

**REFLECTION OF DONORS' FINANCIAL AID
WITHIN THE FRAMEWORK OF
BRUSSELS CONFERENCE DECISIONS
IN THE 2008 AND 2009 STATE BUDGETS OF GEORGIA**

by Vladimer Papava



PRESENT REPORT WAS PREPARED WITH FINANCIAL SUPPORT OF
“OPEN SOCIETY GEORGIA” FOUNDATION WITHIN THE FRAMEWORK
OF
“TRANSPARENT FOREIGN AID TO GEORGIA” COALITION



Table of Contents

About the Project	2
Introduction.....	2
Analysis of Reflection of Donors' Aid within the Framework of Brussels Conference Decisions in the 2008 State Budget of Georgia.....	5
Analysis of Reflection of the Grant of United States Agency for International Development (USAID) in the 2008 State Budget of Georgia	13
Analysis of Reflection of Donors' Aid within the Framework of Brussels Conference Decisions in the 2009 State Budget of Georgia	18
Conclusions and Recommendations	25

About the Project

Present report was prepared within the framework of internal project of “Open Society - Georgia” Foundation, with financial support of the Foundation. The project was implemented within the framework of “Transparent Foreign Aid to Georgia” Coalition, founder and member organizations of which are: “Eurasia Partnership Foundation”, “Economic Policy Research Center”, “Civitas Georgica”, “Green Alternative”, “Transparency International Georgia”, “Georgian Young Lawyers’ Association”, “Open Society - Georgia” Foundation. Independent experts are members of the Coalition as well. The Coalition aims at promoting the efficiency and transparency of financial aid pledged by donor states and organizations to Georgia. Member organizations of the Coalition undertake active work to this end.

Present report was brought about by the member organization of the Coalition “Open Society - Georgia” Foundation and a member of the Coalition, expert Vladimir Papava.

The report contains analysis on appropriateness and transparency of reflection of the monies allocated to Georgia at the Brussels Donors’ Conference in the 2008 and 2009 state budgets of Georgia.

Introduction

In the aftermath of a five-day Russo-Georgian war in August 2008, in light of a global financial crisis Georgia faced new economic challenges. In particular, these are - liquidation of economic damage inflicted by the war, avoidance of banking crisis, prevention of further growth of relatively high inflation rates, maintenance of stability of exchange rate of national currency - GEL.

Pursuant to the decision made at the Donors’ Conference organized in Brussels on 22 October 2008, Georgia may receive 4,55 billion USD as a financial aid, out of which 2 billion account for grants, and 2,55 billion for credits. Georgia started receiving this aid in 2008 and this process should last until the end of 2010. Sig-

nificant portion of this aid should eradicate direct economic damage inflicted on Georgia as a result of Russian military aggression, and the other portion should be spent on economic rehabilitation of the country. Government of Georgia has to incur additional expenses in relation to social problems of internally displaced persons, who had to flee from conflict regions due to Russian aggression. As a first priority, the Government constructs temporary residential houses for these persons, which on one hand revives the economy - demand on construction materials increases, people are employed, but overall costs incurred on construction are still inflationary in a short-term period, as the Government purchases these houses and not private individuals. Nevertheless, the Government has no other choice.

After the war, flow of direct foreign investments to Georgia subsided, primarily due to the fact that in view of global financial crisis investors try to invest more in safer countries than Georgia affected by Russian aggression. In the conditions of a global financial crisis, remittances transferred by Georgians living abroad to their relatives have considerably reduced also. Further, in light of an excessively negative foreign trade balance of Georgia, where import exceeds export four times, it should not be surprising that maintenance of stability of exchange rate of GEL was posed a threat.

Following the August war, under the Stand-By Arrangement the International Monetary Fund allocated 750 million USD worth of credit to Georgia for maintenance of macroeconomic stability, 250 million out of which have already been deposited in the fall of 2008 to the National Bank reserves. Along with 4,5 billion USD mentioned above, this amount is a warrant that Georgia avoids a currency crisis.

Remarkably, receipt of 4,55 billion USD in full amount depends, on one hand, on effective and purposeful utilization of already allocated amounts, and on the other hand on the degree of success in next rounds of negotiations led by the Government of Georgia with donor states and donor organizations aimed at receiving the installments pledged by them.

Present study aims to examine how has the aid, which started flowing in the country pursuant to the decisions adopted at the Donors' Conference organized in Brussels on 22 October 2008, been reflected in the 2008 and 2009 state budgets. Object of the analysis is to demonstrate how adequately has the state budget taken into account the objectives, for achieving of which the donor states and organizations decided to assist Georgia. Based on the fulfillment of a state budget, such an

analysis will further facilitate the monitoring process of purposeful utilization of this aid.

Notably, the 4,55 billion USD aid is envisaged for both the state and private (especially banking) sectors. Aid that is not reflected in the state budget does not represent a subject of present study.

Among the materials used for the study are official statements of donors made at the Brussels Conference about financial aid to Georgia, official information of the Ministry of Finance of Georgia on receipt of the donors' aid by the Government of Georgia, and the Laws of Georgia on the 2008 State Budget of Georgia and the 2009 State Budget of Georgia adopted by the Parliament of Georgia (posted on-line on web-page of the Ministry of Finance at <http://www.mof.ge>). Constructive cooperation of leadership of the Ministry of Finance with non-governmental sector in unrestricted dissemination of relevant information is worth underlying.

Analysis of Reflection of Donors' Aid within the Framework of Brussels Conference Decisions in the 2008 State Budget of Georgia

Several amendments were made to the Law of Georgia on the 2008 State Budget of Georgia throughout 2008. However, because the donors decided to allocate aid to Georgia only on 22 October, present study examines that Law on 2008 State Budget, which the Parliament of Georgia approved on 25 December 2008, as it should have most fully reflected the installments allocated by the donors in 2008 (more precisely during last two months of 2008).

