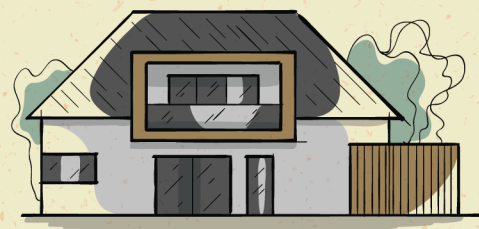
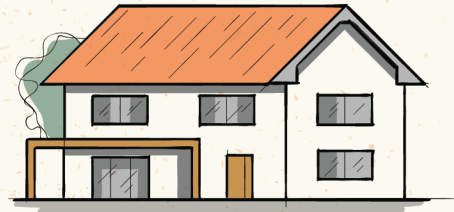
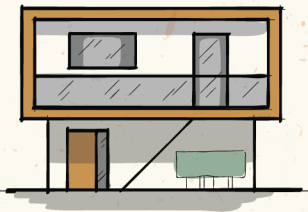


Expenditures of Contingency Funds of Local Municipalities in 2018



OCTOBER, 2019



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Main findings

- Rules of management and allocation of contingency funds are not currently regulated by the legislation. This leads to risks of irrational spending and misuse of public funds.
- In 2018, a total of **8,949,777** GEL was spent from contingency funds of 60 municipalities, out of which, the largest amount was spent by Tbilisi City Hall - 2,747,100 GEL.
- The expenditures of the top 10 municipalities represent 76% of total expenditures from the contingency funds of all 60 municipalities.
- In 2018, the largest portion of expenditures from municipal contingency funds was allocated for financial aid, and it amounted to 2,653,706 GEL (30%).
- After financial aid, the largest portion from contingency funds (2,212,756 GEL) was spent on mitigating damage from natural disasters and other accidents.
- The purpose of the allocation is unknown for 15% of the total expenditures. More precisely, seven municipalities (Kutaisi, Borjomi, Kobuleti, Marneuli, Lentekhi, Tsageri, Lanchkhuti) refused to disclose information regarding 1,367,811 GEL of expenditures from the contingency funds. In 2018, several municipalities financed capital projects from their contingency funds, the necessity for which is not sufficiently substantiated. Also, justifications of the expenses do not provide enough evidence why these projects could not be considered when planning the annual budget. For example, Tbilisi City Hall allocated 155,360 GEL for carving stone around the 300-year-old olive tree located on Rose Square.
- In certain cases, contingency funds are used to finance cultural, sports and educational activities. For example, Ozurgeti Municipality purchased 2,157 GEL worth of tickets for prominent people from the Black Sea Arena concert hall.
- The effective planning of municipal contingency funds is problematic in both cases: when the spent amount exceeds the planned volume and also when it is not fully allocated. For example, throughout 2018, the municipalities of Gori, Kaspi, Kazbegi, Tsalka, and Signaghi did not allocate any resources from their contingency funds, which altogether amounted to 280 thousand GEL.

Introduction

The budget of Georgia incorporates contingency funds, the purpose of which is to cover any unforeseen expenses emerging throughout the year. Similarly, to the State Budget, contingency funds are incorporated in the Municipal Budgets. According to the law of Georgia on Budgets of Municipalities, the contingency fund is determined by the Municipal Budget to be allocated on unforeseen, emergency or other expenses of local importance. Therefore, the purpose of the contingency fund is to cover annual expenses that were objectively impossible to anticipate during the budget planning process, such as natural disasters, epidemics, ecological or other forms of catastrophes. The volume of the contingency fund should not exceed 2% of the total volume of allocations considered by the annual budget.¹

IDFI studied the practice of allocation of municipal contingency funds throughout 2018 and presents a short summary of the results.

Methods of Data Collection and Processing

The analysis of expenditures of contingency funds in this study is based on the data provided as well as proactively published by municipalities. The research covers 60 municipalities since the four remaining municipalities refused to provide the requested information. Specifically, the municipalities of Mestia, Tetrtskaro, and Tsalenjikha violated the obligation to provide public information. While Chokhatauri City Hall provided only a list of general directions for which contingency funds were allocated, without indicating the exact amounts.

