ASSOCIATION OF YOUNG ECONOMISTS OF GEORGIA

STATE BUDGET AND ITS MONITORING METHODS

GUIDE

TBILISI
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Preface

The guide is prepared by the Association of Young Economists of Georgia in scopes of the "Budget Monitoring" Project, which is implemented with the support of British Charity Organization OXFAM – Georgian Representation.

The Project is aimed to provide transparency and publicity of the State finance expenditures through monitoring of the State and Kutaisi City Budget execution and influence over the budgetary processes.

The guide is dedicated for the non-governmental and civil society organizations, also other interested individuals, who wish to get involved in the budgetary processes on every stage of implementation and perform budget monitoring. These activities guarantee transparency in the sphere and protection of the populations civil rights.

The guide covers all stages of budgetary processes, also methods of budget monitoring and analysis.

CONTENT

Introduction

State finances represent one of the most important parts of country's economy. The state mobilizes the financial resources in order to apply them for accomplishment of its functions and responsibilities.

State budget reflects the priorities established by the state in the social, economic and political sectors. These factors directly or indirectly influence the welfare of the citizen. The level of living among the population depends on the decisions concerning the healthcare, education and other spheres.

The budget has to cover the issues of the interest of the population. The state bodies are the major players in the budgetary processes, accordingly there exists the risk that the budgetary policies will not completely imply the prioritized necessities of the society.

Budgetary process and system represent the indicator of the level of democracy and openness. It is of crucial importance that non-governmental sector and the mass media representatives actively participate in monitoring of these issues and support building publicity and transparency of the state budget and disseminate information to the society. The mechanism of providing transparency of the budget is implied in monitoring of every stage of the budgetary processes.

Monitoring has to be implemented throughout all stages of budget formation to execution. Budget monitoring result analysis has to be comprehensible to the wider public, especially to the policy makers, non-governmental organizations and mass media representatives.

Active involvement of the civil society into the budget monitoring processes ensures transparency and consonance between the budgetary processes and public needs. Various types of monitoring experience has been developed in Georgia, among them the state and local budget monitoring.

The guide is intended to contribute to the development of the budget monitoring mechanisms, which would enable the civil society representatives to become permanently engaged in the budgetary processes.

I. BUDGETARY SYSTEM OF GEORGIA

1.1 What is budget?

The word budget comes from English term *budget* that means sack. At the time when the government asked the money form the upper institutions, the treasury councilor would open the purse, which contained the project of incomes and expenditures. This process was called releasing the budget. According to the modern meaning, the budget represents the unity of expenditures and incomes. It represents significant part of country's financial system, which is applied as the instrument for implementing the economic, political and social functions.

The law of Georgia on "Budget System of Georgia" defines the budget as the following: "*financial plan of the revenues of the Central Government of Georgia, Autonomous Republics and local governances, joined to the list of expenditures targeting at accomplishing their functions and liabilities.*"

State Budget represents the political and financial document, which is passed by the Parliament of Georgia in the law format. It implies funding the defined activities considering the revenues.

Budgets can be of different levels, unity of which represents the budgetary system. The state budgetary system comprises the state budget of Georgia, the budgets of Abkhazia and Adjara Autonomous entities and local budgets. In addition, the "joint budget" term is applied while formation of the financial policy, it unites the existent budgets and does not represent the normative act.

According to the law of Georgia on "Budget System of Georgia" "***State Budget** represents the budget of central government, which includes the revenues and expenditures of the legislative, executive and jurisdictional branches of the government. Local budget is the territorial entity budget, which contains relevant revenues and expenditures.* "

Local Budgets include:

- Budget of villages, communities, settlements and towns forming the part of districts;
- Budgets of the cities not forming the part of districts;
- Districts budget.

The term of "district consolidated budget" is applied in practice. It unites district budgets and budgets of the self-governance entities forming the part of the district; it does not represent the normative act.

Autonomous Entity Budget represents the joint budget of the Abkhazia and Adjara autonomous entities and territorial entities forming the part of the autonomous republic (villages, communities, settlements, towns).

Until 2005, the budgetary system of Georgia included the central budget and state special funds, unity of which represented the State Budget. There existed two funds – Social Insurance State fund and State Road Fund. However, according to the amendments to the law on "Budget System of Georgia"[1] modified the early existent budgetary system.

1.2 The Principles of the Budget Administration

Budgetary system regulates the processes of budget project preparation, passing, execution, accounting and control, also the budgetary relations and liabilities among the central, autonomous republics and local budgets.

According to the law on "Budget System of Georgia" the budgetary administration of Georgia is based on 7 main principles:

1. **Completeness** – all budget revenues and expenditures have to be completely reflected in the relevant budgets;
2. **Transparency** – the discussion procedures of the budget in the legislative bodies ah veto be public and highlighted by the media; the passed budgets and reports over their execution ah veto be publicized; the information about the budget (except the state confidential) has to be accessible to any interested individual;
3. **Accountability** – any person involved in the budgetary processes is responsible for all actions taken by him/her and information concerning the budget;
4. Independence – central budget, budgets of the autonomous republics and local budgets are independent and have the right of identifying the sources of income and private expenditures;

[1] December 29th, 2004

5. **Unity** – the governance should be implemented on the basis of the unity of the common budgetary classification, common accounting systems, common budgetary documentation, common principles established wit the supervision of the state finance control;
6. **Universality** – all budget revenues have to be transferred for financing the common expenditures. Additionally, none of the revenues, except of the donor funding, can be targeting at financing specific expenditures;
7. **Consolidate** – all state revenues have to be reflected on the common account of the State Treasury, which is managed by the State Treasury and is placed in the Georgian National Bank. The expenditures have to be managed in scopes of the legislation.

II. BUDGET INCOMES

The representatives of the Central Government along with the local governances initiate the planning process of new budget in the very beginning of the budgetary year. One of the major mainstreams of this activity is represented by the income prognosis (forecast), which later significantly contributes to execution of the governmental functions and liabilities. Each of the families, small enterprises or individuals plans their own incomes and expenditures. If the income is less than planned expenditures, they can try to take a loan. Analogically, the government works over the future budget. The initiate activities include identifying the amount of funds that will be mobilized for the future year and lastly, the main aims to spend the budget. The level of social and economic development of the state is significantly depending on the government's ability to plan the budget precisely and forecast the correct expenditures.

The unity of the funds mobilized by the state represents the budget incomes. The law on "Budget System of Georgia" defines the budget incomes as follows: the unity of all types of financial funds to be mobilized on the budgetary accounts.

Budget Incomes include budget revenues, grants and deficit finance sources.

