

FactCheck



Zurab Japaridze discusses the problems related to the expenditures of the 2013 budget.



Nutsa TOKHADZE
FactCheck

At the plenary session of the Georgian Parliament held on 30 April 2014, representative of the Parliamentary Minority, Zurab Japaridze, discussed the problems facing the Georgian economy and stated: "The budget of the Ministry of Regional Development and Infrastructure had a deficit of GEL 200 million. The budget designated for the rehabilitation of municipal infrastructure fell short by GEL 55 million resulting in only a 70% budget execution.

The budget for water supply posted a deficit of GEL 60 million with an execution rate of 55%. GEL 50 million was earmarked for the Village Support Programme but the execution equalled 0%. A total of GEL 450 million was designated for the implementation of regional projects but, at the end of the year, the amount spent for this purpose equalled GEL 0. The budget for the Teachers' Professional Education Support Programme fell short by GEL 5.6 million when compared to the planned budget and approximately GEL 4 million less was spent for this purpose than in 2012. In the case of vocational education, the plan for 2013 saw a shortfall of GEL 5.5 million and spent GEL

4 million less than in 2012. GEL 5 million was marked for the Science Restoration Programme but, in the end, GEL 0 was administered for this purpose. The projected budget for the government's learning grants for master's degrees and doctoral grants ran a deficit of GEL 11 million with GEL 3 million less having been spent in this direction than in 2012. The budget of the Ministry of Labour, Health and Social Affairs fell short by GEL 200 million and the healthcare programme's budget, in particular, saw a shortfall of GEL 266 million."

FactCheck inquired about the expenditures of the state budget of Georgia and verified the facts indicated by the MP.

First and foremost, it should be clarified that the Budgetary Code of Georgia mentions no such term as a 'budgetary shortfall.' The Code employs the term 'budgetary plan execution/failure of execution.' In general, the term 'budgetary shortfall' can be used when the budgetary revenues fall short of the projected amount or the expenditures foreseen in the budget have not been fully executed. Accordingly, the meaning of this term in a particular statement depends upon the author of the statement and his personal interpretation of the concept.

It is also worthwhile noting that the employment of less funds than foreseen in the budgetary plan can be described as an economically negative factor as the planned expenditures have their own purpose and are designated for the implementation of specific projects and activities. Employment of less financial resources than envisaged in the plan implies that some of the activities planned for the year have not been implemented. However, there are cases when the activities are implemented according to the plan but they use up less resources than originally projected in the budget. At first sight this fact seems to be very favourable as the planned projects were executed with less resources, however, this scenario has certain negative aspects as well (although outweighed by the positive aspects of the fact). When the implementation of specific operations requires less funds than were expected in the budgetary plan, it is entailed that the expenditures were not projected accurately and the saved funds could have been employed for the execution of other projects (the projects which were urgent in that year and could not have been delayed to

the next). Consequently, in any of the abovescribed scenarios, the failure of the execution of budget expenditures is an unfavourable fact for the economy.

As can be gathered from the above table, the budget of the Ministry of Regional Development and Infrastructure fell short by GEL 102 million when compared to the projected budget of 2013 while in comparison to the revised budget the shortfall amounted to GEL 205 million. The budget designated for the rehabilitation of regional and municipal infrastructure fell short by GEL 55 million when compared to the initial plan having an execution rate of 70%. The budget earmarked for the restoration-rehabilitation of the water supply infrastructure saw a shortfall of GEL 60 million with the execution rate equalling 55%. The budget allocated for the support of teachers' professional development fell short by GEL 5.6 million when compared to the approved budget while the budget designated for vocational education had a shortfall of GEL 5.5 million. The budget of the government's learning grants for master's degrees, doctoral programmes and youth encouragement programmes revealed a shortfall of GEL 11 million as compared to the initial approved plan. The shortfall in the budget of the Ministry of Labour,

Health and Social Affairs amounted to GEL 219 million while the funds earmarked for the healthcare programme fell short by GEL 266 million. This data confirms the figures indicated by the MP.

