MOF decree N904 30.12.2009

1. The formula of the equalization transfer:

Equalization transfer calculates according to the formula approved by the Budget Code of Georgia

$$T=E-R,$$

Where,

T_ Equalization transfer for the local Self-government entities' budget

E_ The sum of the local self-government budget expenditure and the acquisition of non-financial assets (for the self-government cities **E** expressed as **Ecity** and for the municipalities as **Em**)

R_ The local self-government budget revenues (except for grants) which is calculated for the each self-government budget according the tendency of the actual indicators for the current and last 3 years.

The equalization transfer is not allocated to the budget of the local self-government entity if budget revenues (except for grants) exceed the sum of the expenditures and the acquision of non-financial assets.

2. The sum of the local self-government budget expenditure and the acquisition of non-financial assets

The sum of the local self-government budget expenditure and the acquisition of non-financial assets is calculated by the following formula:

For the local self-government cities: **Ecity=Scity*Gcity%**

For the municipalities: **Em=Sm*Gm%**

Where,

Ecity= the sum of the Local self-government budget expenditure and the acquisition of non-financial assets;

Em_ the sum of budget expenditure and the acquisition of non-financial assets of municipalities;

Scity _ the share of the local self-government statistic and equalization coefficients in the total volume coefficient;

Sm_ the share of statistic and equalization coefficients in the total volume of coefficient of municipalities;

G _ the sum of the **Gm** and **Gcity** is the total volume of the local self-government budget expenditure and the acquisition of non-financial assets, which is determined by the administrative act of the Minister of Finance of Georgia;

Gcity – the total volume of the self-government cities' budget expenditure and the acquisition of non-financial assets are determined the 66 % of the total amount of budget expenditure and the acquisition of non-financial assets of local self-government entities;

Gm_ the total volume of budget expenditure and the acquisition of non-financial assets of municipalities are determined the 34% of the total amount of budget expenditure and the acquisition of non-financial assets of local self-government entities.

3. Calculation of the equalization and statistical coefficients (S) of the local self-government entities

S_ **Scity** and **SM** is calculated by the following formula:

$$Scity = Kcity / Ktcity \%$$

$$SM = Km / Ktm \%$$

Kcity _ the multiplied value of average equalization and statistical coefficients of the specific self-government cities;

Ktcity - the sum the multiplied value of average equalization and statistical coefficients (Kcity-s) of the self-government cities;

Km _ the multiplied value of average equalization and statistical coefficients of the municipalities;

Ktm - The sum of the multiplied value of average equalization and statistical coefficients (**Km** –s) of the municipalities;

4. Calculation of the multiplied value of average statistic and equalization coefficients (K) of the local self-government entities

K _ **Kcity** and **Km** is calculated by the following formula

$$Kcity = Acity * ECcity$$
$$Km = Am * ECm$$

A _ **Acity** and **AM** is the average value of statistic coefficients of the specific self-government cities/municipalities;

EC _ **ECcity** and **ECM** is the equalization coefficient of the specific self-government cities/ municipalities.

5. Calculation of the value of average statistic coefficients of the specific self-government cities/ municipalities (A)

A _**Acity** and **Am** is the average of the **P1, P2, P3, P4, P5** and **P6** coefficients, where **P**= Statistic coefficient, it is the ratio of statistic or/and the population density coefficient of specific self-government entity to the relevant sum of this coefficient (for the municipalities – the sum of relevant data of municipalities and for the self-government entities – the sum of relevant data of self-government entities).

A _**Acity** and **Am** is calculated by the following formula:

$$A = (\sum Pn)/n$$

n _ is the number of **P**

P _ **Pcity** and **Pm** represent the statistic coefficient which is calculated by the following formula:

$$Pcity = Ccity/CTcity\%$$
$$Pm = Cm/CTm\%$$

Where,
Ccity _ is statistic or/and the population density coefficient of the specific self-government entity;

CTcity _ is the sum of the relevant statistic or/and the population density coefficient of the self-government cities;

Cm _ is the statistic or/and the population density coefficient of the specific municipalities;

CTm _ is the sum of relevant statistic or/and the population density coefficient of the specific municipalities.