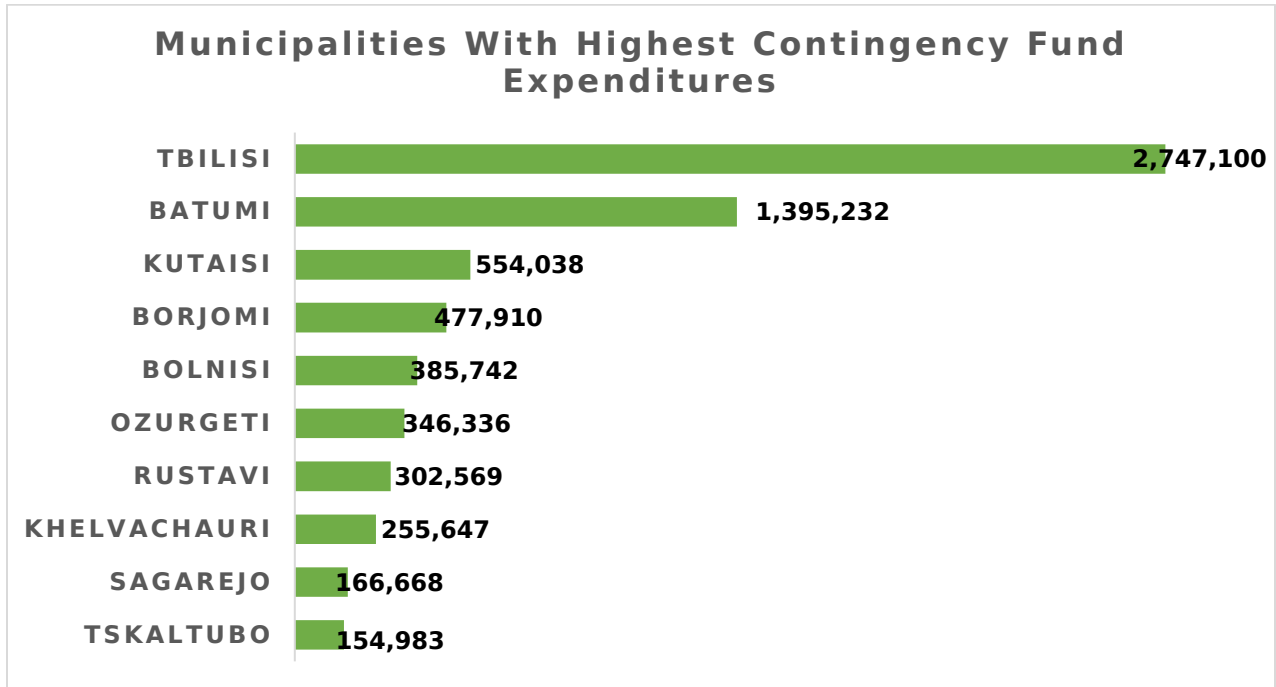
In some cases, municipalities did not indicate the exact purpose of expenses from contingency funds, however, identification of general categories of expenditures became possible. These categories will be reviewed in the relevant sections of this research. The analysis will cover topics such as: funds allocated for financial aid, funds allocated for mitigation of damage from natural disasters and other accidents, funds allocated for capital projects, funds allocated for healthcare, funeral and other expenses.

Municipalities with the Highest Contingency Fund Expenditures

In 2018, a total of **8,949,777** GEL was spent from contingency funds of 60 municipalities, out of which, the largest amount was spent by Tbilisi City Hall - 2,747,100 GEL. Batumi Municipality occupies the second position in this regard with 1,395,232 GEL.

¹ Local Self-Government Code, Article 99; law of Georgia on Budgets of Municipalities, Article 2, paragraph “g” and article 14; Law of Georgian Budget Code of Georgia, article 67.

Also, expenditures of contingency fund of Kutaisi City Hall exceed half a million GEL (554,038 GEL). In terms of expenses in 2018, Borjomi Municipality is also notable (477,910 GEL). Unfortunately, the City Halls of Borjomi and Kutaisi did not provide information regarding the purpose of their expenditures.



The expenditures of the top 10 municipalities represent 76% of total expenditures from the contingency funds of all 60 municipalities studied.

By examining the 2018 and 2019 budgets of municipalities, it becomes clear that the planning of contingency funds represents an important problem. The municipalities with high expenditures of contingency funds often request augmentations of their initially determined amounts. For example, expenditures of contingency fund of Tbilisi City Hall exceeded the initially determined amount by 227 thousand GEL. In case of Batumi City Hall, this number reached 645 thousand GEL.

Even more ambiguous is the policy of Borjomi and Bolnisi municipalities of determining the volumes of their contingency funds. In particular, contingency fund of Borjomi Municipality was determined to be 280 thousand GEL based on the 2018 annual draft budget, this amount was later revised as 85.7 thousand GEL, and the actual expenditures amounted to 477.9 thousand GEL.

Planned Contingency Fund Volumes of Municipalities with the Highest Expenditures (thousand Gel)			
	Planned	Revised	Actual
Tbilisi	2,520.0	3,020.0	2,747.1
Batumi	750.0	1,200.0	1,395.2
Kutaisi	500.0	500.0	554.0
Borjomi	280.0	85.7	477.9
Bolnisi	300.0	106.8	385,7

The effective planning of municipal contingency funds is problematic in both cases: when the spent amount exceeds the planned volume and also when it is not fully allocated. For instance, according to the provided public information, the municipalities of Gori, Kaspi, Kazbegi, Tsalka, and Signaghi have not spent any resources from their contingency funds in 2018. The total planned volume for these five municipal contingency funds amounted to 280 thousand GEL.

It is also noteworthy, that the inability to utilize the contingency funds does not seem to influence the planning of the upcoming annual budgets of these municipalities. For example, planned amount of municipal contingency fund of Gori for 2019 amounted to 200 thousand GEL, which is twice the amount determined by the previous year's draft budget, and 10 times the revised amount.