While examining reflection of financial aid in the 2008 state budget it has to be taken into consideration that Georgia used to receive grants and credits from foreign sources prior to the mentioned conference of donors also, and therefore present study encompasses not all grants and credits included generally in the budget, but only those that are directly linked to the decision adopted at the Donors' Conference organized in Brussels on 22 October 2008.

According to the information provided by the Ministry of Finance, in 2008 donors allocated 795 million USD in total, out of which 517 million, i.e. 65 percent were grants, and 278 million, i.e. 35 percent - credits (refer to Chart #1). Out of gross volume of 795 million, 80 percent were received directly in the US Dollars (636 million USD), and 20 percent in EURO (120 million EURO).¹

In accordance with the Ministry of Finance, 402,585 million USD (370 million USD and 24.5 million EURO) were allocated to uphold the state budget, 31,92 million USD (24 million EURO) to support internally displaced persons, 390,805 million USD (213 million USD and 58.5 million EURO) to restore Georgia's economy, and 69,158 million USD (52.4 million USD and 12.6 million EURO) for other needs.

Remarkably, in the 2008 state budget grants in total constituted 593 million GEL, out of which, based on events occurring in Georgia in August 2008 grants to be received from foreign governments (Chapter 2 of the 2008 state budget - "Revenues of the State Budget of Georgia") equaled 412,5 million GEL, i.e. 70,0 percent of total volume of grants (refer to Chart 2).

¹ Exchange rate between the EURO and US Dollar is considered by the Ministry of Finance of Georgia at 1.33 level.

Chart 1. Structure of Aid in 2008
(795 million USD in total)

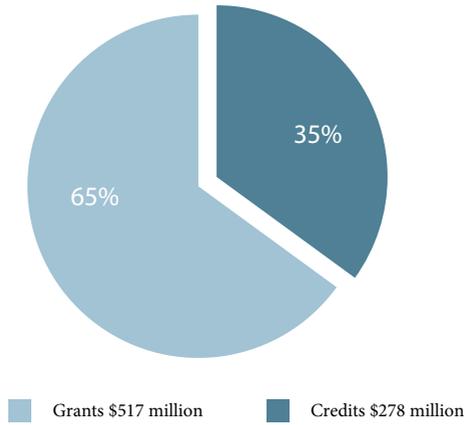
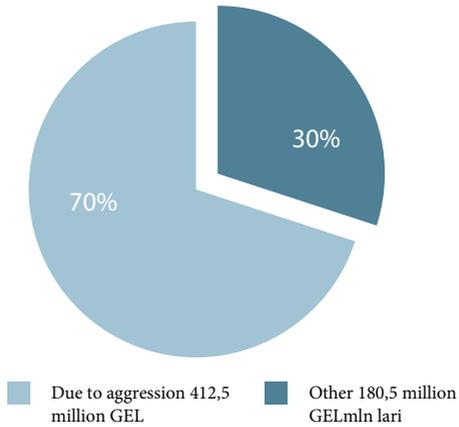


Chart #2. Structure of Grants Reflected in the 2008 State Budget
(593 million GEL in total)



Article 4 ("Grants of the State Budget of Georgia") of Chapter 2 ("Revenues of the State Budget of Georgia) of the 2008 state budget of Georgia reflects the grant received under the decision of above-mentioned Brussels conference in a revenue code #132 ("grants to be received from foreign governments or their representations"), which is named as "grants to be received from foreign governments based on events occurring in Georgia in August 2008" and which equals 412,5 million GEL. According to the data of the Ministry of Finance, in November 2008 the United States allocated 250 million USD to the budget as assistance, which in light of an exchange rate² equals exactly 412,5 million GEL. Therefore, the phrase "grants to be received from foreign governments" of above-mentioned revenue code #132 of the state budget reflects only the grant received from the United States.

According to the Ministry of Finance of Georgia, Netherlands allocated as a grant to the budget of Georgia 2,5 million EURO, and Malta – 0,01 million EURO, which unfortunately are not reflected in a table of Article 4 of Chapter 2 of the state budget. In accordance with the Ministry of Finance, the Government of Ukraine allocated to the Government of Georgia 10 million USD to uphold the budget. Above-mentioned table declares this amount up to 14,6 million GEL, which according to the exchange rate applied in the budget is less than 1,9 million GEL compared to information of the Ministry of Finance. Further, this amount is declared not under the line "grants to be received from foreign governments or their representations" but under a separate line "supporting grant of the budget allocated by the Government of Ukraine". This leaves an impression that a grant provided by the Government of Ukraine is not a part of the grants to be received from foreign governments.

Budgetary support received from the World Bank is even vaguer. In particular, pursuant to the data of the Ministry of Finance, in order to support the state budget of Georgia, as a measure for overcoming the poverty the World Bank allocated 40 million USD in 2008. This amount by this volume and target destination is not reflected either in the grants (Article 4 – "Grants of the State Budget of Georgia" of

² Exchange rate between the GEL and US Dollar calculations is considered at 1.65 level. However, pursuant to the articles of the state budget this rate is subject to alterations, which overall creates a problem in reexamination of the budget. Basically this occurs because amounts from abroad are transferred to the country at different times and are reflected in the budget under exchange rates in effect at the time. Accordingly, amounts received by the budget from abroad are often adjusted throughout the year, due to which respective parameters in the budget are calculated at various times and taken into consideration is the exchange rate, which is in effect at a given moment. This overall leads to a certain diversity of exchange rates applied in the budget.

