

# ANALYSIS OF BUREAUCRATIC EXPENDITURES OF THE EMERGENCY BUDGET



2020

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## Main Findings

- According to the draft amendments to the state budget, no change is planned in the number of employees in the public sector, which currently amounts to 112,214 employees.
- The remuneration expenses of the 2020 state budget are reduced by GEL 21.7 million and currently amount to GEL 1,554.3 million. Despite the reduction, the current amount exceeds the remuneration costs of 2019 by approximately GEL 100 million.
- Remuneration expenses were not reduced in a number of public institutions (Ministry of Internal Affairs, Prosecutor's Office of Georgia, Ministry of Defense, State Security Service, the court system, administrations of the regional governors, Central Election Commission, Administration of the Government of Georgia, etc.).
- The most sizable cutbacks in remuneration expenses are planned for the Ministry of Environment and Agriculture (-5 million), the Ministry of Justice (-3.8 million) and the Ministry of Health (-2.8 million).
- According to the amendments, the amount provided for goods and services will be reduced by about GEL 58 million (business trip expenses, representation expenses, office expenses, car fleet expenses, remuneration expenses for employees under fixed-term contracts, etc.);
- In 2019, the expenses on goods and services from the state budget amounted to GEL 1.3 billion, of which GEL 103.4 million was spent on business trips and representation expenses alone. Accordingly, the cutbacks from goods and services from the state budget (GEL 58 million) are largely due to the restrictions imposed by the pandemic and less connected with the so-called “belt-tightening policies” of the government of Georgia.
- According to the explanatory note, the consolidated budget envisages a total reduction of GEL 57 million in labor expenses and a reduction of GEL 107 million in other administrative expenses (goods and services). Given the state budget data, a higher burden is imposed on the budgets of the Autonomous Republics and local governments in terms of reducing bureaucratic expenses.

## Introduction

In 2020, the Coronavirus (COVID 19) pandemic has had a significant impact on the world economy, including the Georgian economy. The economic recession caused by the pandemic has necessitated changes in both the revenue and expenditure sections of the state budget.

On June 9, 2020, the Ministry of Finance of Georgia presented a draft amendment to the Law of Georgia on the State Budget for 2020, which states in the explanatory note that the draft envisages maximum reduction of administrative costs, in order to compensate for the budget deficit. In particular, according to the explanatory note, the consolidated budget (consolidated budgets of state, autonomous republics, and local self-government units) envisages a reduction of GEL 57 million in labor expenses and a reduction of GEL 107 million in other administrative expenses (goods and services). Under the draft amendment to the state budget, labor costs will be reduced by GEL 21.7 million, while other administrative expenses will be reduced by about GEL 58 million. Consequently, a significant share of the reduction in bureaucratic costs falls on the budgets of the Autonomous Republics and local governments.

According to the previous studies conducted by IDFI, the Georgian bureaucratic system was found to be in need of significant optimization. Therefore, the government of Georgian had significant room for cutbacks in terms of budgetary spending in light of current challenges.

Below we present the analysis of cutbacks on administrative spending envisaged by the draft amendment to the state budget. Unfortunately, the draft budget does not provide for access to information on each component of administrative spending, which significantly complicates the full analysis.

## Remuneration Expenses

According to the draft amendment to the state budget, no change is planned in terms of the number of employees in the public sector, which currently amounts to 112,214 employees. Accordingly, the changes reflected in the administrative spending will be reflected upon for the same bureaucratic staff, that was employed at the beginning of the year, before the outbreak of the pandemic.

Under the amendment, remuneration spending for 2020 will be reduced by GEL 21.7 million down to GEL 1,554.3 million. Despite the reduction, the current amount exceeds the remuneration costs of 2019 by approximately GEL 100 million. The draft budget does not provide details on the category of remuneration spending (salary, monetary reward (bonus), supplement). However, according to the explanatory note, the restriction mainly concerns resources from the monetary reward (bonus) category.

