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TRANSPARENCY INTERNATIONAL GEORGIA

ELECTORALLY MOTIVATED PUBLIC SPENDING IN GEORGIA

LOCAL GOVERNMENT SPENDING

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Preface

This report is a continuation of our previous research[4] that reviewed the trends in electorally motivated public spending.[5] This report looks at the 2009-2012 local budgets, specifically Tbilisi, Batumi, Kutaisi, Zugdidi and Gori municipalities.

Electorally motivated public spending is a form of arbitrary spending, with the aim of persuading voters to vote for the party in power by launching a new program, or modifying existing budgetary programs, which are then promoted during the pre-election campaign, rather than implementing public policy priorities.

This report gives general trends in electorally motivated local spending, followed by a detailed review of the budgets of the five municipalities. For the purpose of simplicity numbers in the report are rounded to the nearest decimal place.

[4] http://transparency.ge/en/post/report/new-report-electorally-motivated-spending
[5] http://goo.gl/SYO7i

I. Electorally motivated spending of local municipal resources

A number of electorally motivated public spending trends are consistent across quite a number of municipalities in the country, which allows us to generalise these trends.

Municipal budgets normally have a number of programs which decrease in non-election years and increase in election years. As 90–95% of municipal government receipts[6] are allocated directly from the government's central budget, any increase or decrease in spending by that municipality signals an improvement/deterioration in economic outlook in the municipality. For example, increase in a local government budget is not always indicative of economic growth or any other positive development in a municipality, since allocations to the territorial units are almost unilaterally made by central authorities who also break these down for the local authorities. Consequently, increase or decrease in a municipal budget can be more easily attributed to electorally motivated spending than a change to the central budget.

1. Budgetary increase in the pre-election period

Gori municipality introduced budgetary changes on August 10, 2012 increasing spending in direct violation of the Georgian Election Code, which prohibits any increase in budget programs during the period starting from the day the election date is set until the election results are announced[7]. In total we have identified 15 municipalities which introduced budgetary changes just on August 1, 2012, the day the election date was officially announced. While not technically a violation, it does breach the spirit and intention of the law.

2. SYSTEMIC FLAWS IN MUNICIPAL BUDGETS

We identified a significant number of systemic flaws in the budgeting practices of local municipalities. These require legislative amendments to change the existing substandard practices.

2.1 Improper management of unspent budget

As mentioned, 90-95% of municipal government budgets are allocated by the central government. An existing practice amongst these municipalities is to keep any unspent funds and carry over this balance to the next year's budget.

The use of a balance of the appropriations for the local government to the following year is subject to a restriction under the government or presidential decree, which normally restrict use of balance to the purpose for which the appropriation was made. However, the restriction does not apply to equalization transfers[8], which often are a rather big portion of the budget. This means that local governments can carry over these resources to the following year and spend them as they or the central government see fit. Such freedom carries with it an essential risk of spending public funds for electoral purposes.

To ensure transparency and predictability of public spending, it is necessary that the rules on the use of budgetary balance apply equally to central spending institutions as well as municipal governments. Under this rule, central spending institutions are required to refund any unspent funds to the Treasury so that the money be directed towards the next year's state budget. Carryover of funds would undermine budgetary planning, which is why such practice is normally disallowed.

[6] Receipts are composed of revenues, decrease in non-financial and financial assets and increase in liabilities
[7] See Section 5 (Gori municipality budget) for more detail.
[8] Formula appropriation from the state budget to the local government for exercising their exclusive competencies.

2.2 Expenditures that are not detailed

The problem of detailing expenditures, which we highlighted in our previous report, is more urgent with local rather than central budgets, which has a number of checks and balances to make up for the lack of detail.[9] Although, there are expenses than can be electorally motivated, they can hardly be traced as they are not broken down. Expenditures lacking detail is the most troublesome problem of local spending. It cannot be explained simply by the fact that local governments have not switched to program budgeting, for such a change alone is unlikely to help fix the problem: central government, even after switching to the program budgeting, has its budget still ridden with problems[10].

2.3 Misuse of vague categories such as 'Other Expense'

In the majority of municipal budgets we studied funds allocated as Other Expense tend to increase in 2010 and 2012 election years. The danger of this allocation is that these funds are being misappropriated to finance electorally motivated projects. In particular we noted an increase in transfers to non-for-profit institutions, which includes a wide variety of operations, such as transfers to nonprofit institutions to provide funds out of which transfers may be made to households in the form of social assistance (not social security) benefits; including transfers in the form of food, clothing, blankets, and medicines to charities for distribution to households; scholarships and other educational benefits; purchases of goods and services from market producers that are distributed directly to households for final consumption.

II. Specific examples of electorally motivated spending of public funds

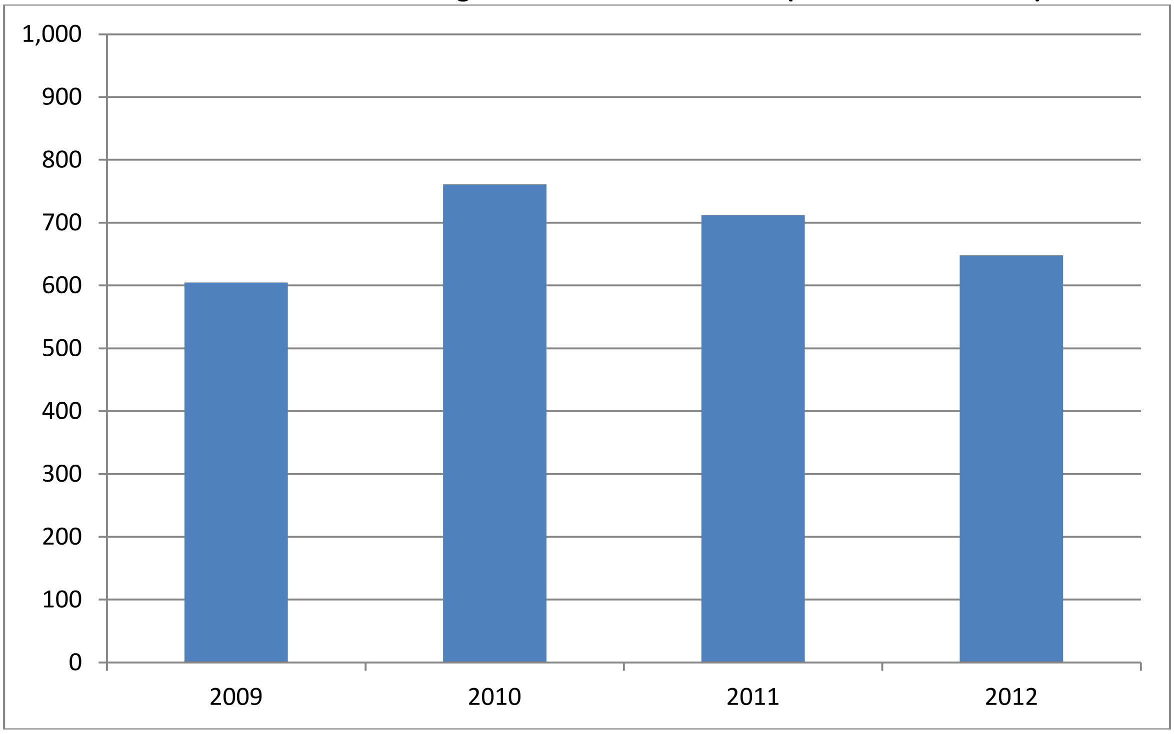
We noted electorally motivated spending of public funds in a significant number of municipalities, but most predominantly in (1) Tbilisi, (2) Kutaisi, (3) Batumi, (4) Gori, and (5) Zugdidi.