As for the Village Support Programme, the Regional Projects Fund and the Science Rehabilitation Programme, at first glance the above table seemingly confirms that GEL 0 was administered for these programmes but, in actuality, this impression is false. The data shown in Table 1 is taken from the 2013 Budget Execution Report (specifically, Chapter 6, entitled "Allocation of Allotments of the State Budget according to Programme Classification"). The data given in the factual execution (0) implies that the funds were allocated to municipalities and spending institutions only based upon their detailed plan of the funds' allocation) and, consequently, their spending was recorded by the municipalities and spending institutions. Detailed information on the expenditures of the Village Support Programme and the Regional Projects Fund can be found in the same execution report of the 2013 state budget under a different chapter (specifically, Chapter 3, entitled "State Budget Allotments").

TABLE 1: Execution of 2013 Budget Expenditures

GEL Thousand	Approved Plan of 2012	Revised Plan of 2012	Factual Execution of 2012	Difference from the Approved Plan	Difference from the Revised Plan	Execution of the Approved Plan (%)	Execution of the Revised Plan (%)
Ministry of Regional Development and Infrastructure	901,000.0	1,003,599.8	798,595.1	-102,404.9	-205,004.7	88.6	79.6
Rehabilitation of regional and municipal infrastructure	181,937.0	221,846.8	127,082.1	-54,854.9	-94,764.7	69.8	57.3
Rehabilitation of water supply infrastructure	130,663.0	138,731.5	71,469.6	-59,193.4	-67,261.9	54.7	51.5
State-wide taxes	2,208,854.1	1,948,323.7	1,808,828.3	-400,025.8	-139,495.4	81.9	92.8
Village Support Programme	50,000.0	200.0	0.0	-50,000.0	-200.0	0.0	0.0
Regional Projects Fund	449,300.0	26,814.0	0.0	-449,300.0	-26,814.0	0.0	0.0
Ministry of Education and Science of Georgia	670,000.0	686,284.8	675,923.0	5,923.0	-10,361.8	100.9	98.5
Teacher's Professional Education Support Programme	20,259.0	15,430.9	14,626.9	-5,632.1	-804.0	72.2	94.8
Vocational Education	19,793.0	15,668.9	14,301.6	-5,491.4	-1,367.3	72.3	91.3
Support for the Science and Scientific Research Programme	5,000.0	0.2	0.0	-5,000.0	-0.2	0.0	0.0
Government's learning grants for master's degrees, doctoral programmes and the youth encouragement programmes	70,600.0	61,187.6	59,211.6	-11,388.4	-1,976.0	83.9	96.8
Ministry of Labour, Health and Social Affairs	2,345,000.0	2,345,000.0	2,126,457.0	-218,543.0	-218,543.0	90.7	90.7
Healthcare Programme	505,760.0	382,380.8	239,539.9	-266,220.1	-142,840.9	47.4	62.6

Source: Ministry of Finance of Georgia; mof.ge

As can be seen from Table 2, only GEL 270 thousand of the GEL 50 million total funds allocated for the Village Support Programme remain unspent while only GEL 67 million of the GEL 448 million total funds designated for regional projects are not administered. As for the Science Rehabilitation Programme, its indices are retained at univer-

sities and are not reflected in the budget execution report. However, Table 1 does reveal that only GEL 0.2 thousand was earmarked for the Science Rehabilitation Programme according to the revised budget (that is to say; all but the remaining GEL 0.2 thousand had already been transferred to spending institutions).

Evidently, in this part of his statement the MP was clearly mis-

taken. We allow for the possibility that the MP simply did not pay attention to the chapter of the report which presents detailed information on budget executions and, therefore, overlooked the crucial data related to the points he discussed in his statement.

For a more comprehensive analysis of the budget sectors discussed above, we also examined the data of 2012.

