

The Main Weaknesses of the Management System in the State Administration of Georgia as Supporting Factors for Corruption and Money Laundering

Shalva Machavariani,
Transnational Crime and Corruption Center, Georgia

As a country of transition economy, Georgia is characterised by a kind of disorder in the governance system, which acts as the main reason for the growth of corruption.

In the Annual Report (2000) of Transparency International (Coalition against corruption) (Transparency International 2000), Georgia took 84–86th place together with Albania and Kazakhstan among 99 countries in terms of corruption level. 2 years later Georgia had moved to 127th place (Transparency International 2003, 5), indicating a tendency to corruption growth.

In 2000, 2001 and 2002 (The State Department of Statistics of Georgia 2000, 28–30; The State Department of Statistics of Georgia 2001, 102–105) local entrepreneurs named the following as the main obstacles to business development:

- a) Corruption in public services, 62.7%, 52.6% and 63.6% of respondents respectively;
- b) Dependence of business on government, 50.6%, 59.5% and 61.4% of respondents respectively (Figure 1).

Particularly, corrupt public servants and dominating private interests have resulted in the growth of the shadow economy. According to the International Monetary Fund, in the countries of transition economy, the share of the shadow economy of the Gross Domestic Product varies between 21–30% on average. In Georgia, the situation is worse: the State Department of Statistics of Georgia has estimated that one third of total production is not accounted for, and according to the International Monetary Fund, the proportion of the shadow economy is as high as 64% of the GDP (Schneider and Enste 2002).

The large-scale shadow economy results in a low level of tax revenue. The share of lost revenue is 13.7% of the GDP, and this figure is among the highest in CIS countries (Georgian Policy and Legal Advice Centre 2002). Tax collection is further impeded by corruption. Reduced tax income has a negative impact on state economy, which in turn restrains infrastructural development and economic growth. According to a well-known specialist, Daniel Kaufmann, low level of economic development, poor governmental structures and corruption are interrelated concepts (Kaufmann 2001).

In Georgia, the main reasons for inefficient public services are:

Inertia and inflexibility

In spite of the ongoing changes, public agencies—in terms of their form and substance—have still retained certain qualities typical to “Soviet” structures, like autocratic style of governance, which expresses itself as 900–1,300 presidential decrees each year (Figure 2). It seems that officials of different sectors try to avoid personal liability by preparing normative acts which transfer responsibility to the president. Inefficiency is further caused by low qualitative and quantitative levels of decentralisation, failure to perform governing functions in a proper manner, etc. It also seems that public agencies are not interested in solving problems of national importance, but rather in serving their particular and immediate interests.

Disorganisation

Disorganisation is expressed in numerous non-implemented orders (Figures 3, 4, 5). In fact, their number increases (on average 3.5–6%) each year.

At the present stage of transition, the disintegration of public service structures is caused by:

1. Public agencies no longer suffer from excessive control from superior State bodies, and the administrative apparatus is no longer dependent on political power. On the other hand, a new, democratic system of governmental control has not yet been built. As a result, the almost fully autonomous public agencies have found themselves in a “control-free” environment. The existence and manifestation of social control (ideological, political, religious, work-related etc.) is very important in modern society, ideally providing an effective tool for fighting economic crime and corruption. It is possible that Georgia succeeds in this goal.
2. As a result of the ongoing process of denationalising public property, the formerly government-owned enterprises have been liberated from its control. The old-fashioned public servants have been deprived of their habitual managing tasks, and instead of implementing directives and instructions of the state organs, they are now expected to devise means for creating and implementing sectoral development policies and strategies. An overwhelming majority of them lack the necessary know-how and skills.
3. Heavy administrative machine is maintained by overlapping functions at all levels: the different governmental agencies, different subdivisions of those agencies, different public servants working for those subdivisions. Such an organisational model is characterised by limited responsibility for outcomes, imbalance between official duties and responsibilities, structural overloads, and excessive functions.