1. TBILISI

Our analysis of the 2009-2012 Tbilisi municipal budget showed that many social and economic projects were being implemented in the election years that could significantly influence a voter's choice of party in the election. Such projects were significantly less predominant and less funded in non-election years. We have tracked these results in **Chart 1.**

[5] http://goo.gl/SYO7i
[6] For details go to http://goo.gl/SYO7i and http://goo.gl/xVVI6

Chart 1: Tbilisi budget revenues in 2009-2012 (in thousands of GEL)



1.1 Social security and healthcare

The official data statistics we analyzed showed that municipal funding of social security and health protection programs increased in election years and decreased in non-election years.

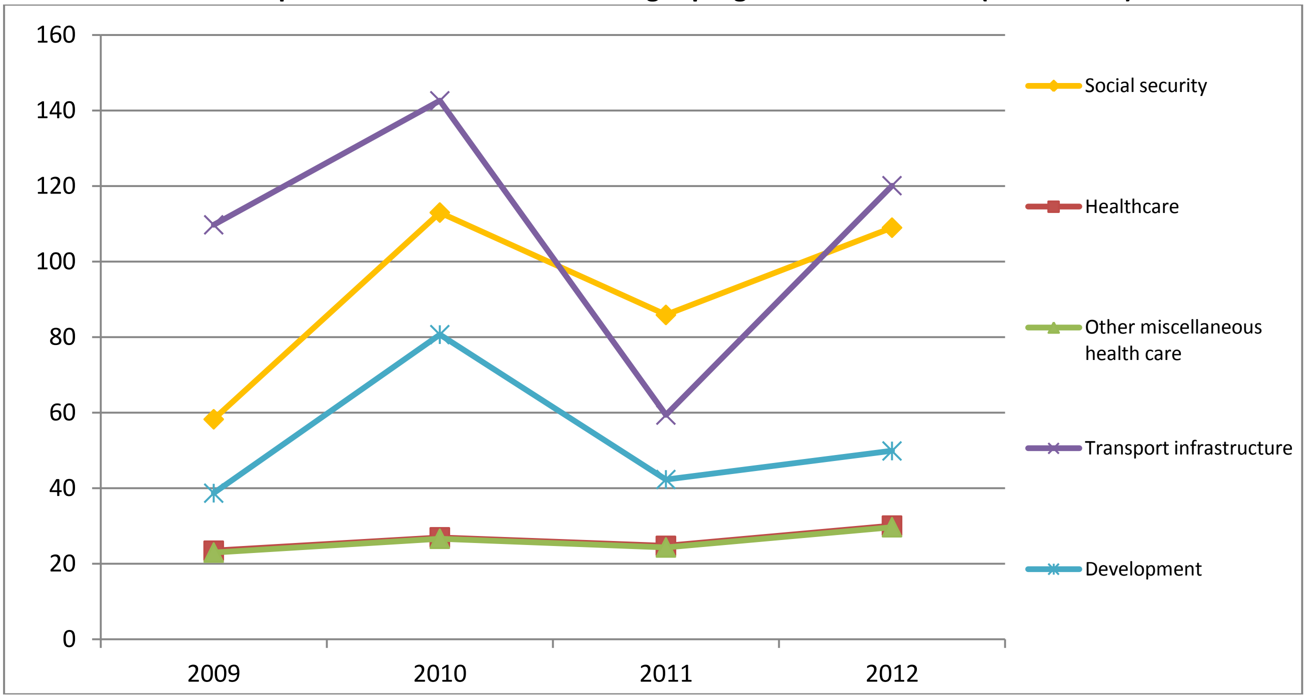
Approximately GEL 58 million was allocated to social security in 2009 from the municipal budget. This increased by GEL 113 million, a 95 % increase in the 2010 election year. In 2011, a non-election year, spending decreased by 31% to GEL 86 million. In 2012, an election year, while notwithstanding the fact that total appropriations[11] decreased against the previous year by 12% (GEL 648 million), the funding for social security increased by 27% to GEL 109 million.

We observed a similar spending tendency in the health protection program. The funding for this program in 2009, a non-election year, was GEL 23 million, and increased by 17% to GEL 27 million in the following election year. In 2011, a non-election year, spending for this program decreased again to GEL 25 million, increasing again in 2012, an election year, when it reached an all time peak value of GEL 30 million, representing a 20% increase.

We noted the same tendency in the budgetary program “Other miscellaneous activities in the health care sector”, whose 2009 funding was GEL 23 million. In 2010, monies allocated to this classification increased by 17% to GEL 27 million. In 2011, a non-election year, monies allocated decreased by 12%, to GEL 24 million, peaking again to GEL 30 million – a 25% increase as against the previous year.

[11] Amount provided for in the budget for a specific spending institution

Chart 2: Expenditures of some Tbilisi budget programs in 2009-2012 (million GEL)



1.2 Infrastructure and municipal improvement

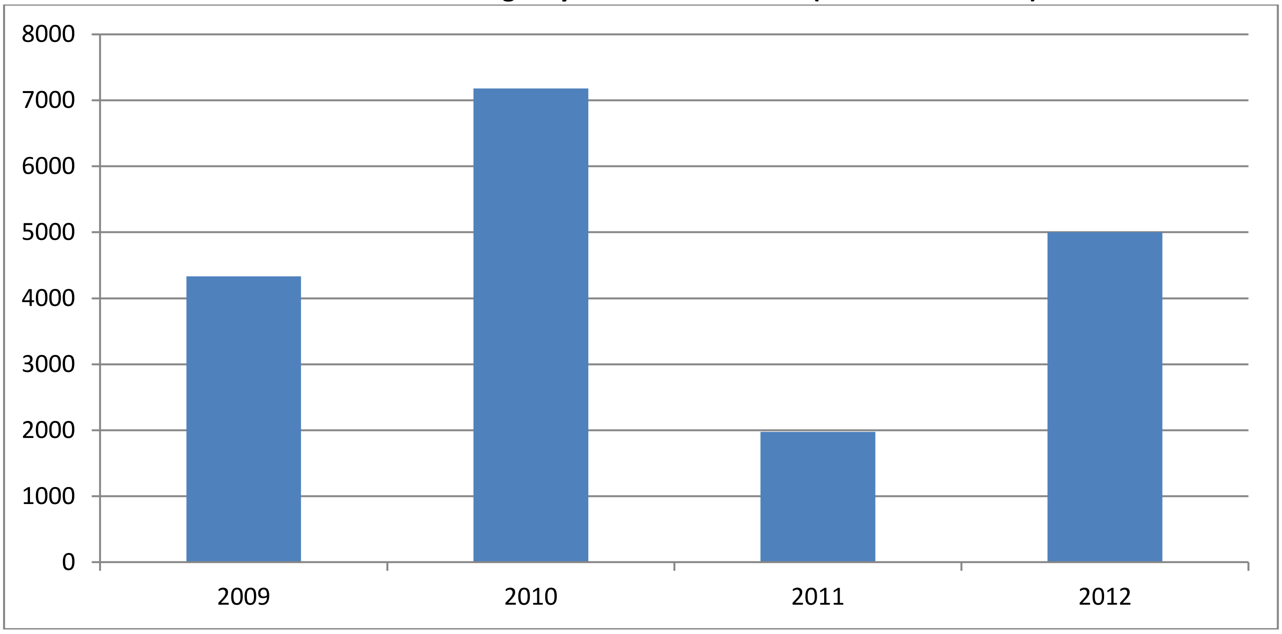
We noted that funding for transport infrastructure development program replicates this same pattern, municipalities are storing unspent funds and then spending these savings in election years. In 2009, funding for transport infrastructure development was GEL 110 million, increasing by 30% to GEL 143 million in 2010. In 2011, the program budget decreased by 142% to GEL 59 million. In 2012, funding has increased twice to GEL 120 million.