In order to assess the effectiveness of planned cutbacks in terms of remuneration expenses, it is important to compare the costs incurred in this category in recent years. According to the most recent<sup>1</sup> 2018 (full annual)

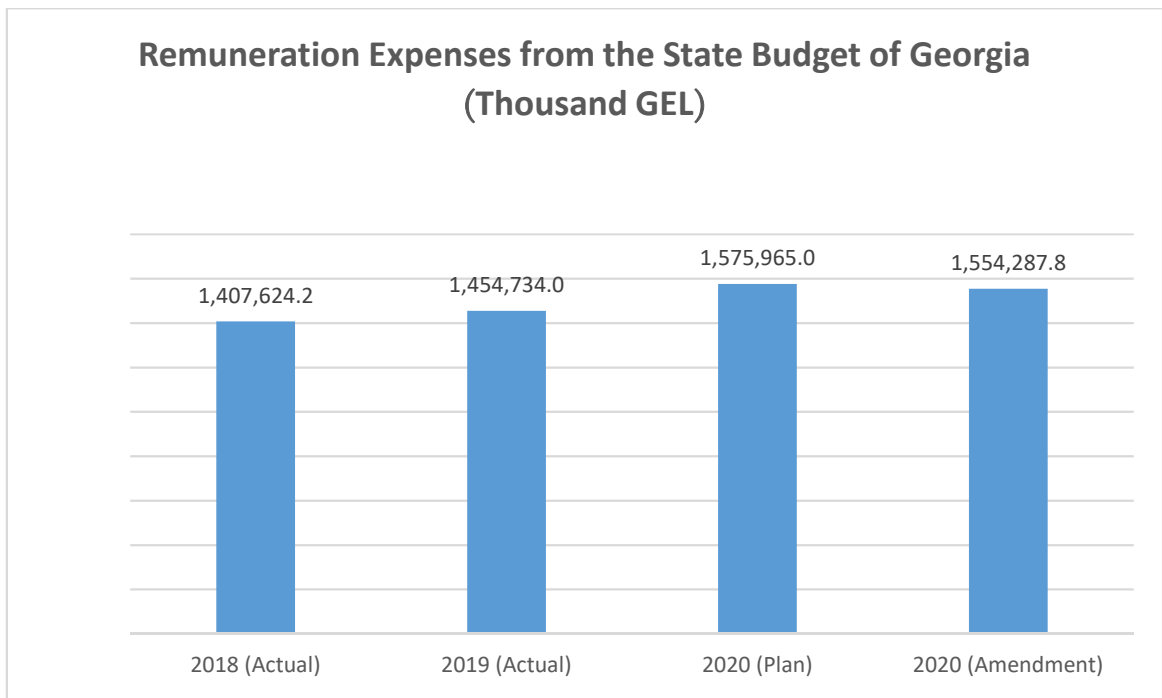
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<sup>1</sup>The most recent data on administrative spending is published on the budget monitor as of 9 months of 2019. Additionally, the State Audit Office has not provided details on the implementation of the budget, nor on the remuneration costs in its reports for the past two years.

data published on the electronic portal "Budget Monitor" by the State Audit Office, the spending on monetary rewards (bonus) from the state budget was GEL 32.3 million, and on the salary supplement - GEL 202 million. Taking this data into account, the cutbacks of only GEL 21.7 million in the remuneration category, cannot be considered to be the maximum potential reduction in bureaucratic spending.

It is noteworthy that according to the new Law on Remuneration of Labor, which came into force in 2018, the issuance of bonuses and salary supplements in public institutions has been significantly reduced. However, after the adoption of the new law, the monthly salary for most officials was set to approximately the same amount as it was in the form of total remuneration (salary + bonuses/supplements) before the implementation of the law. For example, the remuneration of the Deputy Minister of Economy and Sustainable Development in 2017 (before the enactment of the law) averaged GEL 6,732 per month (salary - GEL 2,720, bonus/supplement – GEL 4,012), and after the adoption of the law, his monthly salary was GEL 7,250. The average salary of the Deputy Minister of Justice in 2017 was GEL 7,173 per month (salary - GEL 2,720, bonus/supplement - GEL 4,453) and after the enactment of the law, his monthly salary was set to GEL 6,720.