Chapter 2 – "Revenues of the State Budget of Georgia" of the 2008 state budget) or credits (Article 11 – "Changes in Liabilities of the State Budget of Georgia" of Chapter 4 – "Gross Balance of the State Budget of Georgia" of the 2008 state budget). The latter generally declares a long-term beneficial credit of the World Bank in the amount of 93,4 million USD, which presumably implies that the above-mentioned support of the state budget of Georgia in the amount of 40 million USD (i.e. 66 million GEL) is included therein.

70 million USD allocated for the budget by the Asian Development Bank is better reflected in the amount of 155,4 million GEL, which are declared under Article 11 – "Changes in Liabilities of the State Budget of Georgia" of Chapter 4 – "Gross Balance of the State Budget of Georgia" of the state budget.

10 million EURO allocated by the European Commission purposefully to fund construction of houses for internally displaced persons are adequately reflected in the 2008 state budget. Namely, Article 4 – "Grants of the State Budget of Georgia" of Chapter 2 – "Revenues of the State Budget of Georgia" of the budget declares this installment in the amount of 21 million GEL.

In total, according to the Ministry of Finance, in 2008 the state budget of Georgia received direct support in the amount of 677,1 million GEL, out of which the 2008 state budget clearly reflects only 603,5 million GEL, i.e. 89 percent of total amount, while 73,6 million GEL, i.e. 11 percent are improperly reflected (refer to Chart 3).

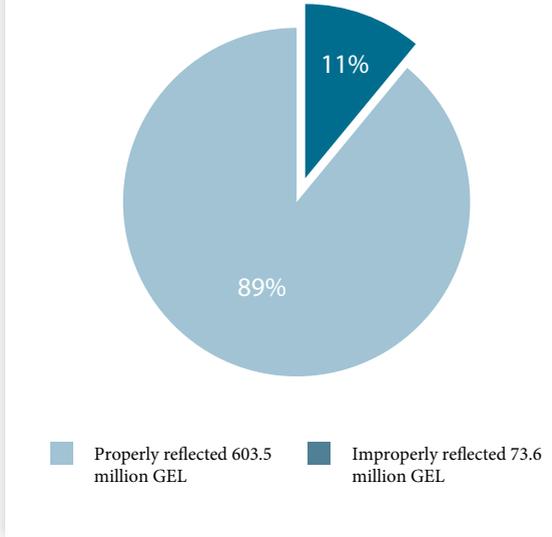
Reflection of amounts allocated for restoration of Georgia's economy in the 2008 state budget of Georgia is a separate subject of examination. Remarkably, in this case direct recipient of certain amounts is this or that company, and obviously these amounts are not directly declared in the budget.

In accordance with the Ministry of Finance of Georgia, under the decision of Brussels Conference in 2008 the donors allocated for the Municipal Development Fund the following amounts:

40 million USD (66 million GEL) by the World Bank for the development (in 2008-2012) of municipal and regional infrastructure.

40 million USD (66 million GEL) by the Asian Development Bank for the development (in 2008-2012) of municipal and regional infrastructure.

Chart 3. Reflection of Direct Budgetary Aid Allocated by 2008 in the State Budget (677,1 million GEL in total)

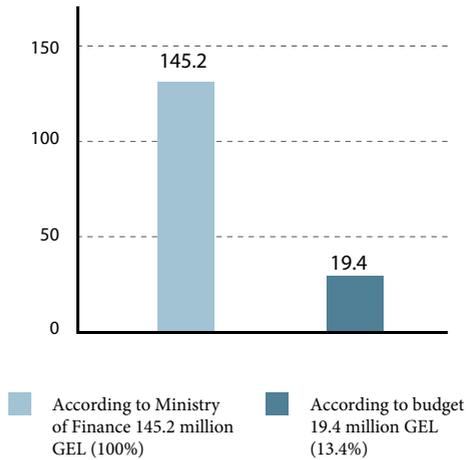


6 million EURO (13,2 million GEL) by the German KFW for rehabilitation of houses of internally displaced persons in the Western Georgia (in 2008-2009).

Based on this information, 145,2 million GEL should be accumulated by the Municipal Development Fund in 2008 for this purpose.

According to a respective table of Article 38 – "Ministry of Finance of Georgia" of Chapter 5 – "Assignments of the State Budget of Georgia" of the 2008 state budget of Georgia, total of 19,4 million GEL are declared in the Municipal Development Fund of Georgia as credits and grants, which in accordance with the data provided by the Ministry of Finance constitute only 13.4 percent (refer to Chart #4) of the allocated amount (145,2 million GEL). This difference may be justified by explanation of the Ministry of Finance, according to which amounts provided by the donors under the decision of Brussels Conference in the Municipal Development Fund should be accumulated gradually in the nearest years.

Chart 4. Grants and Credits Received by the Municipal Development Fund in 2008



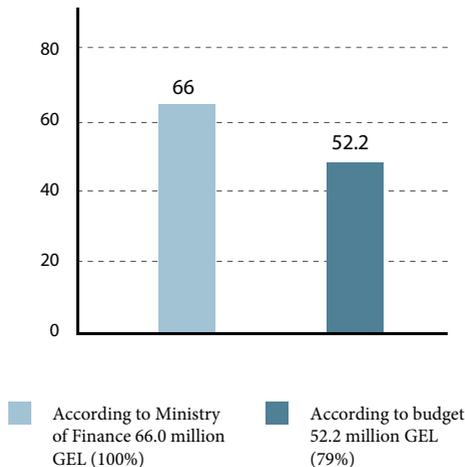
Apart from the mentioned, according to the Ministry of Finance the World Bank allocated 15 million USD (24,75 million GEL) to the Municipal Development Fund for rehabilitation of several schools, Government of Japan allocated approximately 8 million USD (approximately 13,2 million GEL) as a non-project grant for the development of municipal and regional infrastructure, and the European Bank for Reconstruction and Development allocated 18 million EURO (39,5 million GEL) for the municipal projects to be implemented in Adjara, Bakuriani, Poti, Kutaisi, Borjomi, and Tskaltubo. In total this amounts equals 77,45 million GEL. Due to the fact that Ministry of Finance of Georgia does not provide information about receipt of these amounts, therefore this information is not reflected in the analysis of the 2008 parameters. Ministry of Finance only confirms that implementation of these projects is currently underway. It is worth noting that all amounts accumulated in the Municipal Development Fund (and not only) must indicate year(s) of receipt of this/these amount(s).