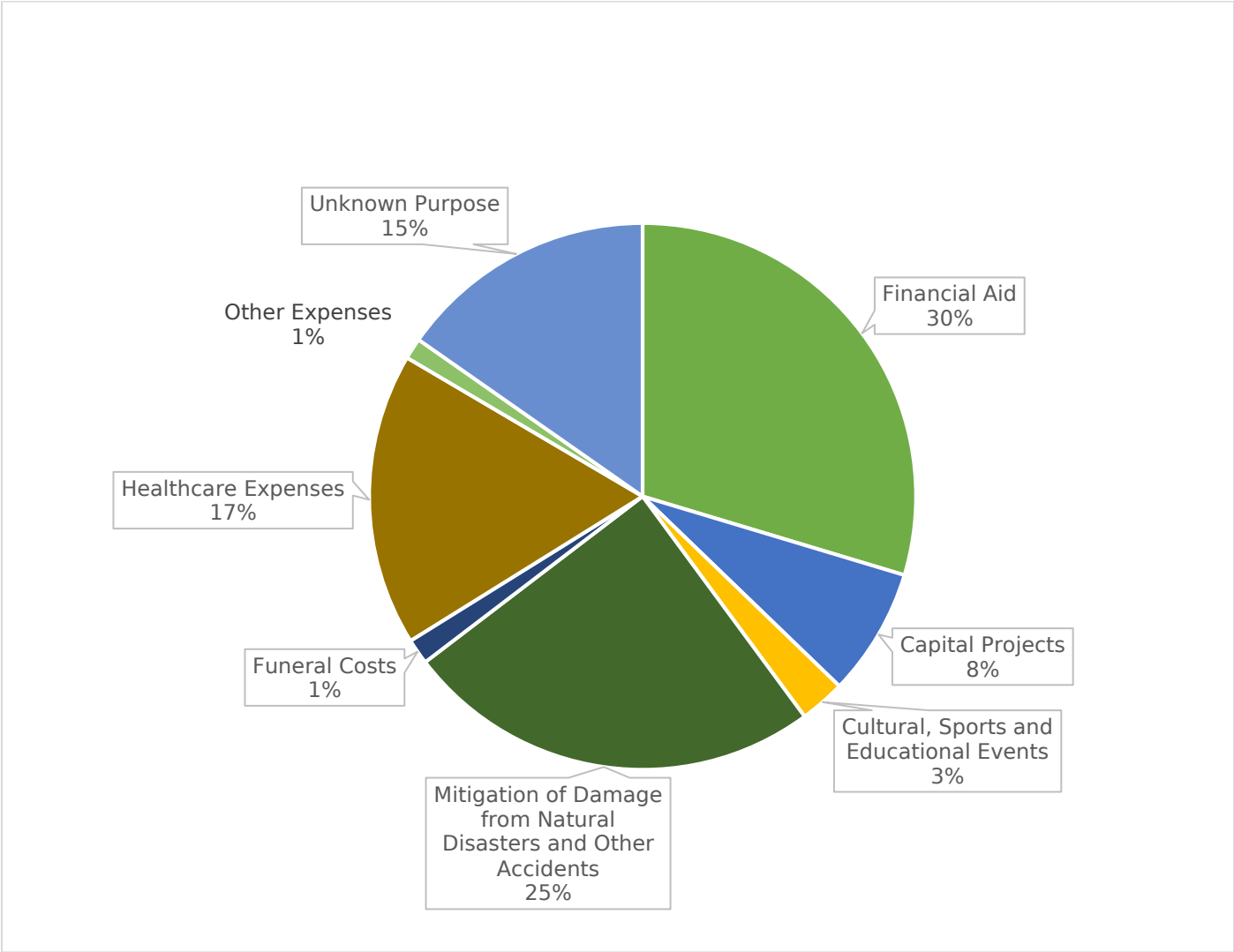
Planned Contingency Fund Volumes of the Municipalities with Zero Spending (thousand GEL)			
	Planned	Adjusted	Actual
Gori	100.0	20.0	0
Kaspi	70.0	70.0	0
Kazbegi	20.0	70.0	0
Tsalka	40.0	40.0	0
Signaghi	50.0	129.8	0

Categories of Expenditures of Municipal Contingency Funds

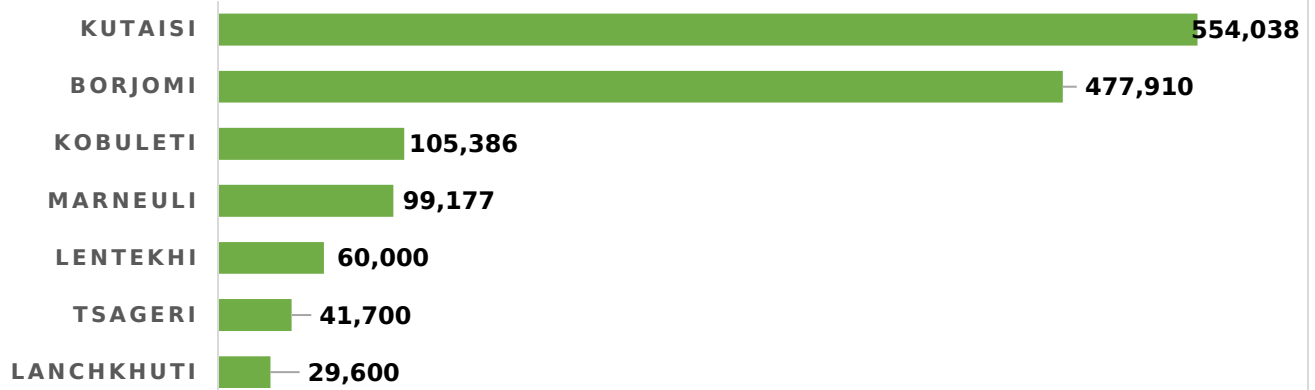
In 2018, the largest portion of expenditures from municipal contingency funds was allocated for financial aid, and it amounted to 2,653,706 GEL (30%), followed by expenditures on mitigating damage from natural disasters (2,212,756 GEL, 25%) and healthcare expenses (1,551,255 GEL, 17%). Comparably smaller

amounts have been allocated for categories like capital projects, cultural, sports and educational activities, and funeral costs.