Since 2018, after the adoption of the law, the practice of issuing bonuses to officials has practically been abolished. Consequently, cutbacks on bonuses established by the draft budget will not have a significant impact on the salaries of officials, and the so-called “belt-tightening policy” will not affect them to any significant extent. In order to balance this, it is possible to revise the monthly salary coefficients<sup>2</sup> established by law.



<sup>2</sup> According to the Law on Remuneration of Labor, which came into force in 2018, the monthly salary is determined by the coefficients set according to the hierarchical ranks of the positions, which is multiplied by the basic amount of the salary determined by the Law on State Budget.

By analyzing the spending agencies individually, additional questions arise in terms of the efficiency of the planned cutbacks on remuneration expenses. Specifically, as it appears, the reduction of remuneration expenses does not apply to a number of public institutions. For example, the Remuneration Fund remains intact for all law enforcement agencies (Ministry of Internal Affairs, Prosecutor's Office of Georgia, Ministry of Defense, State Security Service, Special State Protection Service), the court system (Constitutional Court, Supreme Court, Common Courts, High Council of Justice), for all administrations of the regional governors, the Central Election Commission, the Administration of the Government of Georgia and others.

No relevant justification is presented in the explanatory note of the draft amendment to the state budget regarding the principle behind determining the cutbacks in remuneration spending of individual public institutions.

Given the practice of remuneration in the previous years, it was possible to make additional significant cutbacks in several agencies. For example, according to the budget monitor, the Ministry of Internal Affairs issued GEL 8.8 million and the Central Election Commission issued GEL 883 thousand as bonus payment in 2018.

According to the draft amendment to the state budget, the most sizable cutbacks in remuneration expenses are planned for the Ministry of Environment and Agriculture (-5 million), the Ministry of Justice (-3.8 million) and the Ministry of Health (-2.8 million).

The selectivity of cutbacks in remuneration spending in the public sector (the law enforcement agencies were exempt, funds were increased for the Academy of Sciences, funds were significantly reduced for the Ministry of Environment and Agriculture), raises important questions about the efficiency of the so-called “belt-tightening policies”. Furthermore, the insistence on maintaining the pre-crisis volume of the vast remuneration funds for law enforcement agencies raises suspicions about the government's attempt of gaining their loyalty for the election year.