In accordance with the Ministry of Finance of Georgia, under the decision of Brussels Conference in 2008 the donors allocated for the "Millennium Challenge Georgia" Fund the following amounts: 26 million USD (42,9 million GEL) by the US Millennium Challenge Corporation for the municipal infrastructure projects (in 2008-2011), 13 million USD for the energy purposes (preparatory works for cons-

truction of gas reservoir) (in 2008-2010), and additional 1 million USD (i.e. total of 14 million USD, 23,1 million GEL) for administration and technical assistance of this program. In total this amounts equals 66 million GEL.

According to a respective table of Article 38 – "Ministry of Finance of Georgia" of Chapter 5 – "Assignments of the State Budget of Georgia" of the 2008 state budget of Georgia, only 6,2 million GEL are declared in the "Millennium Challenge Georgia" Fund as credits and grants for the "Regional Infrastructure Development Project", 17,4 million GEL for the "Energy Rehabilitation Project", while pursuant to a respective table of Article 39 – "Ministry of Economic Development of Georgia", 28,6 million GEL are declared in the "Millennium Challenge Georgia" Fund as credits and grants for the "Roads Rehabilitation Project", which in total (52,2 million GEL) constitutes only 79 percent (refer to Chart #5) of the amount provided by the Ministry of Finance (66 million GEL). This difference may also be justified by explanation of the Ministry of Finance, according to which amounts provided by the donors under the decision of Brussels Conference in the "Millennium Challenge Georgia" Fund should be accumulated gradually in the nearest years.

Chart 5. Grants and Credits Received by the "Millennium Challenge Georgia" Fund in 2008



2008 state budget of Georgia is drawn up so that practically it is extremely difficult to fully identify amounts received by the state budget from foreign states based on the decisions adopted at the Donors' Conference organized in Brussels on 22 October 2008. This gives a ground to conclude that these amounts are not fully declared, or (and), under a better scenario are not properly (fully transparently) reflected in respective articles of the budget.

Analysis of Reflection of the Grant of United States Agency for International Development (USAID) in the 2008 State Budget of Georgia

As already noted above, the revenue code #132 (“grants to be received from foreign governments or their representations”) of Article 4 (“Grants of the State Budget of Georgia”) of Chapter 2 (“Revenues of the State Budget of Georgia”) of the 2008 state budget of Georgia declares a grant of the United States Agency for International Development (USAID) in the amount of 412,5 million GEL, i.e. 250 million USD.

The agreement on allocation of this amount to Georgia is dated 22 October 2008. The grant was allocated for undertaking rapid reaction to a shock received by Georgia’s economy from the Russian aggression in 2008. The agreement states that the Government of Georgia should utilize the amount received under the grant for stabilizing country’s economy and reducing fiscal gaps and deficit. At that, the agreement prohibits incurring costs that might be used for funding terrorist activities; this grant prohibits also a direct or indirect funding of military expenditures.

Provided below (refer to Table) is the information provided by the Ministry of Finance of Georgia on utilization of amounts received under this grant in various fields.

As the Table demonstrates, amounts received by the Government of Georgia under the American grant are used for funding the social sphere only and not stabilizing the economy directly. Formally, this decision does not contradict the grant agreement, as already noted, amounts received under the grant can be used for reducing fiscal gaps and deficit. As a given Table shows, the Ministry of Finance of Georgia believes that fiscal gap occurs in funding the social sphere.

In our opinion, it would be justified to spend a part of amounts received under this grant at least to fund the so-called “cheap credit” program, by which Government of Georgia would have reacted to a certain extent to funding by the Americans of stabilization of economy under the grant agreement.

From a moral standpoint, utilization of the grant received for rapid reaction to a shock received by Georgia’s economy as a result of Russian aggression

Table 1. Budgetary Expenses Funded under the Grant of the United States Agency for International Development (USAID)³

N	Program	Responsible Ministry	Amount (in million GEL)	Amount (in million USD)	Percent
1	<p>State pensions, state compensations and state academic scholarships:</p> <p>State pensions, scholarships and compensations for the dismissed government members and unemployed scientists and academicians</p>	Ministry of Labor, Health, and Social Welfare of Georgia	269,5	163,3	65,3
2	<p>State health program:</p> <p>Funds of this program will be directed at healthcare of population below a poverty line</p>	Ministry of Labor, Health, and Social Welfare of Georgia	43,0	26,1	10,5
3	<p>Providing post-conflict assistance to the refugees and internally displaced persons:</p> <p>Providing assistance to persons displaced as a result of Georgian-Abkhazian conflict</p>	Ministry for Refugees and Accommodation of Georgia	10,0	6,1	2,4
4	<p>Funding of schools of general education</p> <p>This program ensures funding of public schools through vouchers</p>	Ministry of Education and Science of Georgia	40,0	24,2	9,7
5	<p>Compensations and work remuneration</p> <p>These funds will be spent on remuneration of public servants except for the employees of the Defense and Interior Ministries</p>	All budgetary organizations	50,0	30,3	12,1
6	Total		412,5	250,0	100

³ Information obtained from the Ministry of Finance of Georgia.

in 2008 for issuing compensations to the dismissed government members or funding remuneration of public servants is especially unjustified. As for the so-called “unemployed academicians”, this phrase should be considered as an obvious confusion, as pursuant to the Law of Georgia on the National Academy of Sciences of Georgia, academician in Georgia is only a real member of this Academy, who under the Law receives a rather high fee for being the Academy member.