The purpose of 15% of expenditures is completely unknown. Seven municipalities (Kutaisi, Borjomi, Kobuleti, Marneuli, Lentkhi, Tsageri, and Lanchkhuti) refused to provide information regarding the purpose of their contingency fund expenditures, which in total adds up to 1,367,811 GEL.



Municipalities That Refused To Provide Information Regarding The Purpose Of Their Contingency Fund Expenditures

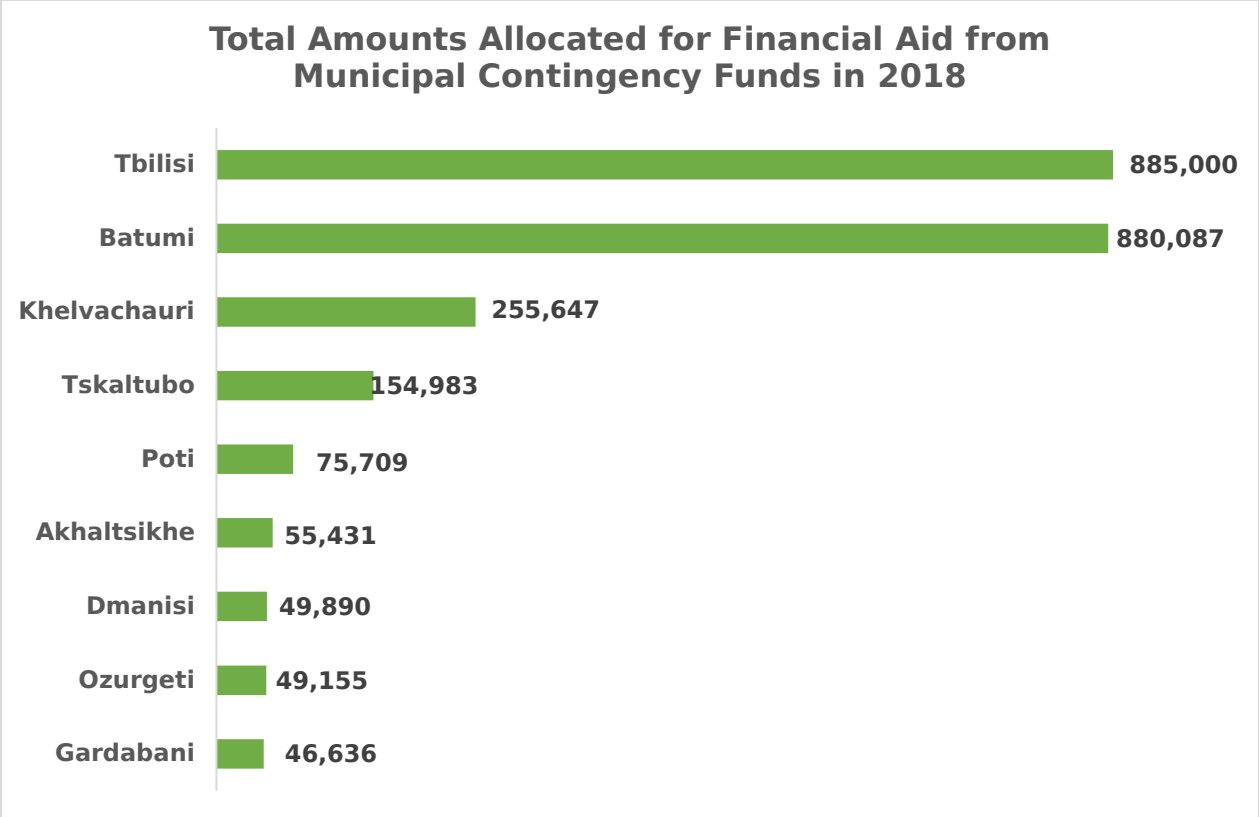


Funds Allocated for Financial Aid

In 2018, 60 municipalities spent up to 9 million GEL in total from contingency funds. Approximately 30% of this amount - **2,65 million GEL** - was spent on financial aid. This includes financial aid provided for individuals under the poverty line, transferring financial allowances or financing their various needs, e.g. financial aid to cover utility bills.

This study revealed that throughout 2018, 24 municipalities allocated contingency fund resources for financial aid. Furthermore, compared to other municipalities, the largest amount of 885 thousand GEL was allocated for financial aid from Tbilisi City Hall contingency fund. The majority of this amount, 798,900 GEL was allocated for various compensations (repairs of damaged vehicles, temporary housing, restorations for damaged apartments, etc.) for families affected by the anti-terrorist operation executed by the Ministry of Internal Affairs' special task force on November 22nd, 2017, in Tbilisi, on Beri Gabriel Salosi Avenue, block N9.

In 2018, Batumi City Hall allocated 880,087 GEL from its contingency fund for one time financial aid for socially vulnerable individuals.