Income = revenues + grants + deficit finance sources

Budget revenues, according to the legislation are defined as financial sources to be mobilized on the budget accounts, which cannot be returned or reimbursed. Revenues can be stated as tax, non-tax or capital. Revenues cannot be targeted or linked to separate expenditures.

2.1 Tax Revenues

According to the law on "Budget System of Georgia", tax revenues are represented by the unity of mobilized funds through the taxes established by the legislation of the state.

The state government owns specific techniques of regulating the economic processes on-going in the country, which are applied to influence the economy. One of them is the taxes, which have essential meaning for the mobilization of funds into the state budget. They basically represent the financial source of the budget formation.

The Tax Code of Georgia defines the tax as the following: "*mandatory, unconditional financial contribution to the budgets on state, autonomous republics and local level, made by the tax payer due to the obligatory, non-equivalent and benevolent character of payment*".

The taxes are based on the two main principles:

- Principle of equity
- Principle of effectiveness

The principle of equity can be divided in two: horizontal equity and vertical equity. The principle of horizontal equity is based of equal taxation of taxpayers being in similar conditions. The principle of vertical equity means establishment of tax burden on taxpayers in different conditions relevantly to the environment conditions (e.g. amount of revenues).

Principle of effectiveness is defined as sense of balance between the high losses for the society with the tax imposition and the positive effects resulting from them.

The taxes have two functions:

- Fiscal function
- Regulatory functions

The **fiscal function** of the taxes is applied by the state in order to mobilize the funds necessary for its functioning.

The **regulatory function** is accomplished through redistribution of revenues by means of taxation, stimulation or encouragement of certain processes, enhancement or slowing down of capital accumulation, increase or decrease the purchasing power of the population.

In order to accomplish these functions, there are several types of taxes imposed by the legislation, which can be classified according to different criteria. There are direct and indirect taxes.

Direct taxes are imposed on income or property under direct taxation. Direct taxes include:

- Income tax – imposed on the income of the physical person
- Profit tax – imposed on the profit of the legal entity
- Social tax – imposed on the salary paid by the employer
- Property tax – imposed on the property owned by the physical or legal persons

- Tax on gambling business – tax on assertive or other gambling businesses.

Indirect taxes represent the specific type taxation, when the tax established by the legislation is paid by the final customer while purchasing the goods or services. These types of taxes are included in the prices for the goods or the service fee. Indirect taxes include:

- Excise – imposed on certain goods, paid by the good manufacturer (producer) of the importer, as stated by the law.
- Value-added tax – imposed on all types of goods and services (if not exempted by the legislation) at any state of commercial exchange
- Customs duty – imposed on importer at the import accomplishment.

Taxes are divided into fixed and ad-valorem taxes. The **Fixed Taxes** are represented by establishing obligation of payment of fixed amount of tax over the taxation object, despite the value of commodity/service and amount of income.

Ad-valorem Taxes represent the rate of percentage of the income or value.

The taxes are divided in Common State Taxes and Local taxes according to the authorities establishing or administering them.

Common State Taxes are as follows:

- Income Tax
- Profit Tax
- Value Added Tax (VAT)
- Excise Tax
- Social Tax

Local Taxes are as follows:

- Property Tax
- Tax on Gambling Business

Customs Duty – imposed by the Customs legislation. It represents the mandatory financial contribution on the state border for movement of goods. It is calculated according to the commodity type and customs value.

2.2 Non-Tax Revenues

In addition to tax and capital revenues, the non-tax revenues represent other important source of budgetary incomes. Non-tax revenues imply 10 main groups, which separately are classified with detailed precise source of income.

Non-tax revenues include the following groups:

- **Fees** – customs, licensing, permit, state certificate, registration, state expertise and other fees (state fees).

- **Incomes received through the lease of the State property** – this is the income, which unites obtained incomes from the land rental, incomes out of the lease of the buildings/facilities, machinery and equipments.

- **Incomes obtained form the State service fees** – fees paid to the state governance bodies, sub agencies of the governances, budgetary entities for accomplishing separate services.

- **Incomes from the minor sales** – represented by the sales, value of which are impossible to identify, e.g. realization of the tickets, postal stamps, other.

- **Incomes generated by the dividends and National Bank profits** – dividends obtained form the state assets or through the state participatory enterprises and national bank profit.

- **Royalty** – payment for the extraction and the use of natural resources, fees established for the use of copyright, patent, model, trademark, appliance of know-how, video/audio records and other similar rights.

- **Percentage for the State loan, deposits and other bonds** – revenues obtained as the percentage rate form the state credits, loans. This article does not imply the return of the baseline sum.

- **Incomes obtained form the sanctions –** all of the incomes generated by the sanctions and administrative fees, which are imposed by the violations of the administrative code.

- **Return of the credits –** inner credit returns (on the separate levels of the governance, state enterprises, financial institutions, and other credits), international credit returns (credits to the outer government and international organizations).

- **Other non-tax revenues** – this category implies all other types of non-tax revenues not included in above articles.

2.3 Capital Revenues

Capital revenues are represented by the revenues obtained through the sales of the state owned material and non-material assets, e.g. enterprises, enterprise shares, building-facilities, machinery, etc. Mentioned revenues represented the source for the budget deficit funding until 2004. Currently, they are included in the revenues.

2.4 Grants

Grants are other sources of budgetary revenues, which are not subject to reimbursement. Throughout the years, the budget of Georgia was strongly dependent on the foreign grants. There exist financial or the commodity grants. They can be classified according to their sources:

- grants donated by the other country governments
- grants granted by the international organizations
- grants obtained from the international non-governmental sources
- grants received form the organizations of state governance organizations of different level
- other grants not classified above

2.5 Sources of Financing the Budget Deficit

The budget may experience deficit or the proficit. In case, if the budgetary revenues are in excess over the expenditures, than the budget has the proficit. Therefore, when the revenues are less than the expenditures, the budget has the deficit. The deficit and proficit are defined by the state government beforehand and the relevant gap is approved by the Parliament.

When the State budget expenditures excess the planned revenues, in order to balance the difference, the government established the deficit financing sources. Budget financing can be linked to delivering significant amount of investments into the country's economy to achieve its growth. The deficit can be of two types: cyclical and structural. Cyclical deficit is resulted by cyclical decline in the entrepreneurship; however the structural deficit is caused by the intentional increase in the governmental spending. While planning the deficit budget, it is important to consider the growth of the state debt, since the main sources of financing the deficit are the loans.

Deficit financing sources are:

- Foreign credits and loans
- Inner credits and loans, among them funds mobilized through the treasury liabilities

III. BUDGET EXPENDITURES

The budget expenditures represent the unity of all the funds to be disbursed from the budgetary accounts. The expenditures of the State, Autonomous Republics (A/R) and local Budgets include: costs, credits, shares in the stocks and debt amortizations – covering the main amount of the credit.