Overall, decision of the Government of Georgia on utilization of funds received under the US grant does not adequately enough achieve the target of rapidly reacting to the shock received by Georgia’s economy as a result of Russian aggression in 2008.

Notably, reflection of funding under the US grant in separate ministries in the 2008 state budget of Georgia is worth examining.

Article 48 of the 2008 state budget of Georgia defines the assignments of the Ministry of Labor, Health, and Social Welfare of Georgia, under which a total volume of credits and grants allocated for this Ministry constituted 16,614 million GEL. Pursuant to the organizational code #35 21 01 – “state pensions, state compensations, and state academic scholarships” of this Article, the Ministry of Labor, Health, and Social Welfare of Georgia does not foresee receiving credits and grants for this purpose. According to the organizational code #35 22 01 – “state program for medical insurance of population below a poverty line” of the same Article, the Ministry of Labor, Health, and Social Welfare of Georgia does not foresee receiving credits and grants for this purpose either. Remarkably, pursuant to the organizational code #35 22 02 14 – “medical aid to the victim population of conflict zones”, the Ministry of Labor, Health, and Social Welfare of Georgia does not foresee receiving credits and grants for this purpose either.

Credits and grants allocated to the Ministry under assignments of the Ministry of Labor, Health, and Social Welfare of Georgia as defined under Article 48 of the 2008 state budget of Georgia are accumulated under the organizational code #35 24 – “investment projects to be implemented under foreign grants and financial sources and assignments foreseen for co-partnership and co-funding of these projects”. Distribution of these amounts does not include areas, which are provided in the above-mentioned Table given by the Ministry of Finance.

In case the American grant should not have been fully utilized by the end of 2008, then its certain portion should have been transferred to the 2009 state budget. Interestingly, the 2009 budget of Georgia depicts the same picture as the 2008 state budget with respect to credits and grants allocated to the Ministry under the assignments of the Ministry of Labor, Health, and Social Welfare of Georgia. This means that identifying these amounts in the assignments of the Ministry of Labor, Health, and Social Welfare of Georgia pursuant to the 2008 and 2009 state budgets is impossible.

Article 47 of the 2008 state budget of Georgia defines the assignments of the Ministry for Refugees and Accommodation of Georgia and states that a total volume of credits and grants allocated to this Ministry constituted 587,7 thousand GEL. It is noteworthy that the assignments of this Ministry do not reflect what has been provided in the above Table at all: “Providing post-conflict assistance to the refugees and internally displaced persons: Providing assistance to persons displaced as a result of Georgian-Abkhazian conflict”. Same picture is displayed in the 2009 budget of Georgia with respect to credits and grants allocated to the Ministry under the assignments of the Ministry for Refugees and Accommodation. This indicates that identifying mentioned amounts in the assignments of the Ministry for Refugees and Accommodation of Georgia pursuant to the 2008 and 2009 state budgets is impossible.

Article 45 of the 2008 state budget of Georgia defines the assignments of the Ministry of Education and Science of Georgia and states that a total volume of credits and grants allocated to this Ministry constituted 9,069 million GEL. Remarkably, the organizational code #35 24 32 09 01 – “Funding of public schools” does not foresee allocation of credits and grants to the Ministry to this end. Exactly the same picture is displayed in the 2009 budget of Georgia with respect to credits and grants allocated to the Ministry under the assignments of the Ministry of Education and Science. Again, this indicates that identifying mentioned amounts in the assignments of the Ministry Education and Science of Georgia pursuant to the 2008 and 2009 state budgets is impossible.

As for the utilization of funds received under the American grant for compensations and work remunerations, which according to the Ministry of Finance of Georgia are being spent on remuneration of public servants except for the employees of the Defense and Interior Ministries (refer to Table), it should be noted that pursuant to Chapter V – “Assignments of the State Budget of Georgia” of the

2008 state budget, provision of assignments on work remuneration from credits and grants is not foreseen. Same picture is met in the 2009 state budget also (Chapter V – “Assignments of the State Budget of Georgia”). Unfortunately, identifying mentioned amounts in the assignments of the Ministry of Education and Science of Georgia pursuant to the 2008 and 2009 state budgets is impossible as well.

All the above-mentioned raises an extremely significant task before the Chamber of Control of Georgia to investigate how have the amounts received under the US grant been declared in the state budget and what have they been spent on in real.

Analysis of Reflection of Donors' Aid within the Framework of Brussels Conference Decisions in the 2009 State Budget of Georgia

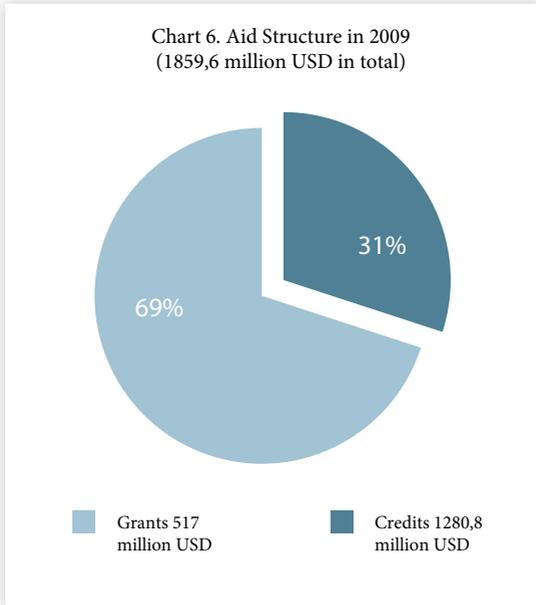
As noted above, during examination of reflection of financial aid in the 2008 state budget it had to be taken into consideration that Georgia used to receive grants and credits from foreign sources prior to mentioned Donors' Conference also. Thus, present study reflects not all grants and credits included in the budget in general, but only those that are directly linked to the decision adopted at the Donors' Conference organized in Brussels on 22 October 2008. With respect to the 2009 state budget this issue is not clearly formulated, i.e. it is not clear whether in 2009 the state budget will receive foreign grants and credits only within the framework of decision adopted at the Brussels Conference, or beyond it as well.