Another program where allocations fluctuate greatly year on year and which is in danger of being linked to electorally motivated spending is municipal improvement. In 2009, GEL 39 million funding was allocated to this program. This was increased by 107% in 2010 to GEL 81 million. Funding was decreased twice in 2011, to GEL 42 million, and increased by 19% to GEL 50 million in 2012.

1.3 Tbilisi contingency fund

The most opaque part of the Tbilisi budget is the contingency fund. Likewise for the other programs noted about, funds allocated to this part of the budget fluctuate between election and non-election years. In 2009, GEL 4 million was allocated to this fund. This increased 75% to GEL 7 million in 2010. In 2011, this allocation decreased by 250% to GEL 2 million. It was increased by 150%, to GEL 5 million in 2012.

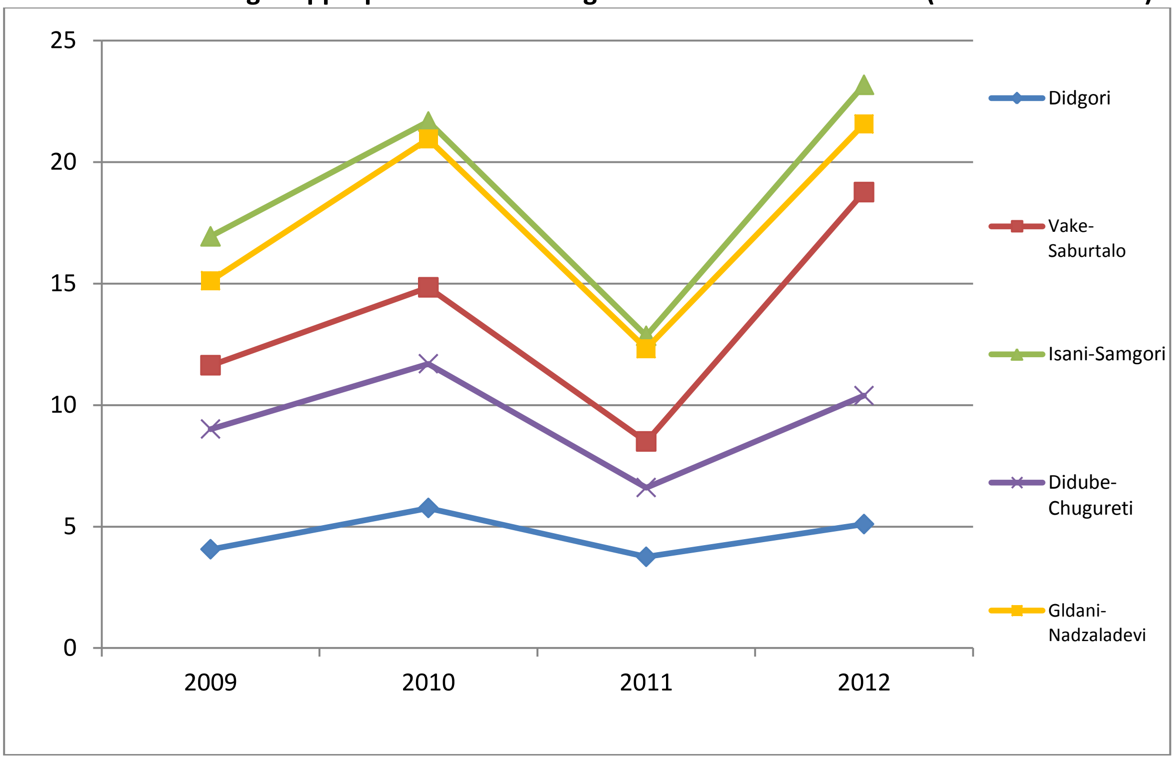
Chart 3: Tbilisi Contingency Fund in 2009-2012 (in millions of GEL)



1.4 Tbilisi district budgets

We noted these same tendencies, savings in the budget being spent for similar voter-orientated programs, such as social security and municipal improvement, in election years and saved during non-elections years, in 5 out of 6 municipal districts in Tbilisi[12] (see Chart 4).

Chart 4: Tbilisi budget appropriations according to 5 districts in 2009-2012 (in millions of GEL)



[12] Old Tbilisi District is an exception

2. KUTAISI

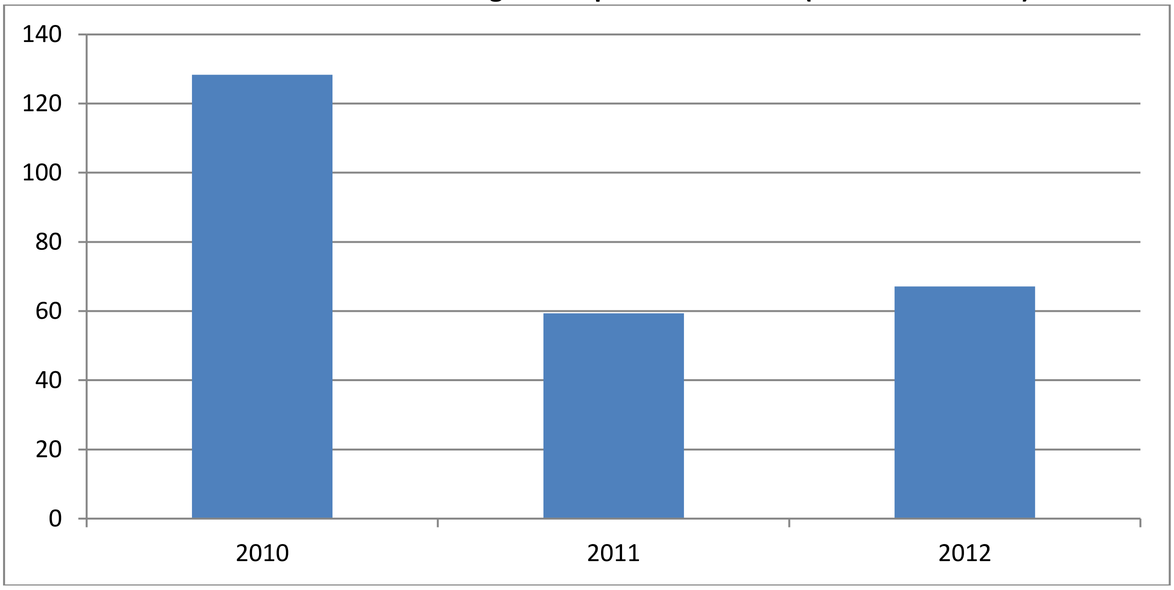
Kutaisi's total budget receipts increased by GEL 7.8 million (approximately 14%) from 2011 to 2012, to a total of GEL 67 million, allowing the municipality to increase its overall spending. However, it should also be taken into account that the Kutaisi budget deficit made GEL 10.4 million. Prudential fiscal management requires that the budget be balanced, meaning, in particular, a comparatively modest growth of spending[13] and reduction of a deficit. Apart from that, the Kutaisi budget fails to indicate generally both the total other expense and other expense of individual programs.