Lack of proper development programme

There is no public service development strategy, nor coherent implementation programmes which would define the most optimal solutions to existing prob-

lems, including methods for building an appropriate structure. There is obvious disrespect for a key principle of management; the structure, as an implementing mechanism, is being constructed and/or perfected without any consistent strategy or objectivity, although proper attention to both external factors and potential changes are prerequisites for any good development programme. Thus it is impossible to shape a long-term development strategy and build appropriate organisational structures to implement such strategies. Experiences of developed countries should be taken into account and possible changes forecasted on the basis of current circumstances. In reality, however, executive authorities react “today” to events that took place “yesterday”. Such an approach only encourages the survival of old-fashioned, non-problem-oriented and complacent structures.

Underdevelopment of legal framework regulating public service

Major problems are associated with regulations and standards, their inconsistency with each other and with current developments. Without coherent legal framework, the normal functioning of public agencies and public servants is impossible.

Poor motivation

Public servants need both effective financial and moral incentives. Unfortunately, the average wages of public servants are below the minimum level of subsistence (Figure 6), and there are no social guarantees provided. The latter should be established without delay. If nothing is done, the normal functioning of public service, and addressing the facts connected to economic crime is impossible.

Lack of modern management style, organisational culture and proper code of conduct

A public servant is a representative of the State, whether inside or outside the country. Public agencies can portray the image of national statehood. The higher a public agency is in the governmental hierarchy, the more strict ethical requirements should be imposed on its staff. Each governmental agency should be required to formalise such requirements to a code of conduct. Such a code, consisting of both universal and national values, as well as ethical norms acceptable to any democratic society, would pave the way for harmonious relationships inside the agency, and create a very positive image of that agency in the eyes of the public.

Poor staff management

This results primarily from the lack of modern approach to staff management. Presently, there are no precise job descriptions, duties or responsibilities defined for any offices of the hierarchical or horizontal public service sector. In other words, it is not clear which professional skills and personal qualities the candidates for public offices should have. Without such criteria, it is impossible to ensure objective selection and promotion processes.

Lack of government's uniform staff training and retraining policies

Staff training and retraining policies should be consistent with the job descriptions, duties and responsibilities of each particular office. Only those with proper professional skills and personal qualities should be recruited for public services. Staff training and retraining programmes should be implemented in accordance with curricula based on uniform national standards.

These requirements have been met by more or less all developing countries that are willing to build modern governmental institutions. It should be remembered that if proper solutions to the above-mentioned problems are not found, it may increase corruption and undermine the prestige of the national government. This emphasises the need for a fundamental reform of governmental structures.