Decisions adopted by the donors within the framework of Brussels Conference, as already noted above, require from the Government of Georgia to hold additional talks with the donor state governments and management of donor organizations, based on which a volume and terms of to-be-received amounts will be finally decided. In view of this, the 2009 state budget of Georgia, which was adopted by the Parliament of Georgia on 30 December 2008, reflects only that financial aid, possible receipt of which in 2009 was known to the Government of Georgia by the end of 2008. Owing to this, it is notable in the first place that the analysis of reflection of the donors' aid within the framework of Brussels Conference in the 2009 state budget of Georgia cannot be complete. Throughout 2009, at least because specifying the volumes and terms of amounts to be received from donors is inevitable, Government of Georgia will have to periodically prepare and submit with the Parliament of Georgia draft amendments to the 2009 state budget of Georgia.

According to the Ministry of Finance, presumably total of 1859,6 million USD will be allocated by the donors in 2009, out of which 578,8 million, i.e. 31 percent should be grants, and 1280,8 million, i.e. 69 percent – loans (refer to Chart #6). Out of gross 1859,6 million USD 62,8 percent were received directly in the US Dollars (1168,4 million USD), and 37,2 percent in EURO (519,7 million EURO).⁴

Remarkably, total volume of grants in the 2009 state budget of Georgia constitutes 445 million GEL, out of which zero GEL is declared in the column of grants to be

⁴ 2009 exchange rate between the EURO and US Dollar calculations is considered at 2008 level and equals 1.33.



received from foreign governments based on events occurring in Georgia in August of 2008 (revenue code #132 – “grants to be received from foreign governments or their representations” of Article 4 – “Grants of the State Budget of Georgia” of Chapter 2 – “Revenues of the State Budget of Georgia” of the budget). This indicates that in 2009 the Government of Georgia does not expect direct support of the budget by grants.

Such statement contradicts with the information of the Ministry of Finance of Georgia, according to which in 2009 Government of Netherlands will allocate to the Government of Georgia 2,5 million EURO as a budgetary support.

Revenue code #132 of Article 4 – “Grants of the State Budget of Georgia” of Chapter 2 – “Revenues of the State Budget of Georgia” of the 2009 state budget presumably foresees the grant to be received from Netherlands under the name “Dutch grant accompanying the fourth credit for overcoming the poverty”, in the amount of 5,8 million GEL. Assuming that the latter amount is the same as above-mentioned 2,5 million EURO, then the exchange rate between the US Dollar and GEL in 2009 equals 1,74.

Under the revenue code #131 (“grants received from international organizations”) of Article 4 – “Grants of the State Budget of Georgia” of Chapter 2 – “Revenues of the State Budget of Georgia” of the 2009 state budget of Georgia, grants to be received from the World Bank include the statement “Enhancement of peaceful processes among victim population of the conflict through the inclusive regional economy development project (IDP accommodation project)”, for which more than 1,8 million GEL are allocated. Since this grant is not identified in the data of the Ministry of Finance, it can be viewed as an excellent example of the Government of Georgia receiving grant from the World Bank for accommodation of IDPs for enhancing peaceful processes among the victim population of conflict in the amount of up to two million GEL, which are not related to the aid of donors within the framework of Brussels Conference.

In accordance with the Ministry of Finance of Georgia, in 2009 state budget should receive significant grant amounts from the EU. In particular, these are:

Target-oriented budgetary support in 2008 and 2009 for construction of houses for internally displaced persons in the amount of 51,5 million EURO, which presumably is reflected in the budget under the revenue code #131 (“grants received from international organizations”) titled as “Support of IDP Action Plan: Part II, 2008” in the amount of 117,6 million GEL. In this case exchange rate between the US Dollar and GEL equals 1,72.

Macro-finance assistance in the amount of 11,5 million EURO (or 26,3 million GEL). Presumably this amount should not be reflected in the 2009 budget, as according to the Ministry of Finance, consultations are pending in relation to this amount and it may be approved by the end of 2009. Remarkably, revenue code #131 (“grants received from international organizations”) of the 2009 budget declares the “management of state finances”, and equals 11,6 million GEL.

Budgetary support of the criminal reform in the amount of 16 million EURO (36,6 million GEL), which should be received through three tranches in 2009-2011. Revenue code #131 (“grants received from international organizations”) of the 2009 budget declares “support of the criminal proceedings reform” and equals 11,6 million GEL.

Programs supporting sector policy, accommodation of internally displaced per-

sons, technical assistance, “TWINNING”⁵, grants, EU Monitoring Mission, macro-finance assistance in the amount of 172,9 million EURO (more than 395,5 million GEL). Presumably, this amount should not be reflected in the 2009 budget, as according to the Ministry of Finance declaration of amounts requires specification.