In Kutaisi, like in other municipalities, clear-cut is a tendency for decreasing spending on certain programs in the 2011 election year and increasing these in the 2010 and 2012 election years.

2.1 Social security and healthcare

Funding allocated to the provision of medicines increased by about 273% to GEL 204 thousand from 2011 to 2012. Funds allocated to the medical insurance program in 2010 was GEL 132 thousand in 2010, decreasing to GEL 89 thousand in 2011, increasing again by 80% to GEL 160 thousand in 2012. Funds allocated to the welfare program were GEL 180 thousand in 2010, decreasing to GEL 141 thousand in 2011, and increased by about 250% to GEL 496 thousand in 2012.

Chart 5: Kutaisi budget receipts in 2010-2012 (in millions of GEL)



2.2 Infrastructure and municipal improvement

Funds allocated to road construction, renovation and maintenance were GEL 4.5 million in 2010, decreasing to GEL 2.6 million in 2011, increasing by 200% to GEL 7.7 million in 2012. Funding for infrastructure construction and rehabilitation amounted to GEL 95 thousand in 2010, decreasing to GEL 22 thousand in 2011 and increasing again to GEL 38 thousand in 2012.

[13] More exactly, decrease in growth of non-financial assets, which under the 2001 Government Finance Statistics is no longer considered as expense.

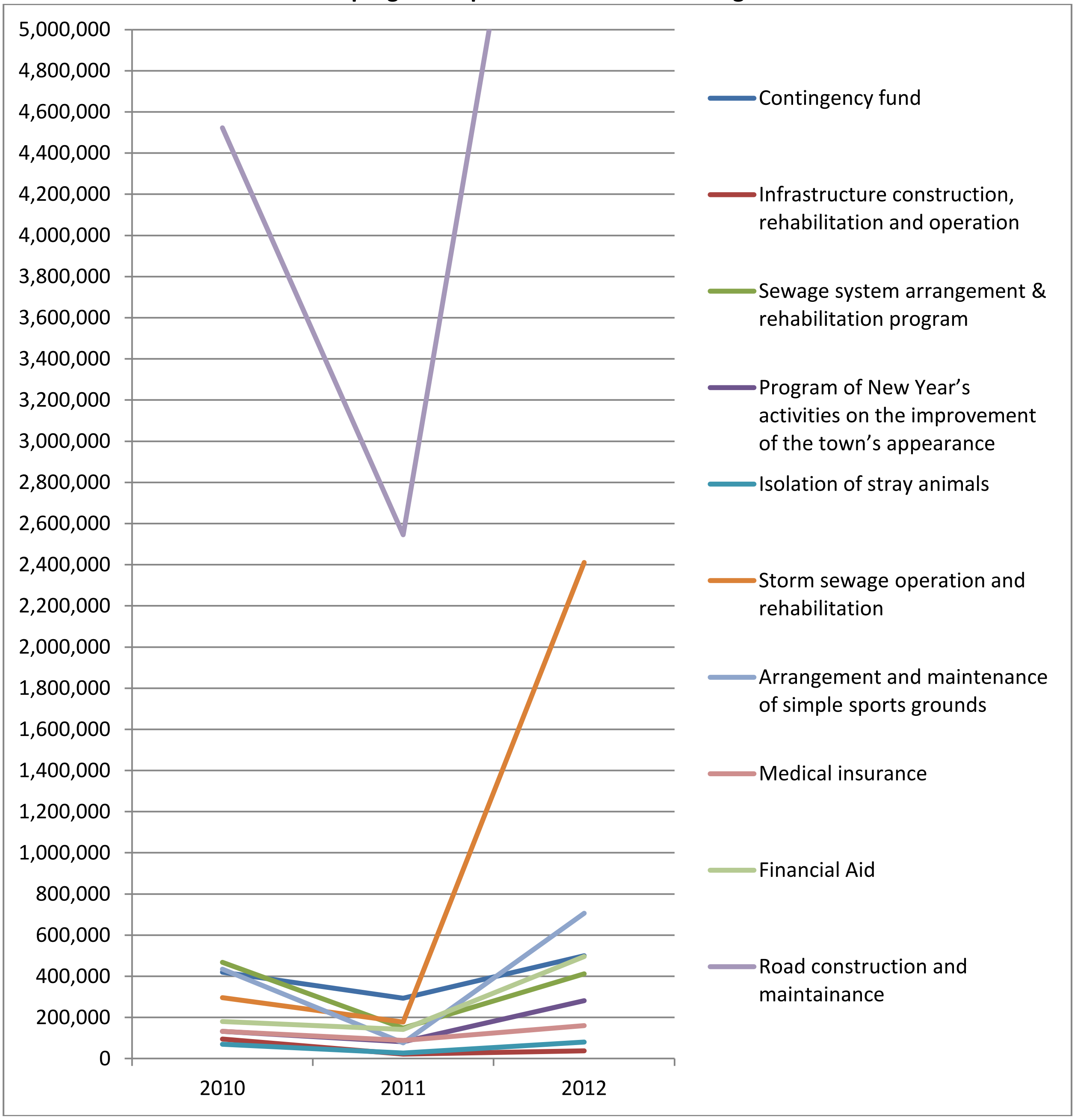
Funds allocated for sewage system infrastructure amounted to GEL 467 thousand in 2010, decreasing to 148 thousand in 2011 and increasing to GEL 412 thousand in 2010.

Funds allocated to funding New Year's activities and to improving the appearance of the town were GEL 133 thousand in 2010, decreasing to GEL 82 thousand in 2011 and increasing again to GEL 281 thousand in 2012.

Funds allocated to the storm sewage operation and maintenance program were GEL 296 thousand in 2010, decreasing to GEL 178 thousand in 2011 and increasing by 1250% to GEL 2.41 million in 2012.

Funds allocated to basic sports grounds were about GEL 435 thousand in 2010, decreasing to GEL 76 thousand in 2011, increasing again by 825% to GEL 706 thousand in 2012.

Chart 6: Certain program expenditures of Kutaisi budget in 2009-2012



2.3 Kutaisi's contingency fund

Funds allocated to the Kutaisi's contingency fund were GEL 420 thousand in the 2010 election year, decreasing by 30% to GEL 293 thousand in 2011 and increasing again by 500 thousand GEL (approximately 70%) in 2012.