TABLE 3: Execution of 2012 Budget Expenditures

GEL Thousand	Approved Plan of 2012	Revised Plan of 2012	Factual Execution of 2012	Difference from the Approved Plan	Difference from the Revised Plan	Execution of the Approved Plan (%)	Execution of the Revised Plan (%)
Ministry of Regional Development and Infrastructure	717,115.1	767,980.0	655,075.2	-62,039.9	-112,904.8	91.3	85.3
Rehabilitation of regional and municipal infrastructure	76,266.8	114,526.0	75,295.5	-971.3	-39,230.5	98.7	65.7
Rehabilitation of water supply infrastructure	104,010.0	102,960.0	72,943.3	-31,066.7	-30,016.7	70.1	70.8
State-wide taxes	1,943,877.3	1,725,715.1	1,683,369.0	-260,508.3	-42,346.1	86.6	97.5
Village Support Programme	50,000.0	0.0	0.0	-50,000.0	0.0	0.0	0.0
Regional Projects Fund	410,000.0	22,516.1	0.0	-410,000.0	-22,516.1	0.0	0.0
Ministry of Education and Science of Georgia	625,781.7	633,531.7	626,777.4	995.7	-6,754.3	100.2	98.9
Teacher's Professional Education Support Programme	19,989.3	18,614.4	18,481.8	-1,507.5	-132.6	92.5	99.3
Vocational Education	15,971.8	18,489.3	18,356.7	2,384.9	-132.6	114.9	99.3
Support for the Science and Scientific Research Programme	27,793.1	18,596.6	18,524.4	-9,268.7	-72.2	66.7	99.6
Government's learning grants for master's degrees, doctoral programmes and the youth encouragement programmes	67,543.2	63,363.6	62,091.6	-5,451.6	-1,272.0	91.9	98.0
Ministry of Labour, Health and Social Affairs	1,821,816.2	1,823,154.6	1,793,862.8	-27,953.4	-29,291.8	98.5	98.4
Healthcare Programme	170,530.0	156,970.0	153,304.8	-17,225.2	-3,665.2	89.9	97.7

Source: Ministry of Finance of Georgia; mof.ge

As for the Village Support Programme, its unemployed funds amassed GEL 89 thousand in 2012 which is less than the same indicator of 2013 (GEL 269 thousand). In the case of regional projects, a total of GEL 9 million remained unspent which is again less than the same indicator of 2013 (GEL 67 million). We tried to examine the previous year's record of the Science Rehabilitation Programme but it did not exist in 2012 and so we chose the

TABLE 5: Indices of Educational Programmes of 2012 and 2013

GEL (Thousand)	2012 (Fact)	2013 (Fact)	Difference
Teacher's Professional Education Support Program	18,481.8	14,626.9	-3,854.9
Vocational education	18,356.7	14,301.6	-4,055.1
Government's learning grants for master's degrees, doctoral programmes and youth encouragement programmes	62,091.6	59,211.6	-2,880.0

Source: Ministry of Finance of Georgia; mof.ge

programme most closely related to the one under review for our analysis; that is, the Support for Science and Scientific Research Programme. As can be drawn

from Table 3, a total of GEL 27 million was earmarked for this programme and at the end of the year we observe a shortfall of GEL 9 million.

in 2013 than in the preceding year. These figures precisely correspond to the numbers named by Zurab Japaridze.

Category: Budget

As can be gathered from Table 5, approximately GEL 4 million less was spent on the Teachers' Professional Education Support Programme and vocation-

al education in 2013 than in 2012 while the budget of the government's learning grants for master's degrees, doctoral programmes and youth encouragement programmes spent roughly GEL 3 million less

TABLE 2: Indices on the Village Support Programme and the Regional Projects Fund

2013 (GEL Thousand)	Annual Plan	Transferred Amount	Unspent Amount
Village Support Programme	49,993.8	49,723.9	269.9

2013 (GEL Thousand)	Amount Defined in Normative Acts	Allocated Amount	Budget Expenditure	Deviation
Regional Projects Fund	448,328.0	422,486.0	355,321.0	67,165.0

Source: Ministry of Finance of Georgia; mof.ge

same indicator of the following year stood at GEL 5 million. The budget of the government's learning grants for master's degrees, doctoral programmes and youth encouragement programmes had a shortfall of GEL 5 million which is notably less than the indicator of 2013 (GEL 11 million). The budget of the Ministry of Labour, Health and Social Affairs fell short by GEL 28 million in 2012, once again being notably lower than

the indicator recorded in 2013 (GEL 218 million). As for the healthcare programme budget in particular, it endured a shortfall of GEL 17 million in 2012 being far less than the indicator of 2013 (GEL 266 million).