Pursuant to the Ministry of Finance of Georgia, German GTZ allocated grant for the accommodation project of IDPs in the amount of 8 million EURO (18 million GEL), which is reflected in the revenue code #131 (“grants received from international organizations”) of the 2009 state budget under the name “construction of residential houses for the internally displaced persons in Gori” and constitutes 14,3 million GEL, i.e. 79 percent of declared amount. In the assignments this amount is reflected under the organizational code #34 12 01 of the Ministry for Refugees and Accommodation of Georgia – “construction of houses for internally displaced persons in Gori (GTZ)”.

According to the Ministry of Finance of Georgia, by 2009 a non-project grant has to be received from the Government of Japan for purchasing agricultural tractors in the amount of approximately 13,5 million USD (22,5 million GEL). This grant is not reflected in Article 5 (“Grants of the State Budget of Georgia”) of the 2009 state budget. In the assignments of the Ministry of Agriculture (Article 14), “investment projects to be implemented with foreign funding sources and grants and the assignments envisaged for co-partnership and co-funding of these projects” are declared in the amount of 24 million GEL, however, it does not demonstrate that this amount includes mentioned non-project grant from the Government of Japan for purchasing agricultural tractors.

If the 2008 state budget delimited beneficial credits received from the World Bank and Asian Development Bank, for unknown reasons the 2009 state budget combines these two sources, which increases non-transparency of the budget. In particular, under Article 12 (“Amendments to Liabilities of the State Budget of Georgia”) of Chapter 4 (“Gross Balance of the State Budget of Georgia, Amendments to Financial Assets and Liabilities”) of the 2009 state budget of Georgia, beneficial credit to be received from these two sources together is declared in the amount of 132,96 million GEL. According to the Ministry of Finance of Georgia, state budget should receive 40 million USD as a beneficial credit from the World Bank in 2009, and the same amount should be received from the Asian Development Bank, i.e. total of 80

⁵ TWINNING is a special program of the European Union, under which a state institution of the EU member state becomes financially twinned with a relevant state institution of a recipient state.

million USD. Comparison of 80 million USD and 132,96 million GEL demonstrates that in these concrete calculations exchange rate between US Dollar and GEL equals 1,662, which differs from above-mentioned exchange rates that are applied in calculations of parameters of the 2009 state budget, which of course should be viewed as a disadvantage of drawing up the state budget.

Reflection of amounts allocated for development of Georgia's economy in the 2009 state budget of Georgia is a separate subject of examination. In this case, just like in the instance of 2008, it has to be taken into account that this or that company represents a direct recipient of certain amounts, and obviously these amounts do not directly transfer through the budget.

Pursuant to the Ministry of Finance of Georgia, 18 million EURO (41 million GEL) were accumulated by the European Bank for Reconstruction and Development for the municipal water supply projects (Adjara, Bakuriani, Poti, Kutaisi, Borjomi, Tskaltubo) for the Municipal Development Fund in 2009 under the decision of the Brussels Conference, which are reflected in the 2009 state budget (Article 14 – “Assignments of the State Budget of Georgia”) in the following manner: 4,8 million GEL for Kutaisi, 0,6 million GEL for Kobuleti, 3 million GEL for Borjomi, i.e. total of 8,4 million GEL. Interestingly, according to the Ministry of Finance the Government of Georgia should receive this credit before 2012, which presumably justifies its excess over parameters foreseen under the 2009 state budget.

In 2009, total credits and grants in the Municipal Development Fund (Article 14 – “Assignments of the State Budget of Georgia”) constitute 46,9 million GEL. Out of this amount, 1,8 million GEL are foreseen for “enhancement of peaceful processes among victim population of the conflict through inclusive regional economy development project”, 4,2 million GEL for “urgent rehabilitation of residential houses of internally displaced persons in Western Georgia” (KFW), and 13,7 million GEL for the “municipal service development project” from the Asian Development Bank. Presumably these amounts are reflected in the 2009 state budget based on the statements made by donors in 2008, although the 2009 budget does not contain relevant references to this.

As noted above, according to the Ministry of Finance of Georgia, the following amounts were accumulated for the “Millennium Challenge Georgia” Fund under the decision of the Brussels Conference: 60 million USD (99 million GEL) for construction of Samtskhe-Javakheti roads from the US Millennium Challenge Corpo-

ration (in 2009-2010), 26 million USD (42,9 million GEL) for the municipal infrastructure projects (2008-2011), 13 million USD for energy purposes (preparatory works for construction of gas reservoirs) (in 2008-2010), and additional 1 million USD (i.e. total of 14 million USD, 23,1 million GEL) for technical assistance of administration of this program (in 2008-2011). In sum, this amount equals to 165 million GEL.

Pursuant to the assignments of the Ministry of Finance provided in a respective table of Article 14 – “Assignments of the State Budget of Georgia” of the 2009 state budget of Georgia, 64,8 million GEL are declared under the “Millennium Challenge Georgia” Fund as credits and grants, while pursuant to the assignments of the Ministry of Economic Development of Georgia, 39,2 million GEL are declared under the “Millennium Challenge Georgia” Fund as credits and grants. In total, 104,0 million GEL are declared in the “Millennium Challenge Georgia” Fund as credits and grants. It is difficult to compare these parameters with the above-mentioned information of the Ministry of Finance, as amounts to be received from the donors are distributed over several years, while the specific amount to be raised in 2009 is not clearly declared.

In accordance with the Ministry of Finance of Georgia, significant financial aid is foreseen for the Motor Road Department of Georgia. Namely, the World Bank allocated 70 million USD (117 million GEL) for the secondary and local roads (in 2009-2010), 250 million USD (416 million GEL) for the East-West highway (Sveneti-Rikoti, tunnel rehabilitation) (in 2009-2011), and 60 million USD (100 million GEL) for the Vaziani-Gombori-Telavi road (in 2009-2010).