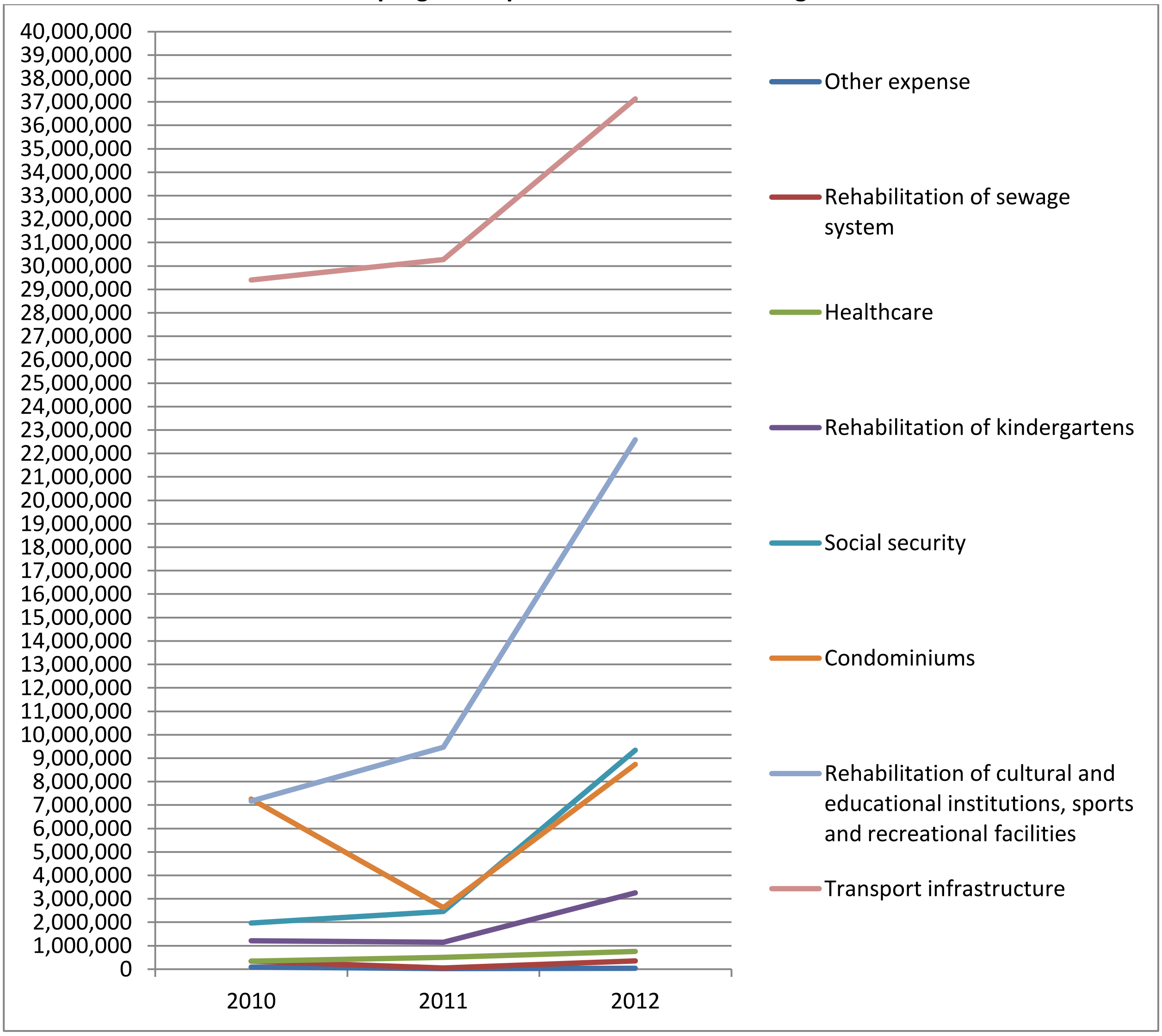
3. BATUMI

The 2012 Batumi Municipality budget totaled GEL 169 million, which has a number of electorally motivated expenditures.

3.1 Social security and healthcare

While Batumi's total municipal budget has decreased in 2012 by about 24% over 2011, social security spending increased by 280% to GEL 9.3 million and health care spending increased by 48% to GEL 749 thousand over the same period. These allocations include expenses such as: provision of free food to the socially vulnerable and assistance for single mothers and families with multiple children or orphans; vocational education; discounted public transit fares, construction of social housing.

Chart 7: Certain program expenditures of Batumi budget in 2009-2012



3.2 Infrastructure and municipal improvement

The funding for transport infrastructure development was increased by 23% to GEL 37.1 million from 2011 to 2012. The funds allocated for rehabilitation of educational and cultural institutions, sports and recreational facilities increased by 139% to GEL 22.5 million, including such initiatives as renovation of parks and public gardens, which in 2011 increased by 229% to GEL 10 million, compared to 2012. Funding allocated to the rehabilitation of kindergartens increased by 184% over the same period.

Funds allocated to the condominiums program totaled GEL 7.3 million in 2010, decreasing to GEL 2.6 million in 2011, increasing again to GEL 8.7 million, or by 234%, in 2012.

Rehabilitation of the sewage system was allocated GEL 336 thousand in 2010, decreasing to GEL 42 thousand in 2011, and increasing again by 740% to GEL 353 thousand in 2012.

3.3 Other Expense

Miscellaneous expense were allocated GEL 80 thousand in 2010, decreasing to GEL 25 thousand in 2011, and increasing again to GEL 34 thousand, approximately 33%, in 2012. As mentioned above, Other Expense is an allocation that is particularly prone to misuse for spending on electorally motivated programs.

4. Zugdidi Municipality

The 2012 budget of Zugdidi Municipality totaled GEL 35.9 million, which has a number of electorally motivated expenditures.

4.1 Social security and healthcare

Funds allocated to social security and healthcare programs were increased in 2010–2012 and varied according to election and non-election years. However, 2012 saw an approximately 35% increase in spending growth, whereas the funding for social security and healthcare programs increased by about only 10% in 2011 over 2010. The 35% increase in the funding for social security and healthcare programs occurred at the time when the Zugdidi budget receipts decreased by about 17% from 2011 to 2012.

4.2 Infrastructure and municipal improvement

Funding allocated to renovation and improvement of the town entrance, fronts and balconies of residential properties and buildings totaled GEL 34 thousand in 2010, decreasing to GEL 15 thousand in 2011, and increasing again in 2012 by an 830% jump to GEL 388 thousand.

Funding allocated to the construction of roads, sidewalks and traffic lights totaled GEL 2.5 million in 2010, decreasing to GEL 1.4 million in 2011, and increasing again to GEL 2.9 million in 2012.