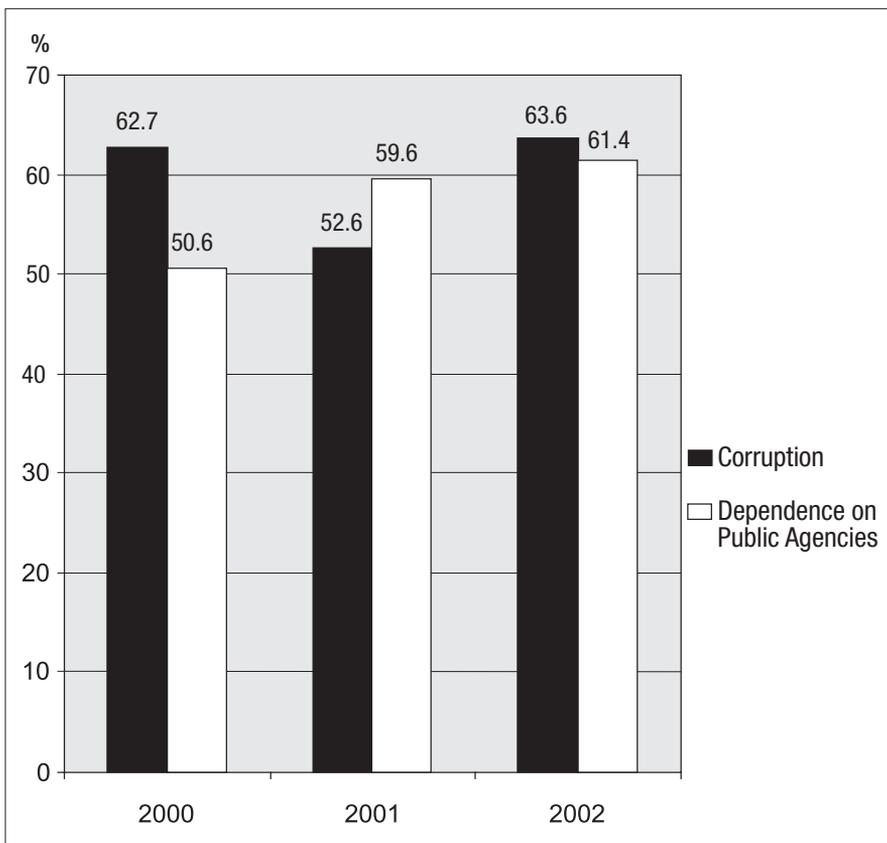


Figure 1. Primary obstructing factors for development of business (source: survey for businessmen).

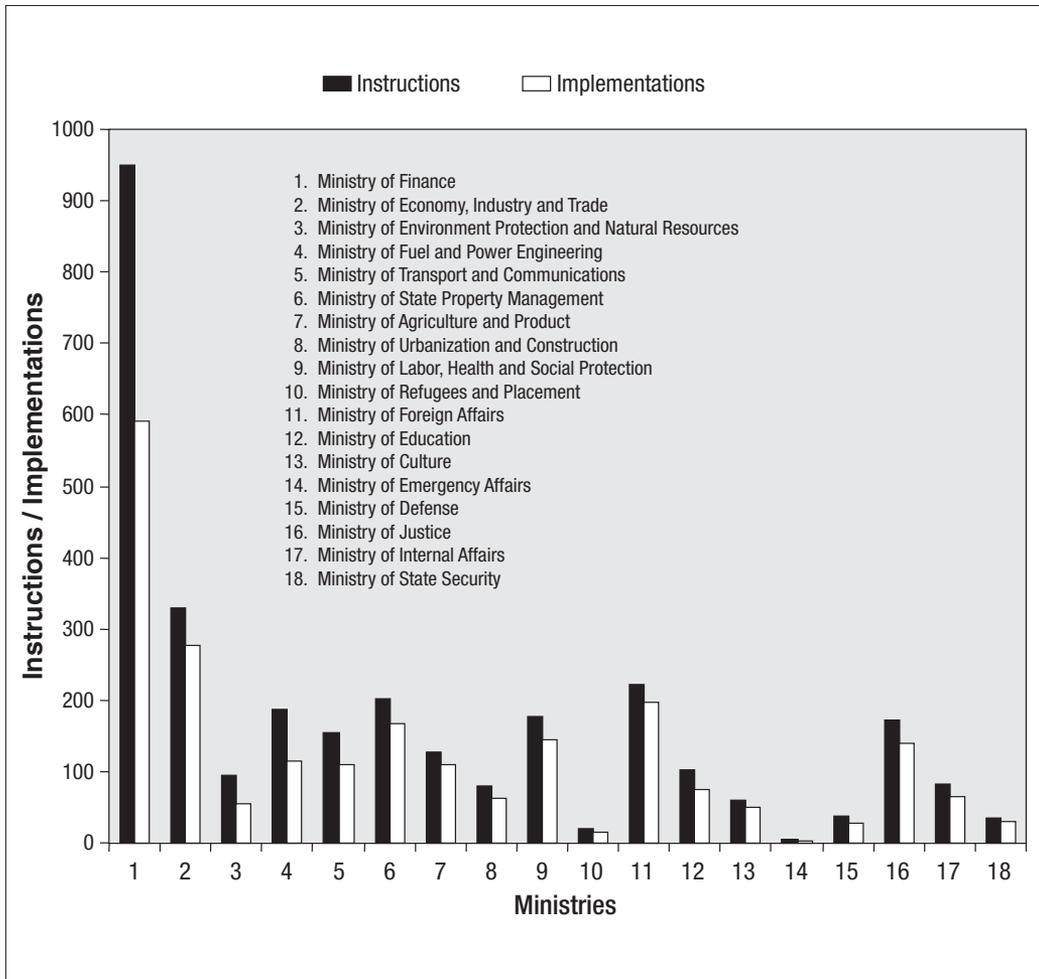


Figure 2. Implementation of instructions in Ministries (January 1, 2003).