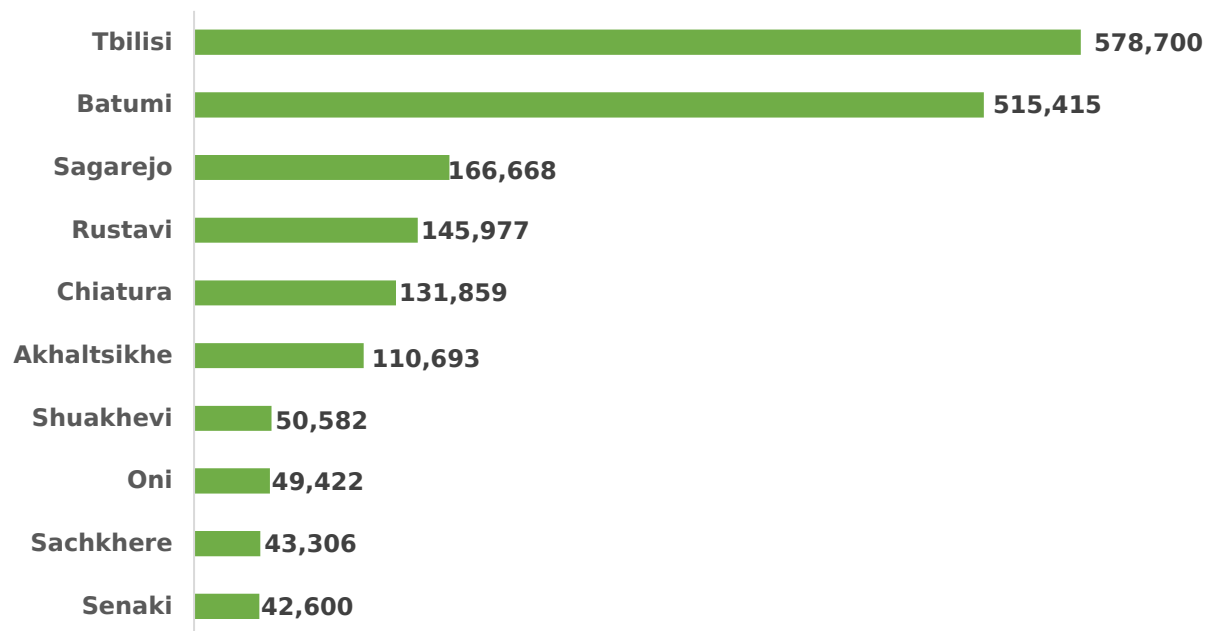


Based on provided data, out of 24 municipalities allocating contingency funds for financial aid, 6 of them (418,246 GEL total) did not indicate the purpose, i.e. why particular amounts were allocated. Instead, a very broad type of spending is indicated. For example, according to the Khelvachauri Municipality records, 255,647 GEL was allocated for one time financial aid, however, the recipients of financial aid, the number of beneficiaries and the grounds for such aid were not specified.

Funds Allocated for Mitigating Damages from Natural Disasters and Other Accidents

The second largest amount from municipal contingency funds was allocated for mitigating damages caused by natural calamities and other disasters, 2.2 million GEL in total (from 33 Municipalities). 81% of these funds were allocated for reimbursing damages for individuals, and 19% were spent on restoring and rehabilitating facilities of public use.

Funds Allocated for Mitigation of Damage Caused by Natural Disasters and Other Accidents in 2018



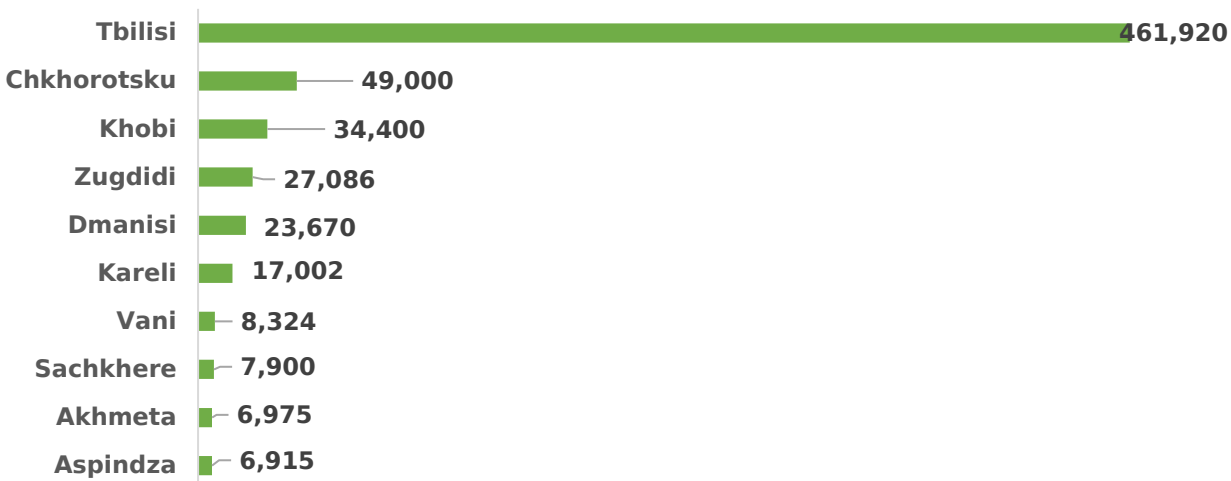
Funds Allocated for Capital Projects

Apart from capital works conducted in order to restore infrastructure, damaged as a result of natural disasters, municipalities have allocated funds for other capital projects, for which the stated purpose does not explain why these projects could not be foreseen when drafting the annual budget and therefore does not substantiate the necessity to finance them from the contingency funds.