### Cutbacks on Remuneration Spending Envisaged by the 2020 State Budget Amendment Draft (Thousand GEL)

Code	Public Agency	2020 Budget	2020 Budget amendment draft	Change
31 00	Ministry of Environmental Protection and Agriculture of Georgia	47,353.0	42,383.0	- 4,970.0
26 00	Ministry of Justice of Georgia	83,444.0	79,519.0	- 3,925.0
27 00	Ministry of IDPs from the Occupied Territories, Labor, Health and Soci	36,924.0	34,174.0	- 2,750.0
32 00	Ministry of Education, Science, Culture and Sports of Georgia	86,257.0	84,758.8	- 1,498.2
25 00	Ministry of Regional Development and Infrastructure of Georgia	10,325.0	8,980.0	- 1,345.0
23 00	Ministry of finance of Georgia	47,240.0	45,990.0	- 1,250.0
24 00	Ministry of Economy and Sustainable Development of Georgia	15,705.0	14,625.0	- 1,080.0
51 00	State Inspector's Office	5,100.0	4,100.0	- 1,000.0
05 00	State Audit Office	13,128.0	12,208.0	- 920.0
01 00	Parliament of Georgia and its affiliated organizations	31,824.0	31,324.0	- 500.0
37 00	LEPL - State Service for Veterans Affairs	2,430.0	2,030.0	- 400.0
55 00	Office of the National Security Council	1,850.0	1,450.0	- 400.0
54 00	LEPL - Youth Agency	1,150.0	753.0	- 397.0
28 00	Ministry of foreign affairs of Georgia	9,715.0	9,415.0	- 300.0
53 00	LEPL - Public and Private Cooperation Agency	450.0	200.0	- 250.0
35 00	LEPL - Civil Service Bureau	1,135.0	953.0	- 182.0
43 00	LEPL - Competition Agency	1,450.0	1,290.0	- 160.0
47 00	LEPL - National Statistics Office of Georgia - Geostat	4,400.0	4,290.0	- 110.0
02 00	Administration of the President of Georgia	2,600.0	2,500.0	- 100.0
21 00	LEPL - Pension Agency	3,200.0	3,100.0	- 100.0
22 00	Office of the State Minister of Georgia for Reconciliation and Civic Equ	1,175.0	1,125.0	- 50.0
49 00	Georgian Chamber of Commerce and Industry	770.0	720.0	- 50.0
52 00	LEPL - Department of State Language	447.8	407.8	- 40.0
30 00	Ministry of Internal Affairs of Georgia	498,000.0	498,000.0	0
33 00	Prosecutor's Office of Georgia	28,810.0	28,810.0	0
29 00	Ministry of Defense of Georgia	395,389.0	395,389.0	0
20 00	State Security Service of Georgia	84,500.0	84,500.0	0
40 00	Special State Protection Service of Georgia	40,885.0	40,885.0	0
06 00	Central Election Commission of Georgia	29,524.2	29,524.2	0
07 00	Constitutional Court of Georgia	2,762.0	2,762.0	0
08 00	Supreme Court of Georgia	8,830.0	8,830.0	0
09 00	Common courts	50,501.0	50,501.0	0
10 00	High Council of Justice of Georgia	2,900.0	2,900.0	0
11 00-				
19 00	Administrations of State Representatives	4,447.0	4,447.0	0
04 00	Administration of the Government of Georgia	7,200.0	7,200.0	0
03 00	Office of the Business Ombudsman of Georgia	505.0	505.0	0
36 00	LEPL - Legal Aid Service	4,725.0	4,725.0	0
38 00	LEPL - Financial Monitoring Service of Georgia	1,420.0	1,420.0	0
39 00	A (A) IP - Georgian Solidarity Fund	186.0	186.0	0
41 00	Office of the Public Defender of Georgia	3,690.0	3,690.0	0
44 00	South Ossetian administration	1,360.0	1,360.0	0
50 00	LEPL - State Agency for Religious Affairs	588.0	588.0	0
48 00	LEPL - Georgian National Academy of Sciences	1,640.0	1,740.0	100.0