Expenditures = costs + crediting + covering the debt

Budget costs represent the total of the financial funds applied for executing the functions and objectives of the state, A/R and local governance representatives.

In order to implement proper audit of the expenditures, the classification system is established. The system approves the economic and functional classification of expenditures audit in Georgia. In addition, the budget is approved on the basis of the activities and organizational classification.

3.1 Functional Classification of the Budget Expenditures

The functional classification system is intended to expose the state expenditures, which are forwarded to finance the wide national goals. Functional classification system gives the government the possibility to plan, divide and analyze the costs according to their functional categories (e.g. education, healthcare, etc). The above-mentioned system also makes it possible to compare the category costs to the data of other countries.

The first level of Georgian budget costs for the functional classification unites the costs, which are linked with the execution of the main state objectives. Therefore the second level costs outlined according to their likeliness of the objectives.

The first level of the Georgian budget costs of the functional classification includes 14 major groups:

1. Common State Services
2. Defense
3. Public Order and Security
4. Education

5. Healthcare
6. Social Insurance and Social Security
7. Utility costs
8. Activities in the sphere of Culture, Sport and Religion
9. Fuel and Energy Sector
10. Agriculture, Forestry, Fishery and Hunting
11. Fuel Industry, mining, Processing and Construction
12. Transport and Communication
13. Other economic activities
14. Other services, not classified elsewhere

3.2 Economic Classification of the Budget Expenditures

The economic classification of the expenditures helps the Parliament and the Executive bodies to evaluate the expenditure influence over the state economy. It also represents the technique to evaluate the rightness of the state costs. The economic classification of the budget expenditures is similar for all level budgets, spending entities and budgetary organizations.

Economic classification expenditures are divided in 4 groups:

- Current Expenditures
- Capital Expenditures
- Crediting
- Debt Coverage

Current Expenditures imply the operation costs of the state organizations for the planned activities. The current expenditures are divided in the following categories:

- **Expenses on Commodity and Services** – salaries, payments made by the employers (social taxes), business trips and other commodity and services. This article is very important since it covers the costs such as office costs, catering, utility, soft furniture and uniform, medical expenses, transportation maintenance and service costs.

- **Paying the Percentages** – expenses of payments in appliance of the debit finances. This article implies covering the international and internal debts.
- **Subsidies, Subventions and Current Transfers** – financial aid disbursed by the state with the no obligation of the payback (subsidies may be exposed both financial or materially); targeted financial funds intended to fund the defined activity, which is the subject to return in case of deadline violation (subventions); voluntary aids disbursed to the budgetary organizations, households and other levels of governance (current transfers). This category also implies the grant agreements applied by the state.

Capital Expenditures imply the main objectives of the Country's economic development. These types of costs contain all budgetary costs, which are targeted towards financing the investments and innovative programmes.

The capital expenditures include:

- **Purchase of the main capital** – expenditures on the commodity, validity of which exceed an year and/or value of which exceed 150 GEL
- **Purchase of the machinery, equipment, transportation means and other capital; purchase of building/facility, construction and reconstruction; capital maintenance of the machinery, equipment, transportation means and other capital** (capital reconstruction implies reimbursing the value of the means according to the maintenance).
- **Expenditures for the co-financing and partial contributions in the innovative projects funded by the donor credits and grants** – costs, representing the part of co-finance and contribution are included in the capital expenditures category.
- **Purchase of goods for the State reserve** – costs for maintaining the state reserve, which are of strategic and social importance to the state.
- **Purchase of the non-material actives** – patents, computer programmes, etc.
- **Purchase of land** – costs n\connected with the purchase of land, forest, inner waters and natural resources.
- **Capital Transfers** – transfers disbursed for financing the construction of the bridges, roads, cultural facilities, hospitals, school and etc.

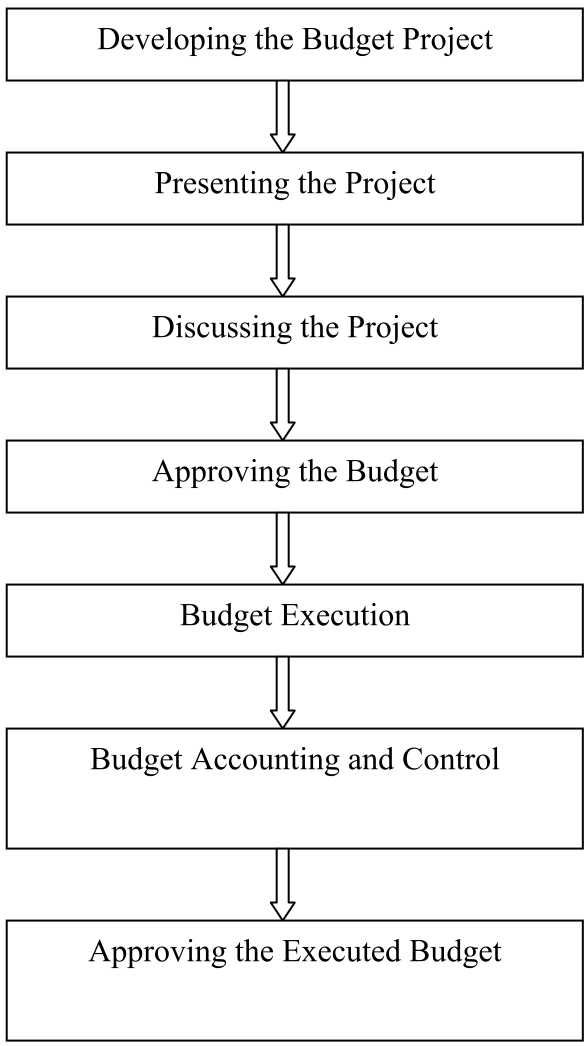
- **Crediting, shares in the Joint Stock –** budget credit is the form of financing, which implies disbursing the state funds to the various level budgets for financial and non-financial organizations with or without the condition of returning. The crediting can be inner or outer.
- **Debt amortization** – covering the main amount of the funds. Very often, the state undergoes the fund shortage and is obliged to obtain them from other sources. This way the state debts are formed. The state covers the debt percentage, along bears the obligation of covering the main amount of the debt. Debt amortization implies coverage of inner and outer debts.

IV. BUDGETARY FORMATION PROCESS

The budgetary year of Georgia coincides with the calendar year. The process of developing the budget for the following year is initiated in the beginning of the on-going year. The executive branch of the state is responsible for the budget formation, execution and accounting, therefore the legislative branch authorized to review, pass and control the budget. The Ministry of Finance is responsible for preparation and proposing the budget draft (Scheme #1, Table #1).