Population density coefficient **(Cd)** is the ratio of the number of population (in thousands) to the area (in km^2) of the specific self-government entity;

C1, C2, C3, C4, C5, Cd are consistent with the following statistic data and the coefficient:

- The number of population;
- The number of population with the social and-economic status indicator (rating point) less than threshold value established by the government of Georgia;
- The number of children under 6 years of age;
- The number of adolescents from 6 up to 18 years of age;
- The length of the local roads;
- The coefficient of population density.

6. Calculation of the equalization coefficient (EC)

EC_ is the equalization coefficient and it is calculated by the following formula:

$$EC = ST + ES$$

ST_ Status coefficient

ES - equalization scores.

7. Calculation of the status coefficient (ST)

Status coefficient **ST** is the sum of the status of self-government entity, the capital, mountainous regions and municipalities, where the regional administration is located.

$$ST=SU+SCC+SHM+SM$$

Where,

SU-the status of the local self-government entity and is determined as amount of 1.0;

SCC_ is the status of the capital and it is determined as amount of 2.8 for the Tbilisi and Batumi;

SHM_ is the alpine region status, which is determined as amount of 0.1 and is assigned to the local self-government entity in which at least 10 settlements are assigned according to the law - "Socio-economic and cultural development of mountainous regions"; **SM** –is the status of municipality, where the regional administration is located, and determined as amount of 0.1;

8. Calculation of the equalization scores (ES)

The equalization score is calculated by the following formula:

$$ES=AE+ESR$$

AE _ AEm and **AEcity _** The average equalize, which is calculated by the following formula:

$$AEcity=Aacity/\ Acity\%/CC$$
$$AEm=Aam/\ Am\%/CC$$

Aa _ Aam and **AEacity_** is the average of **A, Aam** is the average of the municipalities - **Am** and **Aacity** is the average of self-government cities - Acity.

CC_ is the correcting coefficient and determined as amount of 1000.

ESR_ is the equalization score considering the value of income and it is calculated by the following formula:

$$ESR=SC1+ SC2+ SC3$$

SC1, SC2 and **SC3** are support coefficients and they determine as the following amount:

SC1 – 0.015;
SC2 – 0.010;
SC3 – 0.005;

The equalization scores (**SC1, SC2** and **SC3**) are given to the following rule:

In the first stage, the calculation of each local budget revenues (except for grants) forecast per capita (**RPC**), which is calculated by the ratio of the own revenue (excluding grants) forecast (**R**) of the local self-government entities to the number of people living within the border of the local self-government entity.

RPC- is calculated based on **RPCam**, **RPCac** and **RPCacity** indicators:

RPCam_ average rate of **RPC of all municipalities**;

RPCac_ average rate of **RPC** of all self-government entities ;

RPCacity_ average rate **of RPC**-'sof all self-government entities.

In the second stage, the subtraction of **RPC**–and **RPCam**, **RPCac** and **RPCacity of** the each self-government entity is calculated.

If the **RPC** is less than **RPCam** of the self-government entity , in this case support coefficient **SC1 will be given to** the self-government entity.;

If the **RPC** is less than **RPCac** of the self- government entity , but it is more than **RPCam**, in this case support coefficient - **SC2** will be given the self- government entity ;

If the **RPC** is less than **RPCacity** of the self- government entity , but it is more than **RPCac**, in this case the support coefficient **SC3** will be given to the self- government entity ;

If **RPC** is more than **RPCacity** of the self-government entity support coefficient will not be given the self-government entity;

If RPC of any of the self-government entity is absolutely coincide any of these indicators: **RPCam**, **RPCac** or **RPCacity**, in this case the self-government entity will be given the support coefficient which is more.

9. Revenue calculation

The calculations of revenue (R) of the local self-government entity only the local self-government unit's own revenues (except for grants) are taking into account.

The revenue of each local self-government entity is calculated according to the tendency of the current and last 3 years.

For the calculation of the revenues we use the function of EXCEL- "TREND"