As becomes evident from these indicators, we observe a notably more favourable situation in the expenditures of the abovementioned budget sectors in 2012 than in 2013.

TABLE 4: Indices on the Village Support Programme and the Regional Projects Fund

2012 (GEL Thousand)	Annual Plan	Transferred Amount	Unspent Amount
Village Support Programme	50,000.0	49,910.4	89.6

2012 (GEL Thousand)	Allocated Amount	Budget Expenditure	Deviation
Regional Projects Fund	387,483,876.2	378,950,197.2	8,533,679.0

Source: Ministry of Finance of Georgia; mof.ge

CONCLUSION

In the course of our inquiry about the accuracy of Zurab Japaridze's statement it was established that apart from the Village Support Programme, the Regional Projects Fund and the Science Rehabilitation Programme, the figures indicated by the MP are accurate. Additionally, our analysis of the 2013 indices against those of 2012 revealed the negative dynamics in the expenditures of the budget sectors indicated by the MP which was manifested in the notably larger deficits.

We conclude that Zurab Japaridze's statement is **MOSTLY TRUE**.

MOSTLY TRUE

The German Marshall Fund of the United States

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Five Must-Read Books if You Want to Become Rich

If you are wondering how you can become richer and cleverer, if you are an entrepreneur or working in development, then you should read the following books recommended by Adam Pellillo, Assistant Professor at the International School of Economics at Tbilisi State University (ISET).

TRIUMPH OF THE CITY: HOW OUR GREATEST INVENTION MAKES US RICHER, SMARTER, GREENER, HEALTHIER, AND HAPPIER BY EDWARD GLAESER (2011)

If you'll be in Tbilisi this summer, wondering how we can all become richer, smarter, greener, healthier, and happier, Edward Glaeser's *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier* is perhaps a decent starting point. Looking at cities ranging from Kinshasa to New York, Glaeser explores what is at the root of the prosperity (or poverty) of some of the world's largest urban centres. The new mayor of Tbilisi might find Glaeser's analysis very useful.

GEORGIA: A POLITICAL HISTORY SINCE INDEPENDENCE BY STEPHEN JONES (2012)

While the title may not suggest it, this exceptionally well-written book touches on many aspects of the Georgian economy. It also illustrates the complex relationship between politics and economics more broadly. As is shown in his writing, Jones has spent a considerable amount of time in Georgia and has a deep understanding of the challenges facing policymakers, business owners, and citizens across the country.

UNDERSTANDING GLOBAL TRADE BY ELHANAN HELPMAN (2011)

With the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European

Union slated to go into effect later this year, understanding what might be required of firms and the Government to get the shipping containers in Batumi and Poti filled to their brims is of the essence. While somewhat more technical than the other books listed above, Elhanan Helpman's *Understanding Global Trade* is an accessible and important introduction to the determinants of trade around the world.

THE IDEALIST: JEFFREY SACHS AND THE QUEST TO END POVERTY BY NINA MUNK (2013)

If you are working in development, Nina Munk's poignant critique of economist Jeffrey Sachs' Millennium Villages Project is a must-read. While the context is quite different than that in Georgia, Munk's analysis of the challenges faced during the implementation of this project offers insights to consider when crafting your next proposal.

NOTHING TO ENVY: ORDINARY LIVES IN NORTH KOREA BY BARBARA DEMICK (2010)

The Nobel-prize winning economist, Joseph Stiglitz, once argued that "a study of less developed countries is to economics what the study of pathology is to medicine; by understanding what happens when things do not work well, we gain insight into how they work when they do function as designed." By looking at the case of North Korea, one observes the human consequences of totalitarian politics and distorted economics. It is perhaps one of the best ways of learning why the "rules of the game" matter for an economy and what happens to individuals' well-being when economies do not function as they should.