The budgetary process extends to 33 months. Out of which, the planning phase implies 7 months, review and passing – 3 months, execution phase – 12 months (budgetary year coincides with the calendar year), preparing and passing the report – 11 months.

Scheme #1. Stages of the Budgetary Process



4.1 Developing and Presenting the Budget

The process of development of the budget project is initiated on March 1st of the current year, when the Ministry of Finance along with the Ministry of Economic Development of Georgia and National Bank (collaboration with other Ministries of also possible based on the Government decisions) initiates analysis of the main direction document. It implies medium term macroeconomic prognosis, medium term fiscal prognosis and main directions of the budgetary and tax policies.

Medium Term Macroeconomic Prognosis is based on the indicator plan of the country's social-economic development. It implies the gross domestic products, inflation rate, changes in salaries, industrial outputs according to the sectors, tax balance, exchange rate, monetary data and other elements.

Medium Term Fiscal Prognosis represents the major elements prognosis of the revenues, expenditures and finances of the medium term macroeconomic prognosis.

Main directions of the budgetary and tax policy imply: current budgetary conditions; statements over the budgetary strategies developed through the state policy and priorities; main fiscal and financial directives and objectives; main categories of the revenues and expenditures (for the budgetary year). It is based on the medium term macroeconomic prognosis, current fiscal conditions and strategy analysis.

The main direction document is presented to the Government of Georgia by the Ministry of Finance from April 15th to May 1st. Until May 1st, the government in agreement with the President presents the document to the relevant economic profile committees of the Parliament. Till June 1st, financial and budgetary committee prepares the conclusion and sends it to the government representatives. Until June 15th, the government of Georgia approves the staff and expenditure limits. Throughout the next 5 days, the Ministry of Finance of Georgia disburses the budgetary limits to all spending entities (budgetary requests), which denotes number of staff and the top limit of the expenditures for specific year. The numbers of staff and expenditure limits are defined by the government in agreement with the president (based on the proposal submitted by the Parliament).

The heads of the spending entities based on the budgetary circulars prepare the budgetary notice and submit it to the Ministry of Finance till August 15th. The budgetary notice should include the following information:

- The actual incomes and expenditures of the previous year budget, current incomes and expenditures prognoses for this year, and the prognosis of the incomes and expenditures for the panning year;
- Prognosis of incomes and expenditures calculated for the following year budget and 2 follow up years.
- Information concerning the number of employees to be financed by the budget;
- The stipulation of the incomes and expenditure prognosis;
- Information concerning the financial grants received or planned to be obtained by the spending entities.

The Ministry of Finance explores the notices and along with the spending entities reviews the numbers until August 30th. In case of disagreement among the Ministry of Finance and the spending entities, the decision is made by the government of Georgia.

Till September 15th, the Ministry of Finance proposes the budget project to the government of Georgia, hence by October 1st, with the agreement of the President the government should submit the law project on state budget to the Parliament of Georgia.

4.2 Budget Consideration and Approval

The process of consideration of the law project on State Budget is initiated in the relevant committees of the Parliament. Subsequently to the committee hearings, the law project is being discussed on the plenary meeting of the Parliament. The Premier Minister of the member of the government presents the law project on the state budget and report over the last year budget execution. The Parliament of accomplishes the hearing of the report prepared by the Chamber of Control and Financial budgetary Committee of the Parliament.

The Parliament of Georgia passes the State Budget based on the vote majority in one hearing. The Parliament is also authorized not to pass the presented project of the state budget. In this case, the government of Georgia in accordance with the President of Georgia presents the new budget project in two week timeline. If the new budget project is not passed as well, then the president has the right to dismiss the parliament and pass the state budget on the decree basis.

If the Parliament fails to pass the budget before the beginning of the new budgetary year, executive branch of the government is authorized to accomplish expenditures in order to implement all the necessary expenditures in limits of the mobilized revenues. The monthly expenditures should be mounted to 1/12 part of the actual budget.

In case of force-major, the Parliament is authorized to pass the presented draft in agreement with the President in order to implement unconditional expenditures. In addition, extra taxes and duties may be imposed for the purpose of mobilization of additional funds.

In case of the need of modifications to the law on “State Budget”, the government of Georgia in accordance to the President prepares the package of changes, which later is presented to the Parliament.

All of the laws and normative acts, those can affect the amount of incomes and expenditures prognosis of the state budget, shall be reviewed at the Parliament of Georgia along with the package of changes to the law on “State Budget”. Mentioned project will be passed after the governmental approval.

4.3 Budget Execution

Subsequent to approval of the law on “State Budget”, the Ministry of Finance sends the information to the spending entities over the financial assignment (funding limits). In addition, the Ministry of Finance initiates the process of developing the disbursement document. It represents the description of the budget incomes and expenditures according to the quarters, budget law and classifications.   Assigned expenditures and incomes have to be balanced. Mentioned document is intended for avoiding the misbalance between the incomes and expenditures throughout the various time periods. The disbursement document represents the main document along with the law on “State Budget”, which is applied by the Treasury Department of The Ministry of Finance in order to transfer funds. The Treasury Department is not authorized to disburse funds without the assignment in the disbursement document.

If in the process of budget execution, the revenues and grants article undergoes more than 10% decrease comparing to the prognosis, the government in accordance with the president is obliged to submit relevant package of changes to the Parliament.

4.4 Budget Accounting and Control

Budget accounting and control is one of the most essential stages in the budgetary process. The Ministry of Finance, Treasury Department prepared monthly reports over the budget incomes, expenditures and sources of deficit financing for every 20th day of the month.

In a month of period of the end of the quarter, the Ministry of finance presents the Parliament with the State Budget Review, which should include information over the following: current situation f the macroeconomic and budgetary sphere; comparison of the budgetary incomes, expenditures and sources of deficit financing with the similar data from the previous year, main definitions of the differences, etc.

According to the instructions and established deadline set by the Ministry of Finance, the budgetary spending entities prepare their own reports and accounting, whose are applied as basis for the yearly program and financial report. The united yearly program and financial reports, along with the report prepared by the Chamber of Control, is presented to the Parliament within the dates set by the Constitution. The Ministry of Finance prepares the final yearly report in a 3 month period after the year completion. The report of the Chamber of Control, which verifies the rightness of the presented report, is presented to the Parliament after the hearing of the Ministry of Finance report.

After the hearing of the yearly report over the State Budget execution and the report of the Chamber of Control, the Parliament no later November 1st, passes the decree over approving or not approving the reports. In case, if the State Budget is not executed, and the Parliament of Georgia does not pass the yearly report, the President reviews the issue of the governmental responsibility and in a month period notifies the Parliament of his proved decision. The Parliament is authorized to apply the President and request for withdrawing the budgetary expenditures in case of illegal action in the budgetary processes.