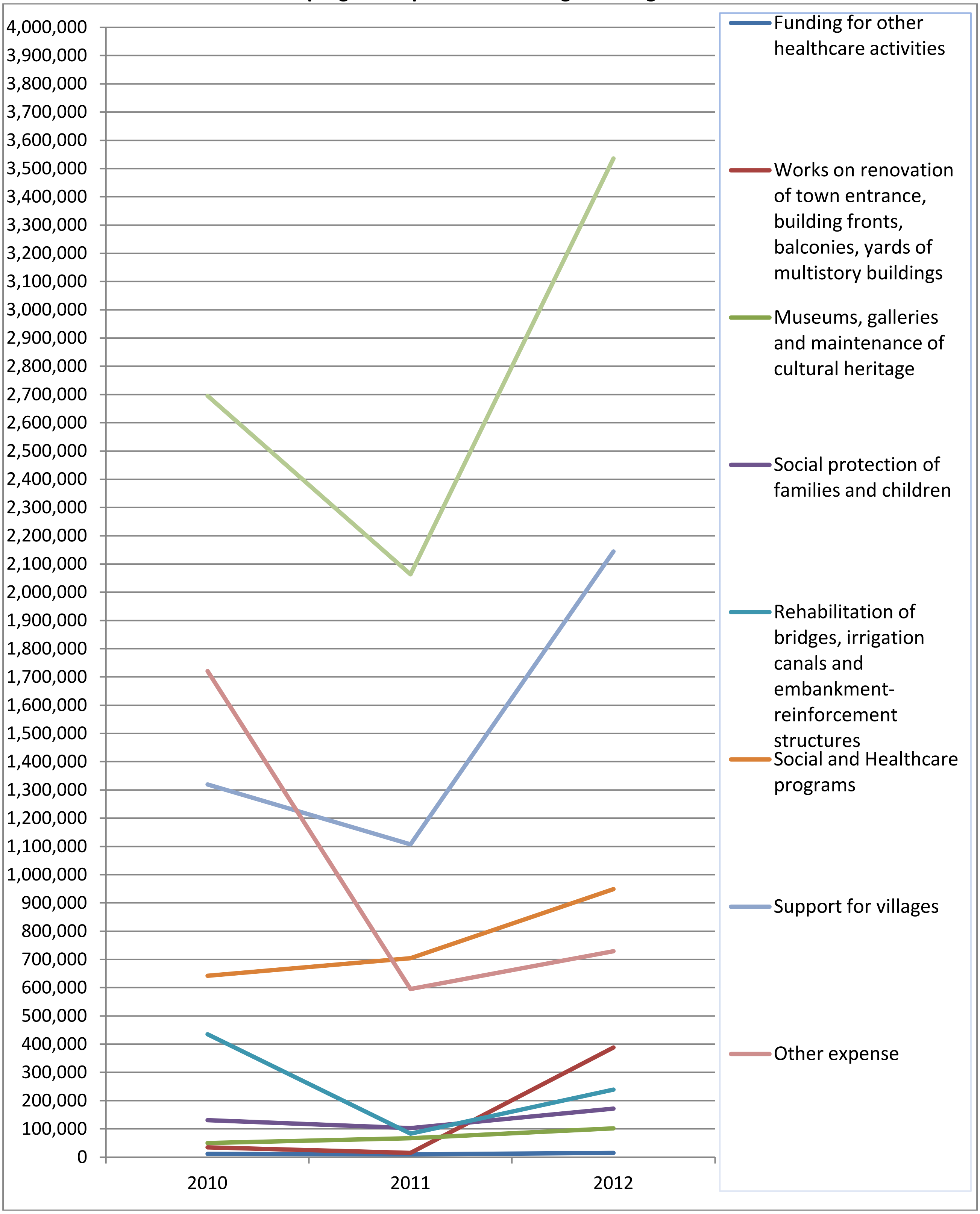
Funds allocated to the support of rural territorial houses was GEL 1.3 million in 2010, decreasing to GEL 1.1 million in 2011, and increasing to GEL 2.1 million, a 94% increase, in 2012.

Costs associated with the design and reconstruction of the central boulevard, roads and sidewalks, buildings, fronts, and outdoor lighting were funded with the state budget balance at GEL 60 thousand in 2012.

Funds allocated to the sports and cultural activities program were GEL 2.7 million in 2010, decreasing to GEL 2 million in 2011, and increasing by 75% to GEL 3.5 million in 2012.

Funds allocated to the construction, rehabilitation and operation of bridges, irrigation canals, and embankment-reinforcement structures was GEL 435 thousand in 2010, an election year, decreasing to GEL 82 thousand in the 2011 non-election year, and increasing again by 188% to GEL 239 thousand in the 2012 election year.

Chart 8: Certain program expenditures in Zugdidi budget in 2009-2012



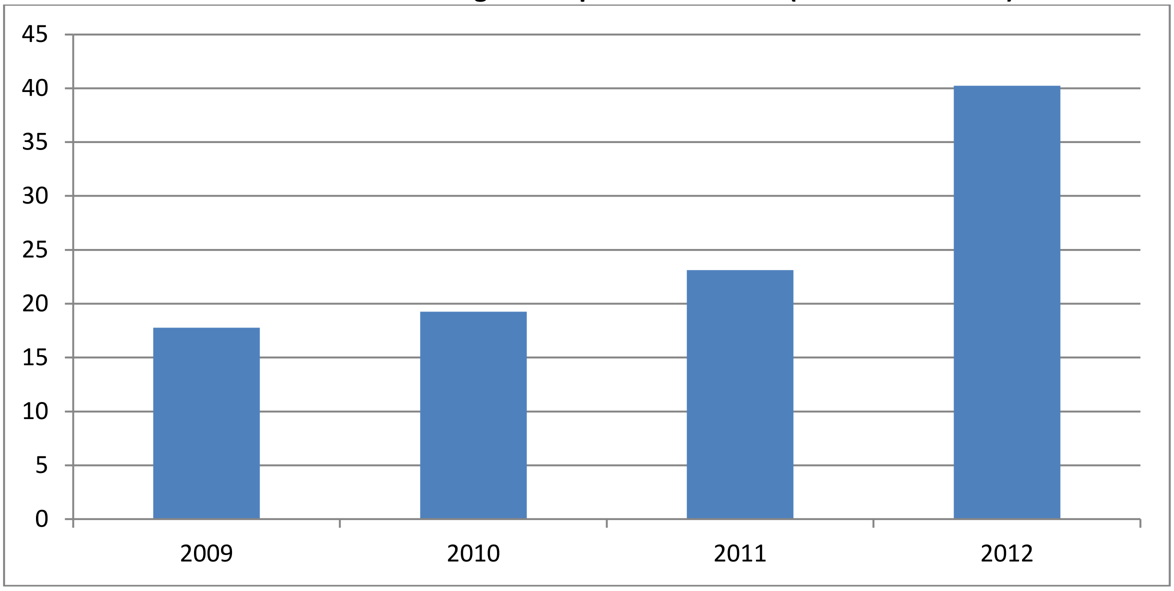
4.3 Other Expense

Other Expense in the Zugdidi budget amounted to GEL 1.7 million in 2010, decreased to GEL 595 thousand in 2011, increasing again by 22% to GEL 729 thousand in 2012. As has already been noted, Other expense may be used to finance programs and one-off projects that can help the ruling party win the votes.

5. GORI MUNICIPALITY

We identified a number of projects financed from the 2009-2012 Gori budget which, given the dramatic increase and decrease in monies allocated to those projects, would suggest these increases are electorally motivated. On average, the receipts of Gori Municipality 2009-2012 steadily increased on average by 16%, jumping by 74% to GEL 40.2 million in 2012.

Chart 9: Gori budget receipts in 2009-2012 (in millions of GEL)



Although the total balance in the 2010 election year is less than in 2009 and 2011 non-election years, 2009-2011 Gori budgets were still deficit-free[14]. As for the 2012 Gori budget, despite the fact that its receipts increased by 74% over the previous year, it has a negative balance of GEL 6.6 million (see Chart 10), which means that the 2012 budget runs a deficit of GEL 6.6 million.

This prompts us to conclude that this mobilization of funds is most likely connected with electoral purposes. Apart from that, from among local budgets, the Gori Municipality is the only local authority having violated the Election Code by increasing budget expenditures in the run-up to the parliamentary elections.