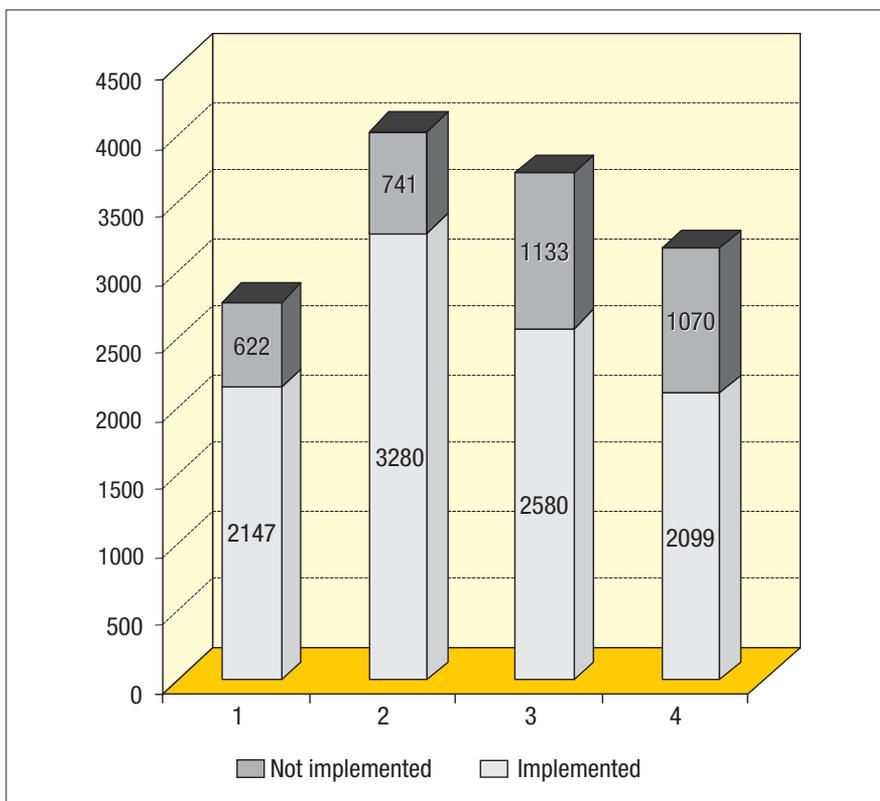


Figure 3. Dynamics of instructions for governmental structures during 1999–2002.*

Instructions issued during the first 6 months of the current year amount to 85.2% of last year's instructions. 2,299 were implemented, which is 1.5 times more than a year before, but still the percentage of implemented instructions has sunk. In 28.6% of the cases, the designated execution time was extended.