Table #1. Timeframe of the State Budget of Georgia

#	Dates	Process
1.	March 1^{st}	Ministry of Finance along with the Ministry of Economic development and the National Bank initiates the development of the main directions document.
2.	Until April 15^{th}	Ministry of Finance presents the Main directions Document to the Government.
3.	Until May 1^{st}	The government in accordance to president presents the main directions document to the relevant economical profile committees of the Parliament
4.	Until June 1st	Financial Budgetary Committee prepares the conclusions based on the reports of the committee hearings and submits it to the government.
5.	Until June 15^{th}	The government of Georgia approves the limit norms of the employees and costs.
6.	5 days form the #5 activity execution	Ministry of Finance submits the budgetary circular to the each of the spending entities.
7.	Until August 15th	Heads of the spending entities prepare the budgetary notices on the basis of the circulars and submit them to the Ministry of Finance.
8.	Until August 30^{th}	The Ministry of Finance reviews the notices along with the spending entities.
9.	Until September 5^{th}	The final agreement between the Ministry of Finance and spending entities will be presented to the government for final decision.
10.	Until September 15^{th}	Ministry of Finance prepares the budget draft project and presents it to the Government of Georgia.
11.	Until October 1^{st}	The government of Georgia, in agreement with the President presents the budget project with the deliverable material to the Parliament
12.	20^{th} day of each of the month	Ministry of Finance along with the Treasury Department prepares the report over the budget revenues, expenditures, sources of deficit funding, etc.
13.	During 1 month from the end of the quarter	The Ministry of Finance presents the Parliament with the review of the Budget execution.

14.	No later than 3 months after the end of the budgetary year	Spending entities prepare own reports and accountings, based on which Ministry of Finance prepares the annual reports.
15.	After presenting the Government report	The Chamber of Control presents the report.
16	Until November 1^{st}	The Parliament issues the decree over passing or not passing the state budget.
17.	During one month after the execution of #16	In case if the state budget is not executed and the Parliament does not approve the report on budget execution, the President imposes the issue of governmental responsibility and denotes the Parliament of his verified decision.

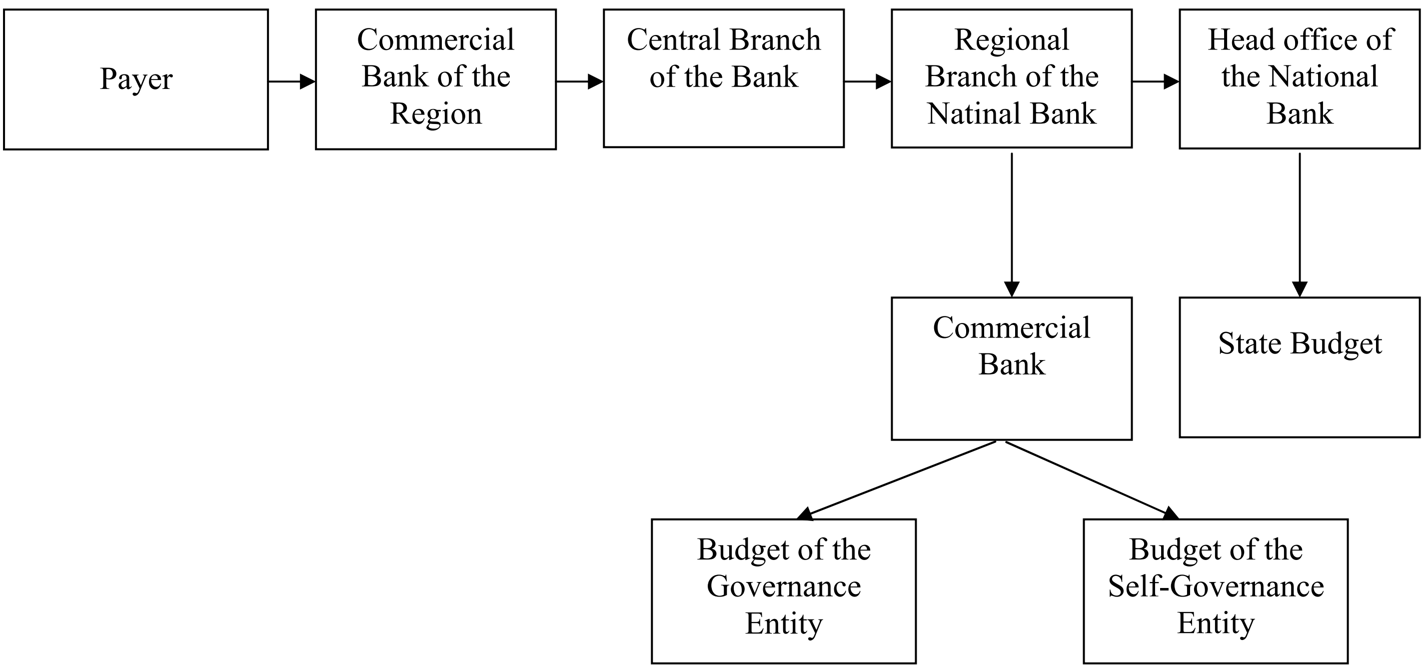
V. BUDGETARY CASH-FLOW AND DISTRIBUTION OF THE TAX REVENUES

5.1 Budgetary Cash-flow

The Treasury Department of the Ministry of Finance is administering the State Budget Incomes and financing the various events. The head office of the National Bank hosts the united account for the budgetary revenues; therefore none of the budgetary organizations have the right to open an account in any of the different banks. In addition, the Treasury Department has the right to cancel any of the advanced issued permits on opening the account and order on closing the account. The State Treasury is also responsible for precise accounting of revenues and expenditures of the State Budget, Aphkhazia and Adjara Autonomous Republics Budgets. The Treasury is also authorized to serve the funds and accounts of the local and Autonomous Republics on the agreement basis, also support them in the administering process and report preparation.