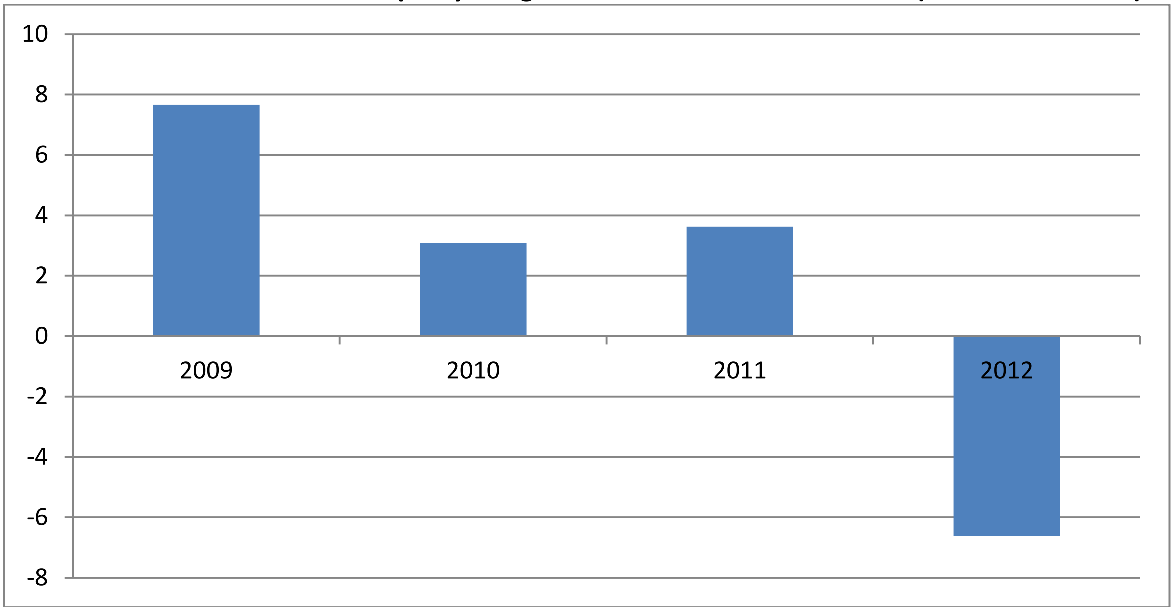
5.1. Realignment of expenditures and violation of the Election Code

According to Gori Municipality Sakrebulo's Decision #34 of 10 August 2012, funding for a number of programs decreased, while increasing for the others after the date of the election had been officially announced – in direct violation of Article 49 (3) of the Election Code of Georgia. It is reasonable to assume that such a realignment is electorally motivated. For example, funding for services of preparation of projects and estimates, which have either no direct or appreciable bearing on voters and are, therefore,

[14] i.e. receipts exceeded expenditures

not electorally profitable, were decreased by 83% to GEL 70,000, while 'funding for infrastructural projects', which can be well used for electoral purposes, has increased to about GEL 46 thousand (by about 8%.

Chart 10: Gori Municipality budget's total balance in 2009-2012 (in millions of GEL)



5.2 Infrastructure and municipal improvement

An interesting tendency has been revealed in connection with the appropriations for the construction, rehabilitation and operation of infrastructure, the funding for which in 2009 made about GEL 6.6 million, increasing by about 27% to GEL 8.3 million in the 2010 local election year. The funding for the program decreased by about 10% to GEL 7.6 million in the 2011 election year[15], while increasing again by almost 293% to the peak value of GEL 29.8 million in 2012.

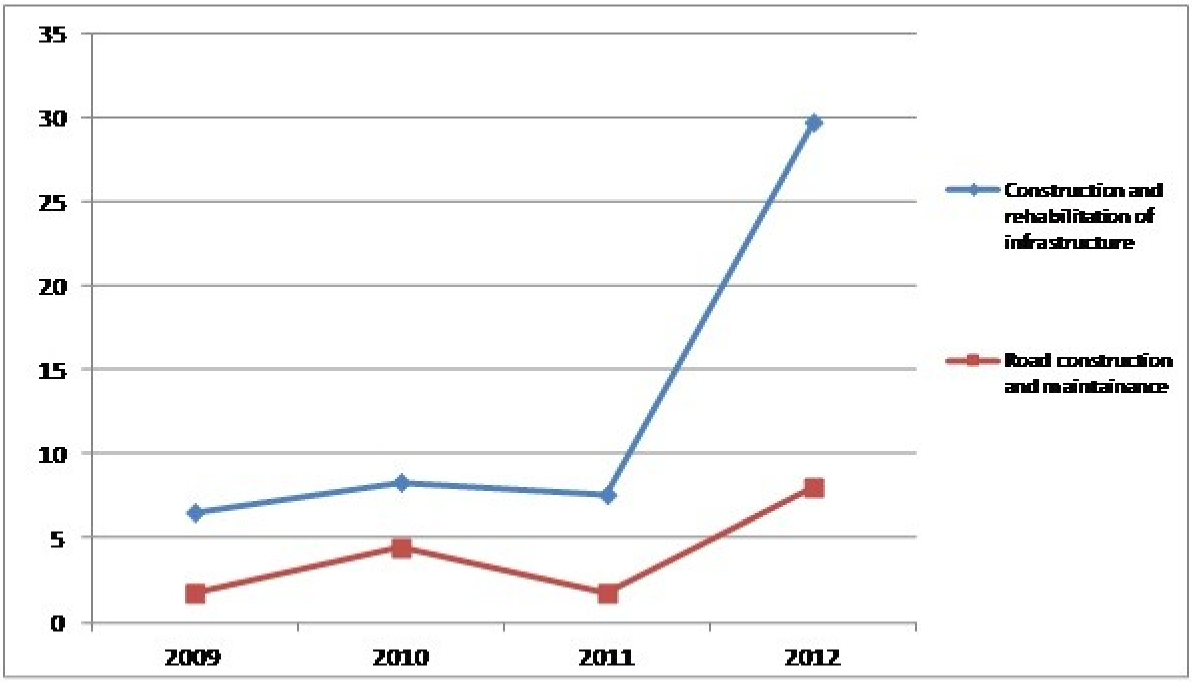
Funds allocated to the road construction and maintenance program were GEL 1.7 million in 2009, increasing by 157% to GEL 4.4 million in 2010, decreasing by 157% to GEL 1.7 million in 2011, increasing again in 2012 by 365% to GEL 8 million.

5.1 Social Security and healthcare

Allowances for households with multiple children had not been funded until 2010 when it received GEL 15,000 in funding, which decreased by 40% in 2011 and increased again by approximately 92% in 2012.

[15] It should be noted that the Gori Municipality budget appropriations increased by 19% in 2011 as compared to 2010.