According to documents processed within the scope of this research, such type of expenditures amounted to 676,919 GEL in total in case of 18 municipalities. The largest amount was spent by Tbilisi City Hall. **For example, Tbilisi City Hall allocated 155,360 GEL for carving stone around the 300-year-old olive tree located on Rose Square.**

City Hall of Khobi allocated 12,500 GEL from its contingency fund for the relocation of overhead gas pipes, as part of renovation works for the town's central park. In 2018, Zugdidi City Hall spent 5,125 GEL on constructions of a water supply system for the population of village Tsaisi. Dmanisi City Hall allocated 4,898 GEL from its contingency fund for the renovations of lawns of community center located in Dmanisi.

Capital Expenditures from Municipal Contingency Funds in 2018

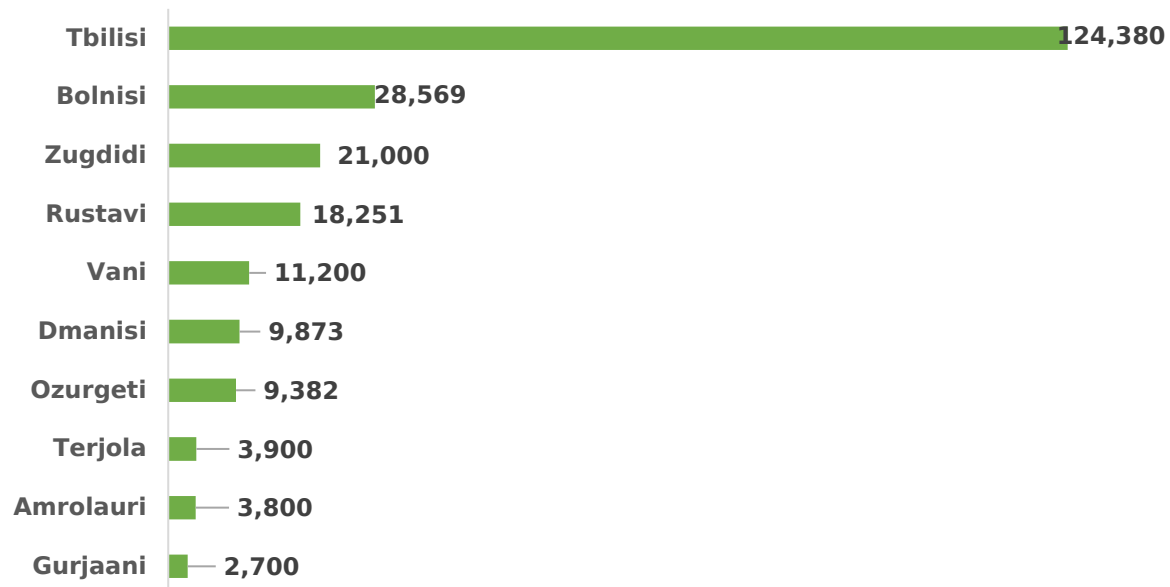


Funds Allocated for Cultural, Sports and Educational Activities

In 2018, 15 municipalities allocated resources from their contingency funds for cultural, sports and educational activities - 240,687 GEL in total.

In 2018, Tbilisi City Hall spent the largest amount on various cultural, sports and educational activities, 124,380 GEL more precisely, which is 52% of the total expenditures. Expenses under this category are diverse and differ in nature across municipalities. For example, expenditures of Tbilisi City Hall includes costs for various cultural events, scholarships for socially vulnerable students, etc. Zugdidi City Hall provided 21,000 GEL to the “Association of Disabled People's Integration and Development Hangi” as a financial support for a football team of handicapped individuals. In the case of Dmanisi City Hall, expenses under this category are mostly linked to organizing celebratory activities for Christmas, Easter and “Dmanisoba” holidays. Ozurgeti Municipality purchased 2,157 GEL worth of tickets for prominent individuals from the Black Sea Arena concert hall.

Funds Allocated for Cultural, Sports and Educational Activities by Municipalities in 2018



Financing cultural, sports and educational activities from contingency funds is a serious challenge. We believe that, with appropriate management, it is possible to foresee and plan such types of expenses. This is especially true for expenditures associated with holidays, dates of which are known at the beginning of the fiscal year.