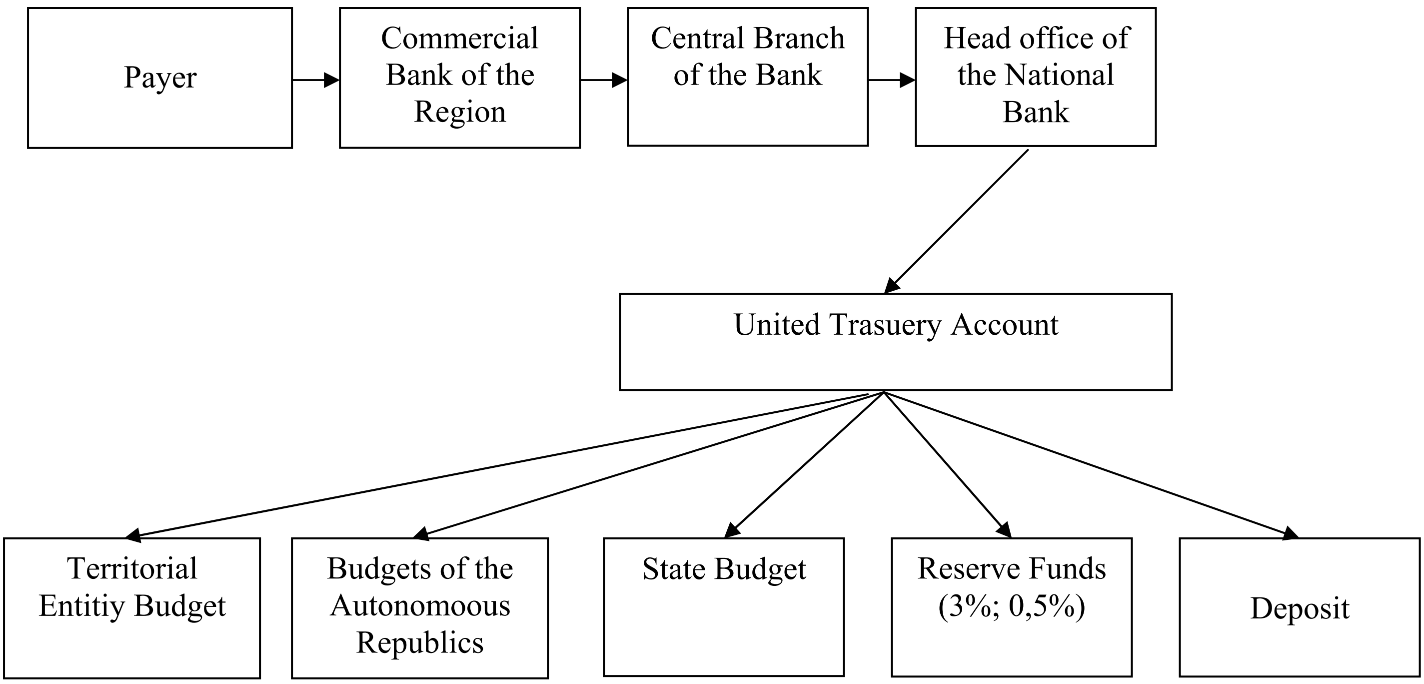
Until the April 5th of 2004, the budgetary funds were disbursed according to the following (Scheme #2): the tax payer paid the budgetary taxes through the commercial or other serving financial institution (it was also possible to pay the taxes with the large portions of cash straight into the budget account in the head or the branch offices of the National bank); serving financial institution or its branch, transferred funds to the central branch of the bank through the inner network. The central branch of the bank accounted the funds to the corresponding account of the head or the regional branches of the National Bank. The National Bank then is obliged to disburse money between the State budget and the local budget accounts. In order to mobilize all the revenues and provide proper administration of the funds, approximately 42000 accounts were established.

Scheme #2. Previous Cash-flow of the Revenues



Since April 2004, the scheme has changed and funds now are administered in the following way (scheme #3): the tax payer pays to the regional branch of the commercial bank; these revenues from the regional branch are transferred to the central branch and then are directed to the National Bank. The National Bank hosts the united treasury account, which accumulates the whole of the funds. There are several sub-accounts established to the united treasury account, such as tax and customs department reserve funds and deposits.

Scheme #3. Current Cash-flow of the Revenues after the Reforms

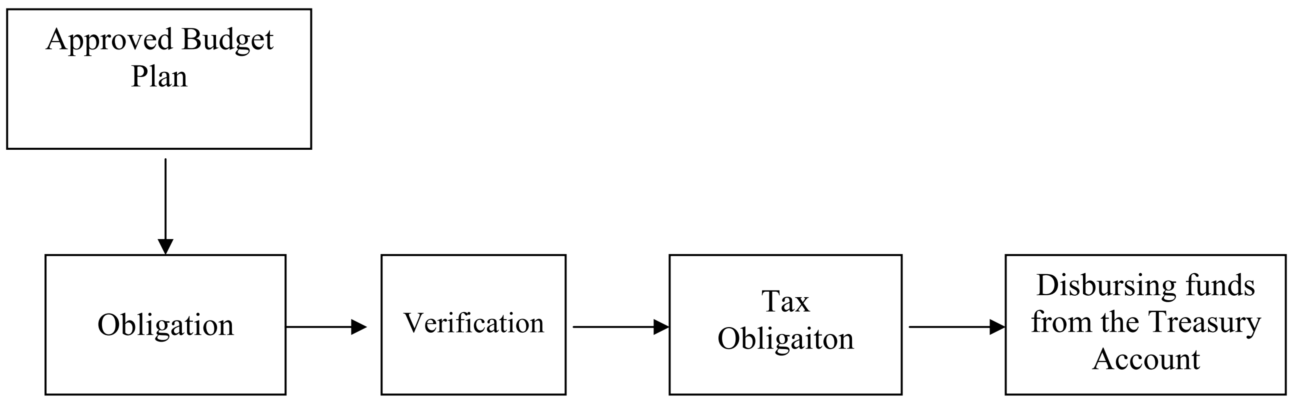


The process of expenditure financing by the Treasury Department of the Ministry of Finance consists of 3 stages (scheme #4): taking the obligation, verification and disbursing funds.

In order to receive the funds as planned in the budget the budgetary organizations present the following documentation:

1. obligation document
2. verification document
3. tax obligation

Scheme #4. Expenditure Disbursement



5.2 Tax-Revenue Distribution

The distribution of the tax revenues among the budgets is accomplished according to the rules set by law[2]. The Property Tax and Tax on Gambling in completely transferred to the local budgets. Town budgets, not forming the part of the region, include local taxes along with the Income Tax and Profit Tax. The distribution of the common state taxes among the budgets is presented in the Table #2.

Table #2. Distribution of the Common State Taxes among the Budgets

Revenues	State Budget	Aphkhazia A/R Budget	Adjara A/R Budget	Budgets of the Other Territorial Entities
Income Tax		100.0	100.0	100.0
Profit Tax		100.0	100.0	100.0
Value-added Tax				
Mobilized by the Tax Department of Georgia (excluding Adjara A/R)	100.0			
Mobilized by the Tax Department of Adjara A/R	100.0			
Mobilized by the Tax Department of Apkhazia A/R	100.0			
On imported Commodity	100.0			
Excise				

2 Law of Georgia on “Disbursement of the Tax, Non-tax and Capital Revenues among the Budgets”

On products realized on the Territory of Georgia	100.0			
On imported Commodity	100.0			
Customs Taxes	100.0			
Social Taxes	100.0			

VI. Monitoring of the Budgetary Process

6.1 Types of the Budget Monitoring

Monitoring represents one of the most important parts in the budgetary process. Budget does not only imply the financial plan, since it represents the law. Additionally, it is obligatory to implement the targeted spending. The monitoring presents the instrument for evaluation of the revenues and expenditures within the budgetary process.