Chart 11: Certain program expenditures of Gori Municipality budget (1) in 2009-2012 (in millions of GEL)



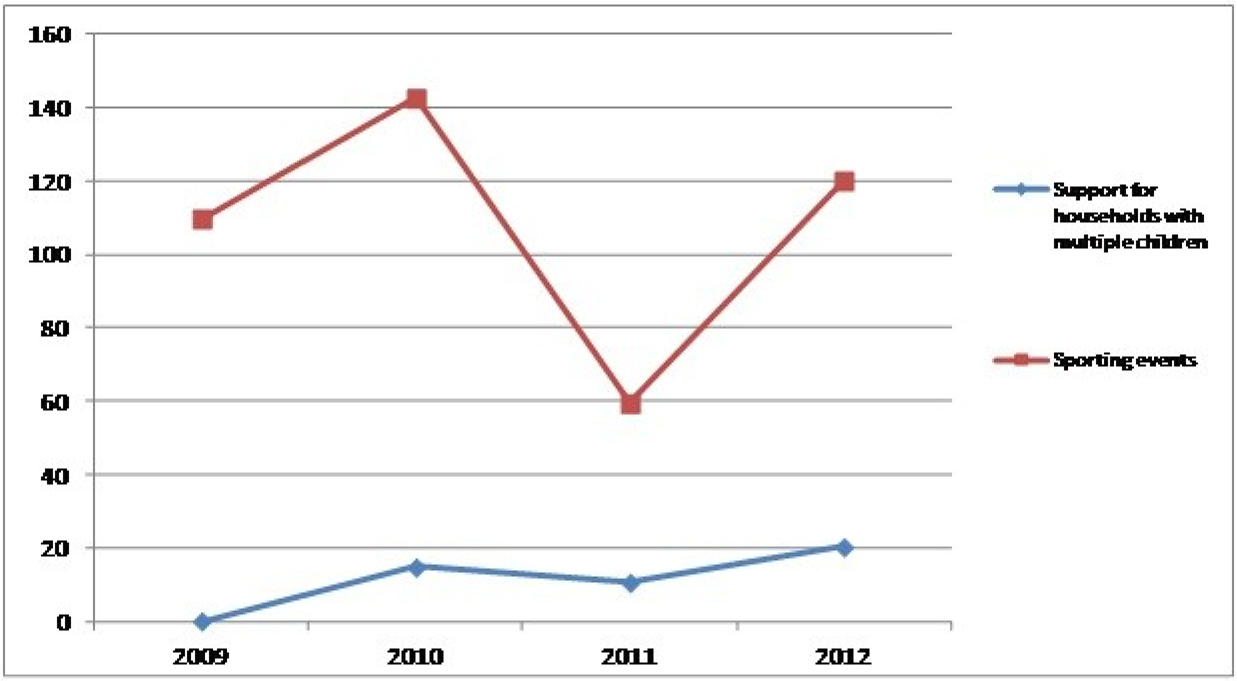
5.4 Financing of sporting events

Funds allocated to financing sporting events totaled GEL 19 thousand in 2009, increasing by 42% to GEL 27 thousand in 2010. In 2011, the funding for the program decreased by 42% to GEL 19 thousand again, and peaked at GEL 30,000 in 2012, approximately a 57% increase over the previous year.

5.5 Other Expense

Other expense in the 2009 Gori budget amounted to GEL 224 thousand, increasing by 250% to GEL 783 thousand in 2010 and increased again by 60% to GEL 1.25 million in 2011. In 2012 other expense increased by 906% to GEL 12.6 million.

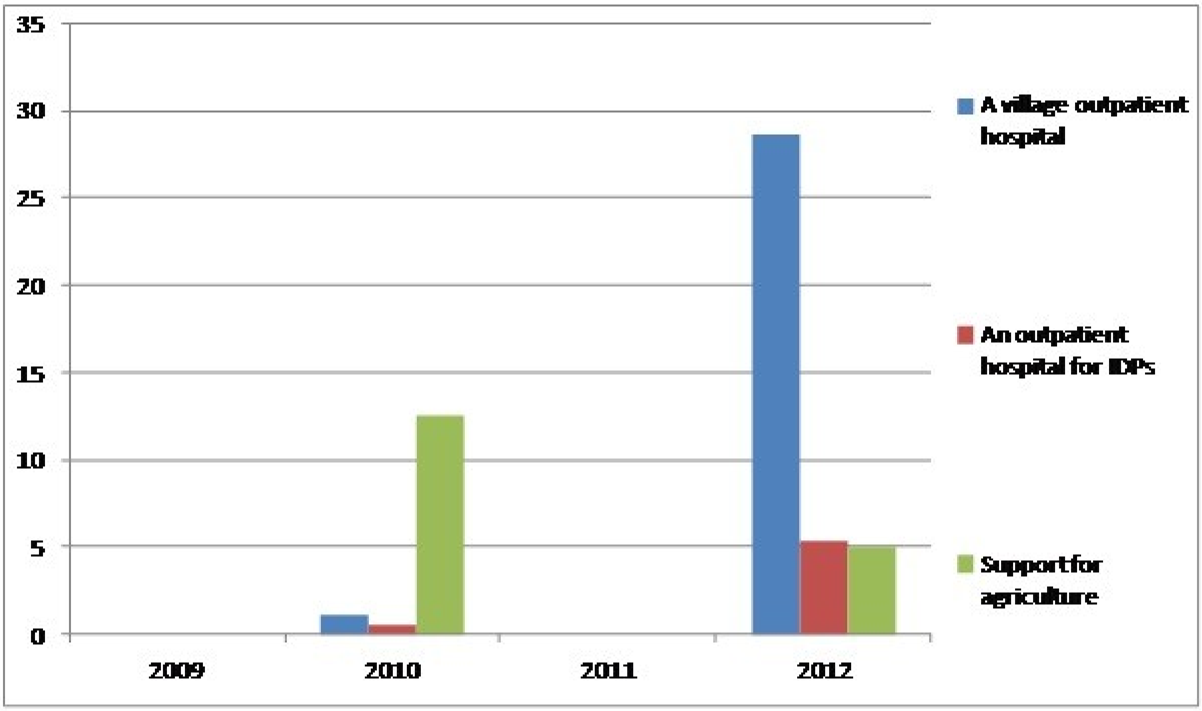
Chart 12: Certain program expenditures of Gori Municipality budget (2) in 2009-2012 (in millions of GEL)



5.6 Programs funded only in election years

The Gori Municipality budget had a number of new programs during election years that did not appear in 2009 and 2011 non-election years as detailed below (see Chart 13).

Chart 13: Gori Municipality's programs funded only in election years in 2009-2012 (in thousands of GEL)



5.7 New 2012 budget appropriations

The 2012 budget, an election year, also had a number of new programs that had not been funded earlier (see Table 1 below).

Table 1: New programs of the 2012 Gori Municipality budget (in thousands of GEL)

Title of Program	2009	2010	2011	2012
Funding for infrastructure projects	0.0	0.0	0.0	595.9
Agency for the Gori Municipality Development	0.0	0.0	0.0	60.0
Social assistance to households of fighters (veterans) for freedom and territorial integrity	0.0	0.0	0.0	24.0
Social assistance for athletes and students of socially vulnerable households	0.0	0.0	0.0	54.0
Free medicines	0.0	0.0	0.0	11.7
One-time social (cash) benefit	0.0	0.0	0.0	56.3
Medical assistance for cancer patients	0.0	0.0	0.0	49.0
Medical rehabilitation and social assistance for children with cerebral palsy	0.0	0.0	0.0	28.5
Church reconstruction, fencing the courtyard	0.0	0.0	0.0	14.7
Reconstruction and repair works of the central stadium	0.0	0.0	0.0	1,400.0
Service of Agricultural Development	0.0	0.0	0.0	24.8