Prepared for print by Madona Gasanova, The FINANCIAL

"EU Says Georgia Is Ready. That Means Georgia Is Ready!" EBRD

Continued from p. 8

opportunity, but the full benefits, and indeed the full potential of the economy, can only be realized if there is also an effort by the Government to accelerate the pace of reforms, strengthen institutions and further improve the investment climate. By capitalizing on the significant achievements of the past and by implementing further forward-looking reforms, Georgia can ensure that economic growth is sustained through the coming years for the benefit of Georgian citizens.

Georgia is in an excellent position to enjoy the advantage of having a robust locally-owned banking sector as well as a committed local business community. We believe, therefore, that there are significant opportunities to seize, both for you and for us.

Depending on what tariffs and customs there are and what non-tariff barriers there are at the moment, the benefit might be larger for some, and smaller for others. If you have a product which has high tariffs and those are going to be abolished, that will be a benefit for the exporter. If you have another product which has small tariffs and hardly any non-tariff barriers, then it is a smaller benefit.

The EBRD is set to do even more in Georgia, building on its strong track record of investing, and facilitating oth-

ers to invest in Georgia.

Q. Could you please tell us in greater detail how EBRD is going to do "even more" in Georgia?

A. We have recently approved a new strategy for Georgia for the next few years. It is based on three pillars, the development of the private sector, with a specific focus on MSMEs and with the support of the local banking system; the development of energy generation, particularly from renewable sources and hydropower, which will ensure energy independence and generate additional exports; the promotion of regional integration, taking advantage of Georgia's strategic location between the west and the east, and increasingly between the north and the south.

These are important priorities, which are in line with the Government's own strategy for 2020.

In implementing these strategic priorities, EBRD will continue working both with the public and private sectors, across all economic sectors, and with foreign and local private companies.

In terms of investment opportunities, we now have a strong pipeline of potential new opportunities in various sectors of the economy, in particular in hydropower, food processing, hotel infrastructure and services. We hope to see more opportunities to invest in the development of light industry.

Over the last couple of weeks, we have subscribed important commitments to support the development of two new hydro power plants in Georgia and to roll out a new network of CNG (Compressed Natural Gas) stations through the country to offer more efficient and environmentally-friendly fuel alternatives to motorists.

Q. What will be the biggest challenge for SMEs while adjusting to EU regulations and how ready is Georgia to sign the AA in the coming days?

A. The EU is saying that Georgia is ready. That means that Georgia is ready!

EU technical and quality standards, for instance in the food industry, are extremely strict. I am not saying it will be at all easy to meet those standards for those who have not done it. For new companies, new exporters, this is going to be a struggle. But it is an investment and effort that I believe will be very worthwhile.



Davit Narmania speaks about infrastructural projects carried out in 2013.



Lasha SENASHVILI
FactCheck

On 11 April 2014, the former Minister of Regional Development and Infrastructure of Georgia, Davit Narmania (current Tbilisi mayoral candidate), presented a report on activities implemented in 2013 at his final briefing as Minister. According to Narmania, 260 km of roads were rehabilitated in 2013 which represents 60 km more than was done in 2012. He also indicated that 45 bridges and five tunnels were rehabilitated in 2013 while only 28 bridges and two tunnels received rehabilitation work in 2012.

Narmania also spoke about the Village Support Programme and regional infrastructural projects implemented as a part of the Regional Development Programme. According to his statement, the total cost of the projects that were carried out in 2013 within the framework of the abovementioned programmes comprised more than GEL 270 million and is an amount which is unprecedented if compared to the previous years. As Narmania put it, different from the previous years the greatest amount of money was spent on infrastructural projects in 2013. As many as 8,000 small and medium sized infrastructural projects were carried out overall.

FactCheck took interest in the abovementioned statement and inquired about its accuracy.

FactCheck contacted the Roads Department of Georgia for information related to road infrastructure. In response to our inquiry the Department reported that the state budget funded the rehabilitation of 117 infrastructure items in 2013. The total length of rehabilitated roads comprised 190.3 km. The 2013 state budget allocated GEL 214,093,000 for the reconstruction and rehabilitation of roads. The factual cash expenditure was

GEL 195,193,280 comprising 91.17% of the initial plan.

