

FactCheck



Davit Berdzenishvili:

Parliamentary Majority

“The Ministry of Finance failed to meet the requirements of the law and did not divide the income tax between the centre and the local self-government.”

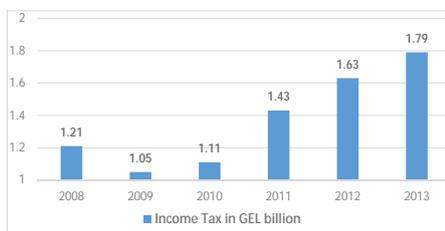
Rati BAKHTADZE
FactCheck

On 31 October, during the plenary session of the Parliament of Georgia, member of the Parliamentary Majority, Davit Berdzenishvili, stated: “The Ministry of Finance failed to meet the requirements of the law and did not divide the income tax between the centre and the local self-government.”

The Local Self-Government Code came into force on 15 June 2014 and it made important changes in the sphere of local self-government.

Before reviewing how income tax is allocated, it is important to know from where municipalities receive funding. The municipalities (self-governing cities and self-governing communities) are independent in planning and allocating their own budget (Article 90). The budget of a municipality consists of internal and external receipts. External receipts include funds received as aid from the state budget and/or the autonomous republic budget:

- Cohesion transfer – funds allocated from the state budget to the local self-governmental entity budget according to a fixed formula, aiming to let the self-governing entity exercise its authority
- Capital transfer – for the



implementation of a target capital project

- Special transfer – for the liquidation of the damage done by a natural disaster, ecological or any other catastrophe, hostility, epidemic or any other emergency situation
- Target transfer – funds received for the exercise of delegated authorities
- Loan
- Received grant

The Budget Code of Georgia includes a precise definition of internal receipts. A table defining the sources and percentage of the funds that are transferred to the local self-government budget is attached to the appendix of the Budget Code of Georgia.

As of today, no funds are left in the local self-government budget from income tax as all funds are being mobilised in the state budget. The incomes received by the state budget from income tax are shown below:

As can be seen, income tax holds an important place in

the state budget.

The transitional statutes of the Local Self-Government Code (as of 30 July 2014) state that the Ministry of Finance of Georgia had to present a bill on Amending the Budget Code of Georgia before 1 September 2014. One of the goals of the bill would have been to define the proportions and mechanisms for the allocation of funds between the budgets of the different levels (central, autonomous and local). The Ministry of Finance is yet to present the bill to Parliament regarding the allocation of income tax.

It is unknown what share the local self-government will receive from income taxes but considering international experience, the share of local incomes in local budgets is 30%-35% whilst in countries such as France, Switzerland, Sweden and Denmark the rate reaches 75%. One of the best examples of income tax allocation is in Slovakia where 70.3% of the income tax stays in the local budget.

CONCLUSION

Even though the Local Self-Government Code directly obliged the Ministry of Finance of Georgia to prepare a bill, it did not meet this requirement. The abovementioned allocation of income tax would provide the local self-governments with even more incomes and facilitate the process of government decentralisation.

FactCheck concludes that Mr Berdzenishvili's statement: “The Ministry of Finance failed to meet the requirements of the law and did not divide the income tax between the centre and the local self-government,” is TRUE.

TRUE



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Carlson Rezidor Announces Second Park Inn by Radisson Tori Tbilisi

The FINANCIAL

Carlson Rezidor expands its presence in Georgia and announces a partnership agreement with Block Geo Group to develop the Park Inn by Radisson Tori Tbilisi. It is Carlson Rezidor's second Park Inn under development in the capital city – both complement the existing Radisson Blu hotel in town. All across Georgia, Carlson Rezidor now operates and develops six properties.

“Georgia is a key growth market for us, and we are delighted to further strengthen our network across the country together with our partners”, said Wolfgang M. Neumann, President & CEO of Rezidor.

Park Inn by Radisson Tori Tbilisi will feature 180 guest rooms, an all-day dining restaurant with 240m² and a lobby lounge bar area of 120m². Furthermore, the hotel will offer a meeting space totalling 215m² and parking space.

The hotel will have an excellent central location just off the main commercial street of Tbilisi and only 200 meters from the Georgian Houses of Parliament. The Expo-Georgia Exhibition Centre, with over 139,000m² conference and exhibition space is located only 5km away. The international airport of Tbilisi is located 14km from the hotel and serves 27 destinations with increasing numbers in



the summer months. Air traffic has shown exponential growth, reaching an all-time peak of ca. 1.5 million passengers in 2013 amounting to an 18% increase year-on-year.

Park Inn by Radisson is Carlson Rezidor's young and dynamic mid-market core brand. It is currently being re-designed as compelling and competitive offer for the growing guest clientele of Generation X and Y and features innovative services based on the three pillars choice – connectivity – control.