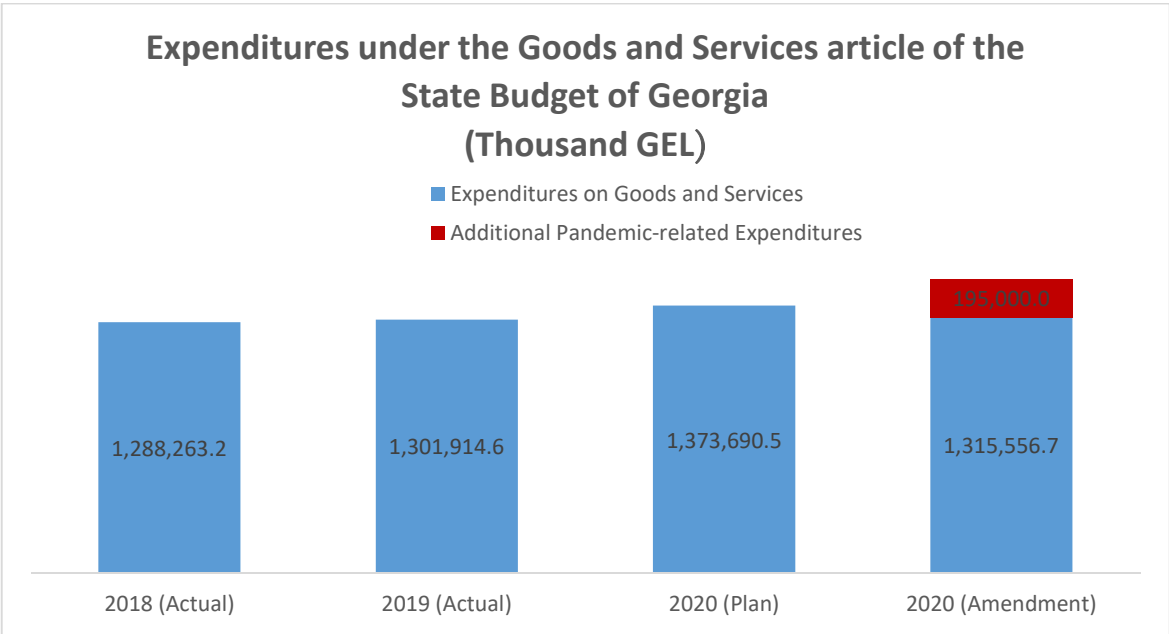
## Other Administrative Expenses

Due to the circumstances of the situation created by the new Coronavirus pandemic, various administrative costs were expected to be reduced organically. For example, travel restrictions imposed by the pandemic, inevitably reduced business trip, representation, and other similar administrative expenses. In addition to labor remuneration, other administrative expenses of the state budget are reflected in the "Goods and



services" article. The draft amendment to the 2020 budget allocates GEL 1.51 billion for goods and services. From this amount, GEL 195 million will be allocated to cover various additional expenses for the provision of quarantine services and healthcare, according to the draft budget. With the exception of this category, which needs to be mobilized as part of the pandemic response, GEL 1.31 billion is provided for goods and services, which is about 58 million less than the amount allocated by the state budget at the beginning of the year.

Detailed information on goods and services spending is not presented according to expenditure categories, however, the spending can be analyzed to some extent based on practice from recent years. For example, according to the 2019 budget execution report, GEL 80.8 million was spent on business trips, GEL 22.6 million on representation expenses, GEL 242.2 million on remuneration of employees under fixed-term contracts, GEL 140 million on transportation, equipment and weapons operation and maintenance, etc. According to the data, the current cutbacks from the state budget (GEL 58 million) amount to only 56% of business trip and representation expenses, the reduction of which was already naturally expected given the current situation and is less related to the so-called "belt-tightening policies" of the Government of Georgia.



Expenditures under the Goods and Services article of the State Budget of Georgia in 2019	
Remuneration of fixed-term labor contract employees	GEL 242.2 million
Business trips	GEL 80.8 million
Office expenses	198,6 million GEL
Representation expenses	GEL 22.6 million

Food supply expenses	GEL 67.7 million
Medical expenses	GEL 82.6 million
Soft inventory, uniforms, and personal hygiene items	GEL 28.8 million
Transportation, equipment and weapons operation and maintenance	GEL 140 million
Military equipment and ammunition	GEL 26.6 million
Other goods and services	GEL 412 million