In 2012 the state budget funded the rehabilitation of 82 infrastructure items with the total length of rehabilitated roads comprising 108.9 km. For repairing and rehabilitating road sections, the state allocated a total of GEL 128,615,000 in 2012. The factual cash expenditure covered GEL 117,085,260 comprising 91.04% of the initial plan. The detailed list of rehabilitated road sections of 2012-2013 is available at the following links (Road Rehabilitation 2013, Road Rehabilitation 2012).

FactCheck also got in touch with the Municipal Development Fund of Georgia. According to the information provided to us, the Fund rehabilitated up to 7.76 km of road sections in 2012 with the assistance of the state budget that comprised a total of GEL 1.5 million overall. As for the data of 2012, the state budget provided a total of GEL 6.7 million for the rehabilitation of road sections amounting to a total length of 11.8 km.

FactCheck also researched the issue of rehabilitated bridges and tunnels in 2012-2013. Based upon the information obtained from the Ministry of Regional Development and Infrastructure of Georgia, a total of 45 bridges and three tunnels were rehabilitated and nine new bridges were constructed in 2013 in accordance with the plan. As for 2012, these numbers comprised 28, two and three, respectively.

FactCheck also investigated the second part of Davit Narmania's abovementioned statement regarding the Village Support Programme and regional projects. Based upon the *Report on the Accomplishment of the State Budget of Georgia 2013*, the state allocated a total of GEL 49,993,800 for self-governing units within the framework of the Village Support Programme in 2013. Upon the request of self-governing units, GEL 49,723,900 from this amount were transferred to the municipal units.

A total of GEL 307,296,600 was allocated for infra-

structural projects in 2013. The municipalities received GEL 233,122,300 from this amount based upon the request of self-governing units. According to the *Report on the Accomplishment of the State Budget of Georgia 2013*, the overall expenditures for the Village Support Programme and Regional Development Programme infrastructural projects comprised GEL 282,846,200.

FactCheck also took interest in the respective data of 2012. The *Report on the Accomplishment of the State Budget of Georgia 2012* contains information on both the Village Support Programme and the Regional Development Programme. According to this report, the state allocated a total of GEL 50,000,000 for the Village Support Programme in 2012. The local municipalities were provided GEL 49,910,400 from this amount upon the request of self-governing units. As for the implementation of regional infrastructural projects, the state allocated GEL 298,571,200 for these purposes in 2012 while local municipalities received GEL 296,671,100 from this amount upon the request of self-governing units.

According to the *Report on the Accomplishment of the State Budget of Georgia 2012*, the total amount spent on the Village Support Programme and regional infrastructural projects implemented under the Regional Development Programme comprised GEL 346,581,100.

Of further note is the fact that FactCheck acquired no information about the actual cash expenditures of the municipal units for infrastructural projects at this stage.

Davit Narmania also spoke about the construction of the express highways as well as all the infrastructural projects implemented in 2013 at his final briefing. FactCheck already inquired about these issues in the past and confirmed the accuracy of Narmania's statement.

Category:
Infrastructure

CONCLUSION

The information of the Roads Department of Georgia showed that 190.3 km of road sections were rehabilitated in 2013 while this number equalled 108.9 km in 2012. Therefore, the length of repaired road sections is 81 km more than in the previous year. Road rehabilitation was also done by the Municipal Development Fund of Georgia: 7.76 km of road section repairs were paid for by the Fund in 2013 while 11.8 km of road repairs were funded in 2012. The total length of rehabilitated road sections in 2013 did not amount to 260 km as reported by Davit Narmania. As for the bridges and tunnels, Narmania's statement is accurate.

The second part of Narmania's statement, however cannot be regarded as accurate since the total cost of the projects implemented within the Village Support Programme and the Regional Development Programme consisted of GEL 282,846,200 and which in fact is not the highest indicator observed within these programmes. The state allocated a total of GEL 346,581,100 for both of the abovementioned programmes in 2012.

Therefore, FactCheck concludes that Davit Narmania's statement is HALF TRUE.

HALF TRUE



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