Block Geo Group (BGG) is the former Georgian construction firm Medimex, founded in 1993. In 1996, Medimex and Block a.s. (Czech engineering company) created joint-venture Block Georgia. Since then, company has entered other sectors as well: healthcare, development, hospitality, logistics, insurance, retail, and energy.

Today, company employees more than 5,000 people.

In 2007, Group has acquired a 41-room Tori hotel, in the center of Tbilisi, at Chanturia Street 10, and also several land plots in all big cities of the country, such as: Tbilisi, Kutaisi, Zugdidi, Batumi and Poti.

In 2011, our hospital network reached more stable situation and group decided to pursue initial goals in the hotel development. In the same year, the occupancy rate in the hotel reached 73%. Also, the number of tourists in the whole country is significantly growing, reaching each year an average growth rate of 35%.

Block Geo Group management decided that it needs strong presence in the capital of Georgia, where is the most number of tourists. The group plans to develop another mid-scale hotel in the capital of Georgia in next 3 years.

Georgia has the Second Highest Deposit Rates in Europe

Continued from p. 5

public has the best offer for consumer loans. With an annual 7.5%, the Bank leads the list of the best options for lenders. It is followed by BasisBank with 8.8%; KSB Bank – 8.9%; Bank of Georgia – 9%; TBC Bank – 11%; Halyk Bank – 12%; VTB Bank Georgia – 13.5%; Liberty Bank – 14%; ProCredit Bank – 14.5%; BTA Bank, Constanta and Capital Bank – 16%. Meanwhile, the leaders in the best offers for

depositors have less attractive options for borrowers. Privat-Bank and Progress Bank offer consumer loans with 18%.

According to NBG, the total credit portfolio, including overdue loans, amounted to GEL 11,859,607 thousand as of 1 November, 2014. The sum was GEL 9,686,924 thousand last year. The annual weighted average interest rate on commercial banks' loans amounted to 14% for the third quarter of 2014, down from 15.7% from the prior-year period.

The volume of overdue loans

reached GEL 527,512,000 by November 2014, up from the 498,926,000 from the same period of the previous year.



& Did you know?

The FINANCIAL is read by nearly 75% of Top FINANCIAL Decision-makers in Georgia.

It reaches more CEO's than all Georgian newspapers combined.

Source: Global Idea



The Darkest Side of Online Harassment: Menacing Behavior

The FINANCIAL – Forty percent of adult internet users have personally experienced some kind of online harassment, most of it involving things like name-calling or attempts to embarrass someone. But there are also more menacing forms of harassment such as physical threats, and today, the Supreme Court will hear a case that weighs when threatening speech on social media breaks the law, according to Pew Research Center.

The case involves a Pennsylvania man who had been convicted of making violent threats on Facebook against his estranged wife and others. The argument pits prosecutors against free speech advocates over whether the man's posts constituted a "true threat" or whether it was "protected speech" under the First Amendment.

The case mirrors similar issues being wrestled with in the online world. Our recent study of online harassment noted, "At a basic level, there is no clear legal definition of what constitutes 'online harassment.'" Traditional notions of libel, slander, and threatening speech are sometimes hard to apply to the on-

line environment."

The two most common forms of online harassment for both men and women are being called offensive names or being personally embarrassed, according to a survey we conducted last spring. The more serious forms of harassment are less frequent: 10% of men and 6% of women said they had been physically threatened on online platforms and similar shares said they had been harassed for a sustained period of time, stalked or sexually harassed, according to Pew Research Center.

Another Pew Research study showed there are clearly times when social media activity does spill into the real world with harmful consequences, including physical fights, family feuds, and disputes that caused them trouble at work.

Young women (ages 18 to 24) are particularly vulnerable to some of the more serious forms of online harassment, according to our 2014 survey. They are significantly more likely to say they have been stalked or sexually harassed than men, although roughly equal shares of both men and women say they

have been physically threatened or were victims of sustained harassment.

The survey also probed internet users on incidents of harassment that they witnessed online: About a quarter (24%) said they had seen someone being physically threatened, 19% reported seeing sexual harassment and 18% saw incidents of stalking. Another quarter said they had witnessed someone being harassed for sustained periods of time online.

About 5% of those who said they were victims of harassment reported the problem to law enforcement while another 22% reported the person responsible to the website or online service they were using. (The Telecommunications Act of 1996 does not hold website administrators liable for content posted by users.)

Victims have a range of reactions to online harassment: 28% said they found it extremely or very upsetting, while 52% regarded it as just a little or not at all upsetting, with the remainder characterizing it as "somewhat" upsetting, according to Pew Research Center.



Nodar Khaduri:

Minister of Finance of Georgia

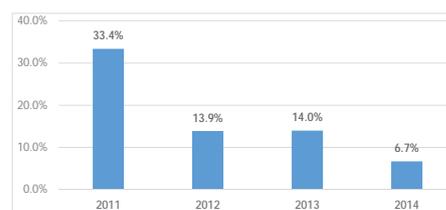
"According to 2014's data, export has increased significantly..."