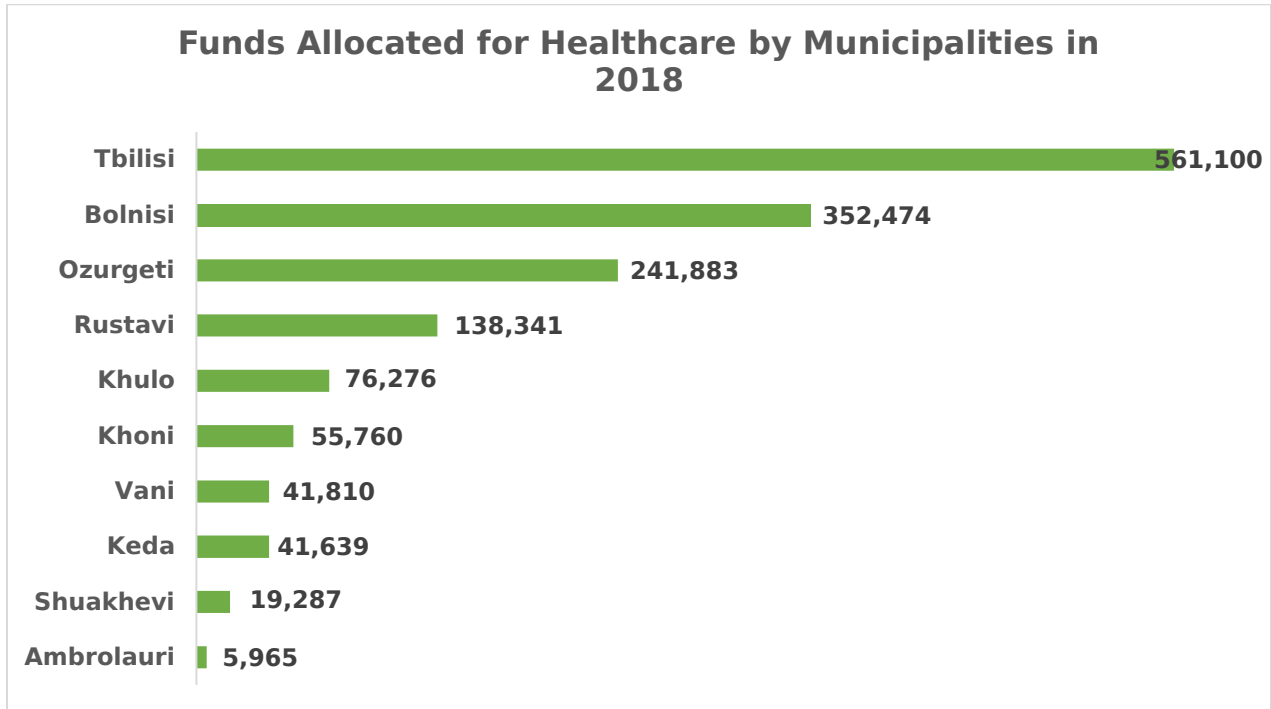
Unfortunately, not all municipalities provided detailed information regarding their spending on cultural, sports and educational activities. For example, according to the response from Bolnisi Municipality, 28 569 GEL was spent on cultural, religious and sports activities, however, particularities of financed events and activities were not specified.

Funds Allocated for Healthcare

In 2018, 14 municipalities allocated resources from their contingency funds for healthcare expenses – 1,551,256 GEL in total. Again, Tbilisi had the highest volume of spending under this category - 561,100 GEL. This amount includes healthcare expenses as well as financial aid provided to purchase medicines and other types of medical expenses. The volume of funds provided by Tbilisi City Hall for healthcare, including medical treatment abroad, are varied. For example, the amount of financial aid provided for a single citizen can be within the range of 30,000 GEL. The criteria used to select beneficiaries of contingency fund is unknown, as well as the methods used to determine the amount of financial aid are unknown. The number of beneficiaries is very limited (19 citizens have been financed with 10,000 GEL or more, and 81

have been financed with less than 10,000) which raises questions regarding the fairness and impartiality of the selection process through which contingency funds are allocated for medical aid of Tbilisi citizens.

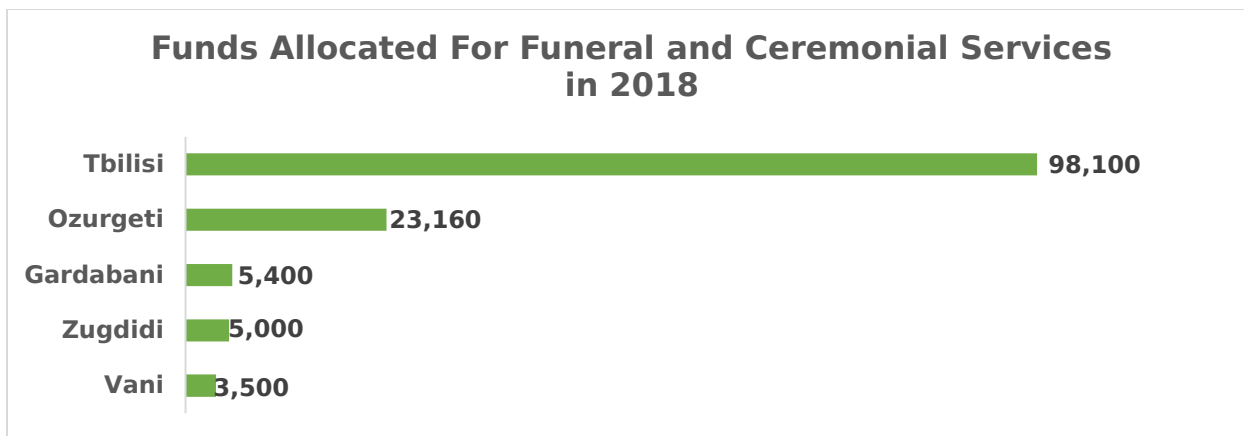
The other municipalities (Bolnisi, Ozurgeti, Rustavi) with large contingency fund expenditures for healthcare only provided the total allocated numbers, which makes the analysis of their spending policy impossible.



Notice: Bolnisi Municipality expenditures also include other types of social care related expenses.

Funds Allocated For Funerals and Ceremonial Services

In 2018, 5 municipalities allocated funds for funerals and ceremonial services - 135,160 GEL in total. Once again, Tbilisi Municipality had the highest spending - 98,100 GEL. This type of expense from the contingency fund of Tbilisi City Hall includes costs for funeral ceremonies of public figures and deceased citizens from the occupied territories. Allocated amounts vary for each individual. For example, the cost of headstones varies from 2,500 to 8,000 GEL depending on the individual.