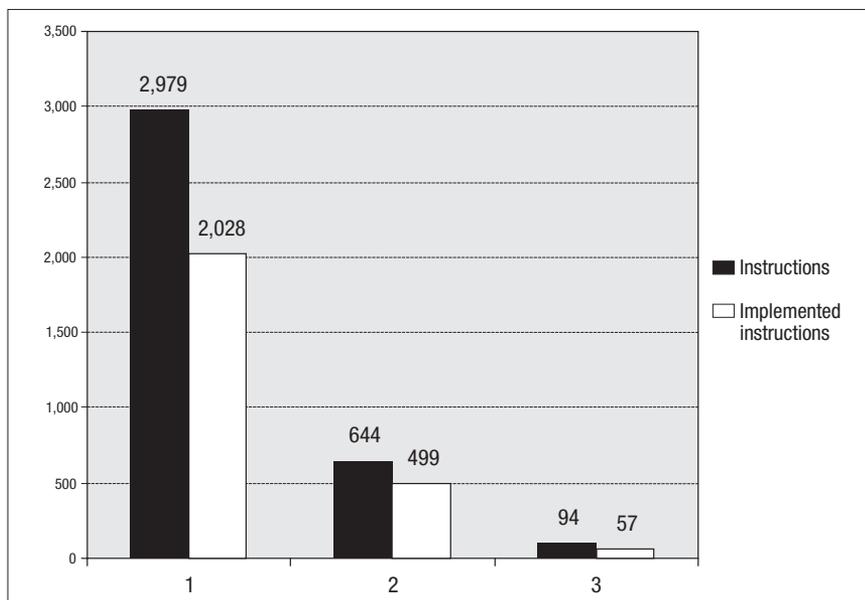


Figure 4. Implemented instructions in ministries, other agencies and governmental commissions (1.01.2003).*

* Source: research conducted with prof. Gela Grigolashvili

- 3,855 instructions were supervised by the State Chancellery. 20.4% of them were related to economic issues, from which 9% to financial-credit policy, functioning of economy and budgetary control.
- 11.5% of the instructions were related to culture, education and science, 7.5% to health and social welfare issues, 4.9% to defense, justice and corruption issues, etc.

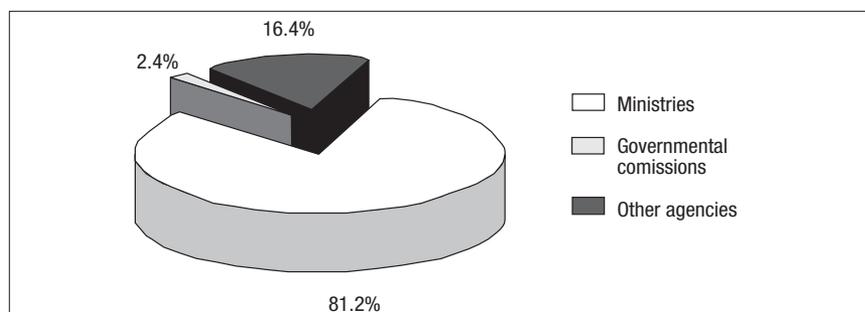


Figure 5. Instruction performance rate of all accomplished tasks of ministries, other agencies and governmental commissions (July 1, 2003).

Owing to the low volume of cases, the satisfactory performance of governmental commissions does not improve the poor overall situation. However, improvements in management and the determination of the leaders of institutional level give hope of a successful reform of the governmental management system.

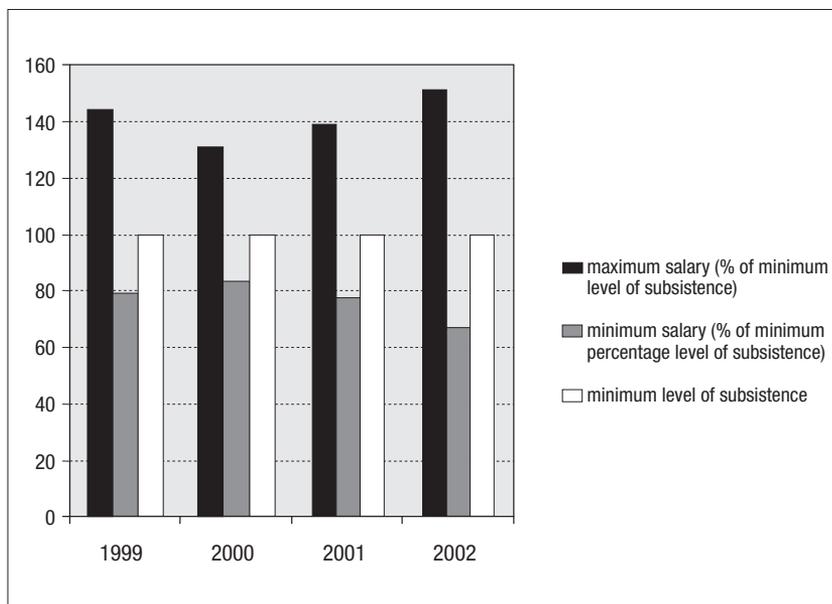


Figure 6. Maximum and minimum salary of public servants compared with minimum level of subsistence.**