Teona ABSANDZE
FactCheck

On 14 November, Minister of Finance of Georgia, Nodar Khaduri, stated: "From 2014's parameters, I want to point out the increase in export. Export has significantly increased. Export with the EU countries has increased by 23%. As for CIS countries, the decrease in export in this case is mainly due to the new regulations which concerned the export of motorcars from Georgia to these countries."

According to the June-September data of 2014, Georgia's export volume amounted to USD 2,153 million. Export increased by 6.7% as compared to the same period of the last year. We analysed the dynamics of the increase in export in the same period (January-September) of the previous years. According to the nine-month data from 2011-2013, for example, the export increase rate was much higher than in the same period of 2014.

Of note is that the export volume of the third quarter decreased by 6.2% as compared to the same quarter of the last year. The export-oriented economic growth is extremely important for a small market such as Georgia. The only important increase according to the nine-month data of 2014 occurs in the Russian market (104% increase). The risk of Russia



Source: National Statistics Office of Georgia

closing its market to Georgia owing to political motivations remains a consideration (see FactCheck's article).

Mr Khaduri also pointed out the increase in the export to EU countries. In January-September of 2014, the export to EU countries grew by 23% as compared to the respective data of the last year and amounted to USD 458 million. The export to CIS countries increased only by 1% and totalled USD 1,128 million. Of note is that the export to EU countries decreased by USD 28 million in the third quarter of this year.

Based upon the three-quarter data of 2014, the share of the CIS countries in the gross export is 52% whilst the share of the EU countries amounts to 21%. In the same period of 2013, CIS countries shared 56% of the gross export whilst EU countries shared 18.5%. Therefore, based upon the three-quarter data of this year, the share of CIS countries in the gross export has decreased whilst the share of EU coun-

tries has increased. Of note is that the export volume to EU countries is 2.5 times less than the export volume to CIS countries.

The export volume with Azerbaijan, as Georgia's largest trading partner, has decreased significantly. According to the nine-month data of 2014, production valued at USD 529 million was exported to Azerbaijan whilst in the same period of 2014 this amounted to USD 426 million. As Mr Khaduri says, the decrease in the export to CIS countries was mainly due to the decrease in motorcar export which in turn was caused by new motorcar import regulations in place in Azerbaijan. According to the data of the National Statistics Office of Georgia, the main reason for the decreased export to Azerbaijan was indeed the decrease in motorcar export. In total, export to Azerbaijan decreased by USD 103 million in 2014 with USD 96 million of this amount comprising revenues from motorcar export.

CONCLUSION

According to the January-September data of 2014, Georgia's export increased by 6.7% as compared to the same period of the last year. Although, the export increase rate went down. In addition, according to the data of the last months (the third quarter of 2014), export volume decreased by 6.2% as compared to the same period of the last year. Therefore, it is incorrect to speak about a significant export increase against this background.

Nodar Khaduri is correct in pointing out the increase in export to the countries of the EU. He is also correct when he identifies the decrease in motorcar export connected with the newly imposed regulations in Azerbaijan and Kazakhstan's entry into the Eurasian Union. Interestingly enough, 2014's third quarter data which show the decrease in export were already known during the Minister's speech in Parliament. This notwithstanding, Mr Khaduri did not take this information into consideration and with this omission somewhat misled his audience by commenting only upon the increase in export.

FactCheck concludes that Mr Khaduri's statement is **MOSTLY FALSE**.

MOSTLY FALSE

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CORRECTION: Statement by Giorgi Vashadze MP published in previous edition was incorrectly marked as Mostly False instead of Mostly True.

Iranian Chamber: "Long Term Activities Became Pointless in Georgia"

Continued from p. 4

Financing. After making a good plan for development I found out that financing it is the most important issue.

Project Finance is defined for big projects like big factories, huge farms, refineries, power plants, highways, airports and other big projects even with low interest rates. Nowadays, the assigned budget in the prime banks around the world for Project Financing, because of its safe and attractive framework, is about 30 times bigger than suitable projects with need of finance! The missing link is the lack of experts of local financial advisors. I have good cumulative experience and knowledge for this purpose. When I came to Georgia, I

was eager to finance big projects. Unfortunately, I have found that business planning and business modelling are not developed in Georgia. Also, when we decided to provide BP and FS ourselves, the project owners failed to bring at least 15-20% equity. We are offering financing for various projects. However, I have failed to find a good business plan. Everyone has a good idea. But the idea is very different to the exact plan. We are focused now to prepare good business frameworks with help of Georgian new generation potential. As for initial equity we are planning to attract foreign investors especially from Iran.

My second company is involved in publishing. We are providing territory-based references. We want to widen

the opportunities for interested people. It is hard to find useful information about territories of Georgia in publications. So the publication will help everybody to know more details about the country's specific territories. I am eager to provide detailed information regarding each district and also the individual business sectors of Georgia.