Apart from the expenditures included under the above mentioned categories, in 2018, several municipalities had other types of expenses, which did not belong to any category. For example, Zugdidi City Hall allocated 27,200 GEL for animal control services, transporting stray and homeless dogs to a shelter, Samtredia City Hall spent 13,800 GEL on the transportation of humanitarian cargo, etc.

Conclusion

Rules of management and allocation of contingency funds are not currently regulated by the legislation. This leads to risks of irrational spending and misuse of public funds. Furthermore, the Law of Georgia on Public Procurement, as an exception, does not apply to public procurement performed through the funds from the contingency fund of Tbilisi City Hall.² Therefore, procurements related to the contingency funds of Tbilisi City Hall are performed without ensuring appropriate competitive conditions and transparency.

The Association Agreement between Georgia and the EU envisions harmonization of Georgia's procurement legislation with the EU regulations. Therefore, the Georgian Government committed to conceptually harmonize the Georgian public procurement legislation with the EU directives on Public Procurement and reduce the number of signed contracts excluded from the scope of the Law on Public Procurement.³

The research showed that the practice of contingency fund formation and allocation varies significantly across the municipalities. The necessity to use resources from contingency fund to cover particular municipal expenses is questionable in some cases. For example, capital expenditures, cultural events, etc. Meanwhile, some municipalities are not able to allocate any resources from their contingency funds. In this regard, the case of Gori Municipality is especially notable, as a large number of internally displaced people are residing there.

² Law of Georgia on Public Procurement, article 1, paragraph 3¹, sub-paragraph „e“.

³ Roadmap and Action Plan for the Implementation of the Public Procurement Chapter of the EU-Georgia Association Agreement, pp. 22, paragraph 6.

Within the scope of this research, categorization of some types of data was problematic, since there is no common standard for substantiating the purpose of expenditures of contingency funds. We believe it is crucial for the citizens to have a detailed information about the expenses of contingency funds of their municipalities. Unlike the municipal budgets, which is accessible through the Legislative Herald of Georgia, the expenses of contingency funds are not proactively published and there is a need to submit FOI request to get access to them. The problem, in this case, is that some municipalities refuse to provide the requested information. In case they provide the requested data, in most cases, they do not indicate the exact purpose and descriptions of expenditures, without which conducting an accurate analysis of the data is impossible.

Contingency Fund Expenditures of Municipalities in 2018		
N	Municipality	Contingency Fund Expenditures
1	Tbilisi Municipality	2,747,100
2	Batumi Municipality	1,395,232
3	Kutaisi Municipality	554,037.63
4	Borjomi Municipality	477,910
5	Bolnisi Municipality	385,741.74
6	Ozurgeti Municipality	346,336
7	Rustavi Municipality	302,568.96
8	Khelvachauri Municipality	255,647
9	Sagarejo Municipality	166,668
10	Tskaltubo Municipality	154,983
11	Chiatura Municipality	131,859
12	Zugdidi Municipality	117,499.46
13	Akhalkalaki Municipality	117,080.43
14	Kobuleti Municipality	105,386.42
15	Marneuli Municipality	99,177.27
16	Khulo Municipality	98,995.93
17	Dmanisi Municipality	97,923.01
18	Vani Municipality	89,672.65
19	Poti Municipality	77,340,93
20	Shuakhevi Municipality	69,869
21	Akhaltskhe Municipality	66,710.61
22	Kedi Municipality	61,892.36
23	Lentekhi Municipality	60,000
24	Khoni Municipality	57,260
25	Gardabani Municipality	55,350
26	Oni Municipality	52,018.27
27	Sachkhere Municipality	51,205.88
28	Chkhorotsku Municipality	49,000

29	Terjola Municipality	47,600
30	Senaki Municipality	42,600
31	Tsageri Municipality	41,700
32	Khobi Municipality	40,500
33	Mskheta Municipality	40,500
34	Martvili Municipality	38,455
35	Tkibuli Municipality	38,241
36	Samtredia Municipality	37,800
37	Telavi Municipality	37,197.66
38	Ambrolauri Municipality	35,857
39	Akhmeta Municipality	34,836
40	Dusheti Municipality	33,485.94
41	Lanchkhuti Municipality	29,600
42	Ninotsminda Municipality	27,221
43	Kvareli Municipality	22,373
44	Aspindza Municipality	22,219.4
45	Kareli Municipality	21,199.46
46	Baghdati Municipality	19,710
47	Dedoflistskaro Municipality	19,692
48	Kharagauli Municipality	15,250
49	Khashuri Municipality	13,962.9
50	Adigeni Municipality	13,147.5
51	Abasha Municipality	11,316.65
52	Gurjaani Municipality	11,078.5
53	Lagodekhi Municipality	5,000
54	Tianeti Municipality	2,968
55	Zestafoni Municipality	1,800
56	Kaspi Municipality	0
57	Sighnaghi Municipality	0
58	Kazbegi Municipality	0
59	Tsalka Municipality	0
60	Gori Municipality	0
61	Tetritskaro Municipality	-
62	Mestia Municipality	-
63	Chokhatauri Municipality	-
64	Tsalenjikha Municipality	-

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