Under the 2009 budget of Georgia, 237,1 million GEL are allocated as credits and grants for “road infrastructure improvement measures” (code #25 03), out of which 1,15 million GEL are allocated for the “East-West transit highway I” (code #25 03 02 03), 52,5 million GEL for the “East-West transit highway II” (code #25 03 02 04), and 74,9 million GEL for the “East-West transit highway III” (code #25 03 02 05), i.e. total of 128,55 million GEL for the East-West transit highway, which constitutes 31 percent of the above-mentioned amount (416 million GEL) to be allocated by the World Bank.

Pursuant to the 2009 budget of Georgia, “internal state and local motorways project” (code #25 03 02 06) will be funded by credits and grants in the amount of 56 million GEL, which constitutes 48 percent of the above-mentioned amount (117 million GEL) to be allocated by the World Bank.

Under the 2009 state budget of Georgia, “Vaziani-Gombori-Telavi project” (code #25 03 02 09) will be funded by credits and grants in the amount of 10,5 million GEL, which constitutes 10,5 percent of the above-mentioned amount (100 million GEL) to be allocated by the World Bank.

Credits to be received throughout 2009 for development of road infrastructure (data of a respective table of Article 12 – “Amendments to Liabilities of the State Budget of Georgia” of the 2009 state budget) are in full compliance with the amounts mentioned above.

Reflection of the donors’ aid within the framework of Brussels Conference in the 2009 state budget of Georgia is mainly characterized by the same flaws that are attributable to the 2008 state budget of Georgia.

Conclusions and Recommendations

Analysis of reflection of the donors' aid within the framework of Brussels Conference in the 2008 and 2009 state budgets of Georgia provides a ground for drawing the following conclusions:

Information on the donors' aid within the framework of Brussels Conference decision is public and accessible on-line on the web page of the Ministry of Finance of Georgia. Yet, at a given stage this information is not complete as often it is not written out in time in detail. This applies not only to aid to be received in the future, but one that has already been received by the Government of Georgia also.

Donors' aid within the framework of decisions of the Brussels Conference is not properly reflected in the 2008 and 2009 state budgets of Georgia, as this aid is not always delimited from the foreign grants and credits, which are not related to the decisions of this Conference. Best examples of this flaw are Article 4 of the 2008 state budget and Article 5 ("Grants of the State Budget of Georgia") of the 2009 state budget. In case of 2008, statement "grants to be received from foreign governments due to events occurring in Georgia in August 2008" of the revenue code #132 ("grants to be received from foreign governments or their representations) reflects only a grant received from the US, while in case of 2009 only zero GEL is declared, which, as it was demonstrated above, does not correspond to truth.

Credits allocated to Georgia by the donors within the decisions of the Brussels Conference are not always delimited from each other amount-wise. In particular, for unknown reason the 2009 state budget combines beneficial credits to be received from the World Bank and the Asian Development Bank, whereas they had been rather fairly delimited under the 2008 state budget.

Decision of the Government of Georgia on utilization of funds received under the US grant does not adequately achieve a goal of rapidly reacting to the shock received by Georgia's economy as a result of Russian aggression in 2008. Identification of these amounts in the 2008 state budget of Georgia based on the information provided by the Ministry of Finance of Georgia is practically impossible.

Expenses of the "Millennium Challenge Georgia" Fund are declared under the expenses of the Ministry of Finance of Georgia and the Ministry of Economic Deve-

lopment of Georgia, which complicates coherent apprehension of expenses accumulated in this Fund.

In most cases titles of assistance stated in the information of the Ministry of Finance do not correspond to titles given in the state budgets. Discrepancies are found between the amounts as well, which may be caused by application in various articles of different exchange rates of GEL while drawing up the state budget.

Based on the analysis of reflection of the donors' aid within the framework of Brussels Conference in the 2008 and 2009 state budgets of Georgia, it is advisable that the Government of Georgia and namely the Ministry of Finance of Georgia in the future take into consideration the following:

On-line information posted on the web page of the Ministry of Finance of Georgia about the donors' aid within the framework of Brussels Conference decisions requires improvement: wherever possible, amounts should be written out in time-frames, terms for receiving the aid should be specified, and besides foreign currencies, assistance should be declared in GEL also with due reference to an exchange rate. This recommendation especially applies to amounts that are already received and deposited to the state budget.

State budget of Georgia should clearly delimit donors' aid within the framework of Brussels Conference decisions from the foreign grants and credits that are not related to the decisions of this Conference.

State budget of Georgia should delimit amount-wise from each other credits allocated to Georgia by the donors within the framework of Brussels Conference decisions, so that it becomes crystal clear which donor awarded which credit.

Expenses of the "Millennium Challenge Georgia" Fund should be combined and based on the functional capacity of this Fund they should be reflected in the expenses of the Ministry of Economic Development of Georgia.

It is crucial that information of the Ministry of Finance of Georgia on the donors' aid within the framework of Brussels Conference decisions is brought in full compliance with respective information provided in the state budget, which will increase transparency of reflection of this aid in the budget.

Due to vast importance of the grant allocated to the Government of Georgia by the United States Agency for International Development (USAID), Chamber of Control of Georgia should pay particular attention in order to identify how have the amounts received under the US grant been declared in the state budget and what have they been spent on in real.

It is vital that these recommendations are taken into consideration due to extremely huge importance of the donors' aid within the framework of Brussels Conference and due to the interest of Georgian society and donors themselves with respect to purposeful and efficient utilization of the aid.

OSGF Policy Paper Series: Reports, Analyses, Recommendations

Tbilisi, april 2009

**“Open Society Georgia” Foundation
10, Chovelidze Str.
0108 Tbilisi, Georgia
contact@osgf.ge
www.osgf.ge
www.transparentaid.ge**