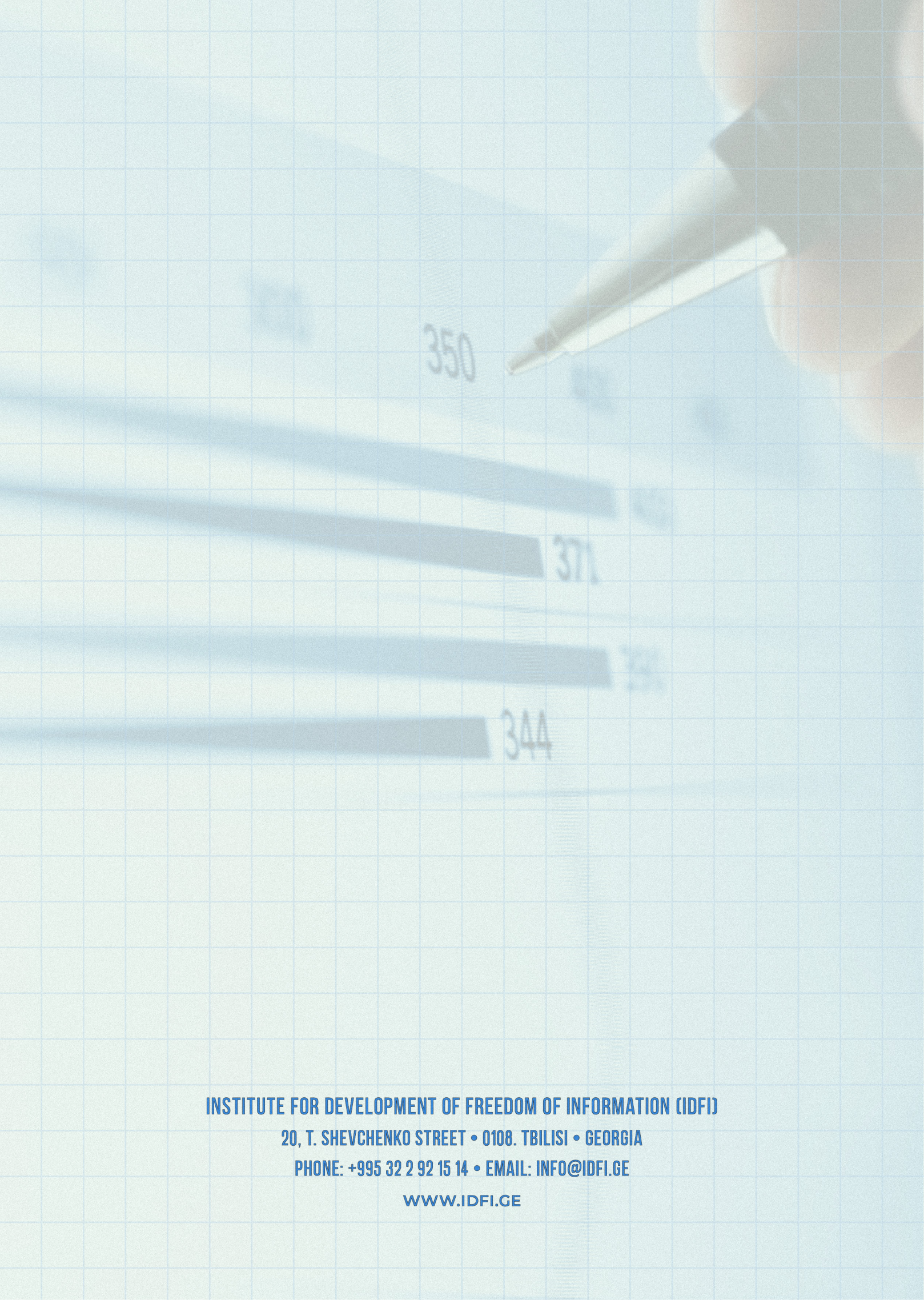
## Conclusion

The analysis of the administrative expenditures envisaged in the draft amendment to the 2020 state budget shows that the Georgian Government plans to reduce bureaucratic spending to a certain extent, due to the crisis caused by the pandemic. However, IDFI believes that the planned cuts are not in line with the country's economic challenges. In particular, some of the changes planned in certain categories of administrative expenses (business trip expenses, representation expenses) are due to the organic decrease as a result of the pandemic and are less related to the so-called "belt-tightening policies".

Furthermore, the selectivity of cutbacks in remuneration spending in the public sector raises important questions about the fairness of these policies.

Accordingly, IDFI calls on the Georgian authorities:

- ❖ To provide the public with detailed information on the planned cutbacks for each component of both the consolidated and administrative budget expenditures (business trip expenses, representation expenses, office expenses, state vehicle, etc.).
- ❖ The draft amendment to the 2020 state budget should take into account the maximum potential for administrative expenditure cutbacks, including revision of labor, representation, state vehicle, office, and other bureaucratic expenses.



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