Monitoring is available on every stage of the budgetary processes – drafting, reviewing, passing, executing, control and accounting. Monitoring is implemented from the standpoint of revenues, as long as expenditures. It is possible to implement the monitoring of the budgets on different budget levels.

It is important to take in consideration the stages of the budgetary process while implementing the financial monitoring of the revenues and expenditures.

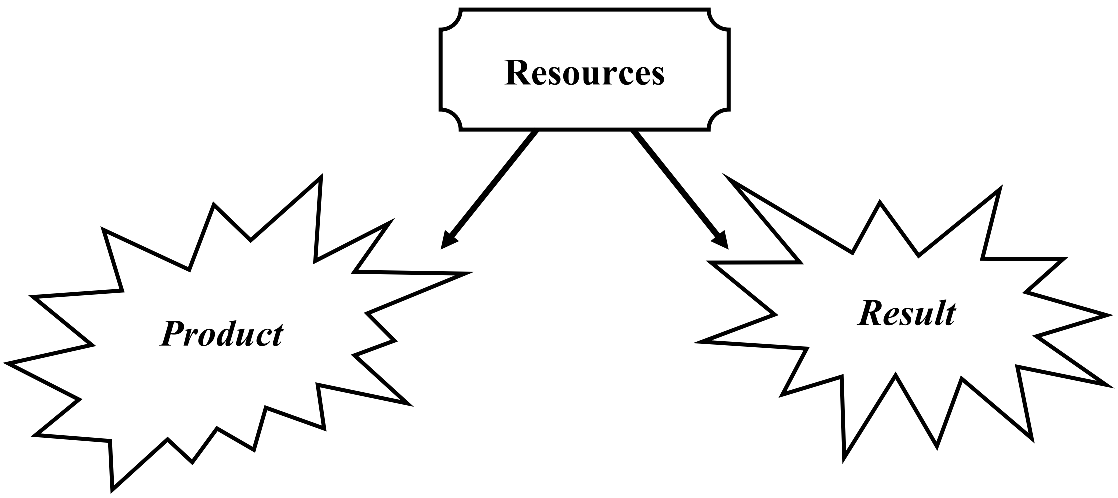
Table #3. Information needed for the financial monitoring

Stage of the Budgetary Process	Revenues	Expenditures
Drafting	Preliminary parameters prepared by the Ministry of Finance, verification, changes, imposed before presenting the draft top the Parliament.	Requests for funds submitted by the spending entities. Modifications and changes made in the process of dialogue between the Ministry of Finance and spending entities.
Review and Passing	Changes introduced into the draft budget by the Government and the Parliament. The final version of the budget.	Changes introduced into the draft budget by the Government and the Parliament. The final version of the budget.
Execution	Periodic reports of the Government over the mobilized revenues, governmental verifications, current information of the Treasury Department.	Periodic reports of the Government over the mobilized revenues, governmental verifications, current information of the Treasury Department.

Control and Accounting	Reports prepared by the Government and the Chamber of Control. Customs sub-agency reports.	Reports prepared by the Government and the Chamber of Control. Reports of the spending entities.

Budget monitoring can be implemented according to the efficiency, which implies cost and impact analysis. However, this type of analysis is still linked with difficulties since the state budget is not based on the programmatic principle. Therefore, it is still possible to perform budget monitoring and obtain the cost efficiency analysis for separate spheres.

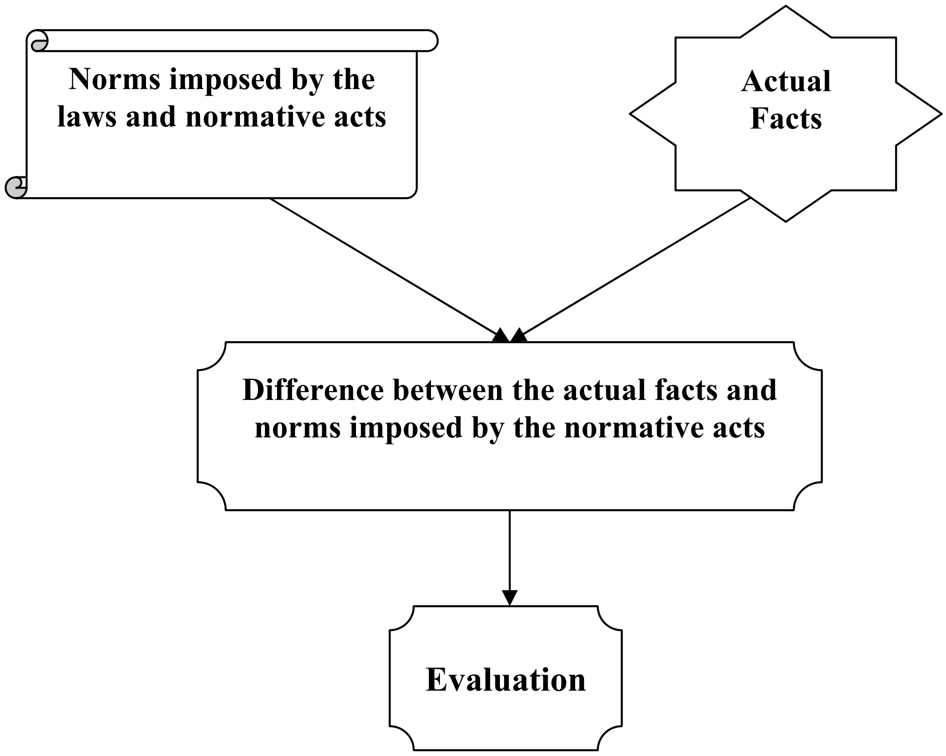
Scheme #5. Monitoring according to the Effectiveness



Resources imply both financial and other type of resource. Under Product all of the commodity and services are implied that are created as a result of the budgetary expenditures. In particular, new school will be the product of making expenditures for building the new building for school. Social results are different from the product. In case of the example described above, the social result of building the new school can be creating or improving study conditions for number of students. It is important to compare the resources with the created product or the result while monitoring. The evaluation can be conducted according to efficiency of projected activities.