** Source: research conducted with Lali Gigashvili

Recommendations

1. To achieve radical improvement in the coordination of executive governmental agencies, a coherent action plan—national social/economic development strategy should be developed.
2. The structuring of executive governmental agencies should be implemented in line with the national development strategy. This would, on the one hand, orient the agencies to solving existing problems and, on the other hand, stabilise operations and prevent functional overlaps and duplication.
3. When forming executive governmental structures, one should take into account EU requirements associated with the efficiency, transparency and cost-effectiveness of governmental structures.
4. Institutional-level agencies of executive branch should focus on conceptual issues, associated with policy implementation, action planning, prognostication, monitoring and the like. They should altogether relinquish economic functions which should be delegated to lower-level structures (regulatory agencies, legal entities under public law).

5. Within the executive branch, a strict control of sub-institutional agencies should be ensured. The need of such agencies should be determined by the following principle: how effectively can they assist the superior agencies in achieving their goals and objectives. Performance of public agencies and public servants should be measured by clearly defined criteria (Efficiency, Effectiveness, volume of work).
6. To ensure the introduction of modern governance approaches to executive governmental agencies, as much power as possible should be delegated to lower levels; in addition, job descriptions and job requirements should be prepared in accordance with the new organisational techniques; all this requires the introduction of a brand new role-based organisational discipline.
7. All executive governmental agencies should focus on the improvement of staff management procedures and practices that meet modern requirements. In particular:
 - all decisions on the recruitment, testing and promotion of staff should be based on job descriptions, job requirements and clearly defined procedures;
 - staff training and retraining needs should be assessed in accordance with the requirements of specific jobs;
 - some objective criteria for staff evaluation and promotion should be specified;
 - a database of actual public servants and reserves should be compiled;
 - radical steps should be taken to improve the quality of staff managers.
8. An effective incentive system for public servants should be developed. Adequate financial reserves for this could be found. Specifically, the legal framework for the effective use of non-budgetary incomes should be improved.
9. To overcome the existing shortcomings in financial and economic sectors, the budgeting process should be based on target funding.
10. To ensure consistency of the reform of the executive branch, the functions and responsibilities of the Public Service Bureau, which is a structural unit of the State Chancellery, should be redefined.
11. To ensure the proper operation of the executive branch, its legal and regulatory framework should be improved for the purpose of consistency and harmonisation of all legal acts with each other and with current developments.

References

- Georgian-European Policy and Legal Advice Centre. 2002. Georgian Economic Trends. *Quarterly Review*, no. 1:9–10.
- Kaufmann, Daniel. 2001. “New Empirical Frontiers in Fighting Corruption and Improving Governance – a few selected issues.” Background comments and empirics for *OSCE Economic Forum 2001*, January 30–31; available from www.worldbank.org/wbi/governance/events/2001.html.
- Schneider, Friedrich, and Dominik Enste. 2002. Hiding in the Shadows: The Growth of the Underground Economy. *Economic Issues*, no. 30 (April 2002). Washington D.C.: International Monetary Fund; available from <http://www.imf.org/external/pubs/ft/issues/issues30/index.htm>.
- The State Department of Statistics of Georgia. 2000. *Entrepreneurship in Georgia*. Tbilisi: The State Department of Statistics of Georgia.
- The State Department of Statistics of Georgia. 2001. *Entrepreneurship in Georgia*. Tbilisi: The State Department of Statistics of Georgia.
- Transparency International. 2000. *Annual Report 2000*. Berlin: Transparency International.
- Transparency International. 2003. “Nine out of ten developing countries urgently need practical support to fight corruption, highlights new index.” Statement by Peter Eigen, Chairman, Transparency International at the Foreign Press Association, London, 7 October; available from http://www.transparency.org/cpi/2003/cpi2003.pe_statement_en.html.