the country is planned and executed with serious errors, which is turning into an irreversible and ailing practice.

The low level of accountability regarding the budget from the side of the government is important to underline, which is demonstrated by concealing certain information and delaying or refusing its disclosure to the civic society. The above mentioned condition generates a belief that there are some suspicious elements in the budgeting process, and necessitates adequate and intensified civil control/participation.