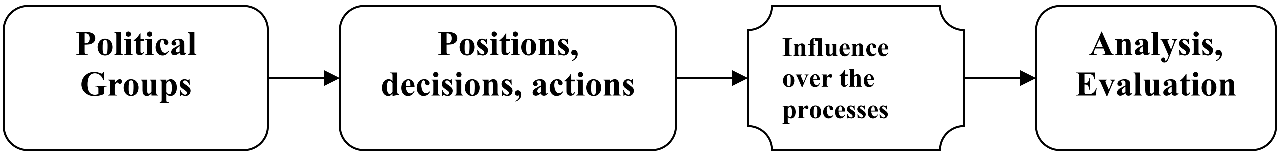
According to the legality, budget monitoring implies legal and normative analysis of the current situation and processes with the real actions and reveal the insufficiency.

Scheme #6. Legality Monitoring



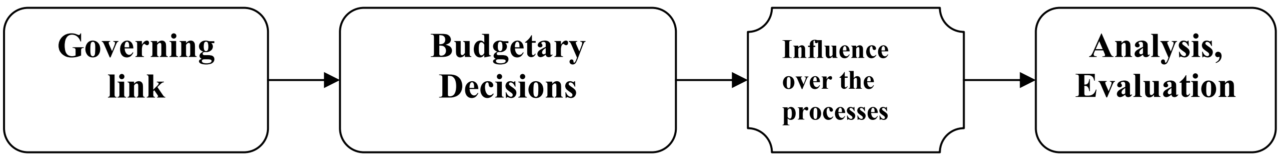
As for the political monitoring, it implies evaluation of the influence established by the different political powers on the budgetary processes in the country. The scheme given below can be applied for monitoring on every stage of the budgetary system administration.

Scheme #7. Monitoring of the Political influence



Governance monitoring implies analysis of the influence established by the administration levels involved in the budgetary process and decision making process, in particular state authorities, management entities and other stakeholders.

Scheme #8. Governance Monitoring



6.2 Monitoring Process of Implementing the Budget Monitoring

The process of implementing the budget monitoring implies the following steps:

1. Defining the monitoring object;
2. Developing the monitoring goals;
3. Planning the monitoring process;
4. Collecting the information;
5. Result analysis and developing conclusions;
6. Dissemination of the monitoring results.

Defining the monitoring object

Prior to the monitoring initiation, it is essential to define the monitoring object (sphere, program, type of activity, process, organization, etc).

Developing the monitoring goals

The goal of the monitoring has to be precisely defined. Setting the goal means choosing the strategy of monitoring, since there are various spheres where to monitor the budget execution, in particular: finances, content-wise, objective-oriented, efficiency, targeted, etc.

Planning the monitoring process

In order to implement monitoring properly, the following issues have to be laid out in a document:

- monitoring goals
- monitoring object
- main content and important issues of the monitoring process
- monitoring period and deadlines (timeframe)
- list of needed documentation for monitoring
- forms of obtaining and analyzing the material
- mechanism of periodical evaluation of the monitoring
- monitoring process management
- expected results of the monitoring
- resources needed for implementing the monitoring

Collecting the information

Several methods can be applied for obtaining the information for monitoring:

- Analyzing the documentation
- Surveillance
- Polling
- Interviews

Analyzing the documentation – includes collecting and study of the legal, statistical, financial and other official documentation. In order to apply this method, the list of required documentation has to be prepared in advance. Additionally, the forms and methods pf documentation systematization and development has to be identifies.

Surveillance – implies observation through the monitoring group of certain developments and facts. For instance, if budget implies the reconstruction of specific roads or building a facility, the group can visit the site and evaluate if the planned objective is reached. In certain cases, surveillance proves to be one of the most efficient ways of gathering information. In order to carry out the surveillance, it is vital to develop the goals and objectives, plan who is going to do what and in what time. It is referable to implement the surveillance with the technical equipment (photo, video, audio devices).

Polling – in order to carry out polling, it is necessary to develop the questionnaire, define the specific target group of respondents. It is necessary to identify what type of information we need to obtain, accordingly the questions, their order and forms have to be developed.

Interview – is a good way of obtaining the information in cases, when legislative and normative base documentation creates misunderstandings. Then it is necessary to obtain the information form the relevant person.

Expected results of the monitoring

The obtained information has to be completely analyzed according to the monitoring foals and objectives. It is preferable to develop the models and analyzing forms for information development. Analysis should serve as basis for developing the recommendations and conclusions.

TERM DEFINITIONS

Local budget – budget of the territorial entities of Georgia, which consist of relevant incomes and expenditures.

Budget of the autonomous entity – the unity of budgets of the Aphkhazia and Adjara Autonomous Republics, which include budgets of the autonomous republic and territorial entities of their consistence (village, community, settlement, regional towns and towns forming the district).

Indirect tax – the form of taxation, which is paid by the customer while buying the commodity/service according to the legislation. These types of taxes are included in the commodity price or service fee.

Non-tax revenues – all budgetary revenues except for the tax and capital revenues.

Assignment – the amount of funds delivered in the budget for approved costs.

Budget – the list of revenues of the central government of Georgia, autonomous republics and local governances and expenditures on implementation of their authorities and responsibilities.

Budget deficit – the excess of the budgetary expenditures and credits over the revenues and financial grants.

Budget proficit – the excess of the revenues and financial grants over the budgetary expenditures and credits.

Budget incomes – the total of all types of funds receivable on budgetary accounts.

Budget revenues – the total of funds receivable on budgetary accounts, which are not subject to reimbursement according to the legislation.

Budget expenditures – the total of funds disbursed from the budgetary accounts.

Budget costs – the total of funds applied for accomplishment of the objectives and functions of the central, autonomous republics and local governances.

Tax – mandatory, unconditional financial contribution to the budgets on state, autonomous republics and local level, made by the tax payer due to the obligatory, non-equivalent and benevolent character of payment.

Grant – official benevolent transfer, which implies current, as well as capital transfers and owns the target character.

Capital revenues – revenues obtained form the sell of the state property, non-material actives among them.

Spending entity – institution of the first order according to the budgetary organizations classification, which owns the assigned quota in the budget or the revenue prognosis and is responsible for the management of the costs and revenues.

Direct tax – the type of the tax, which is imposed directly on the income.

Budgetary system – the unity of legislative and normative acts regulating the state finance mobilization and allocation, financial-budgetary policies, budgetary processes and budgets of state, autonomous republics and territorial entity levels.

Budgetary process – activities implemented by the budgetary system participants, which comprises preparing, proposing, discussing, approving of the budget project and budget execution, accounting and control.

Budgetary organization – spending institution or the sub-entity, which accomplishes preparing the budget project, budget execution and accounting within the established rule, standards and norms.

Tax revenues – the total of the budgetary funds mobilized according to the country tax legislation.

State budget – state government budget, which includes incomes and expenditures of the legislative, executive and jurisdictional branches of the government.

Fiscal policy – the unity of decisions made in the sphere of state expenditures and costs.