

Project

Economic Crime and Money Laundering

Subject: Combating Economic Crime through Increased Transparency in the Selection and
Financing of State Target Programs

Author: Lasha Topadze

Tbilisi

2003

Political, economic and legislative problems, characteristic of transitional periods, along with the gap between the low wages of public servants and the high cost of living, are preconditions for corruption. The situation in Georgia is further complicated by the lack of state and public monitoring of the property of public officials. Order 684 of the President of Georgia, "On the Use of Income and Property Status Declarations of Public Servants," dated December 8, 1998, did not remedy the situation. Groups of public officials with the lowest incomes do not hesitate to declare ownership of property that would be impossible to obtain with their official incomes. Considering these conditions, the passage of the law "On Stopping the Legalization of Illegal Incomes," by the Parliament of Georgia was completely logical.

Georgian legislation provides a definition for corruption in the law "On Conflict of Interests and Corruption in Public Service," dated October 17, 1997. In article 3, item 1, the law states:

"Corruption in the sector of public service is defined as the use of a position or related opportunities by officials, in order to gain illegal property or benefits, as well as the transfer of such benefits to him/her, or support in obtaining and legalization of these benefits." [1]

It is evident from practice that certain groups of public servants are able to gain illegal income due to the weaknesses in the current legislation. Therefore, it is clear that the analyses of the sources and means of illegal incomes within the budgetary sector and the elimination of possible corrupt delinquencies are crucial.

The Georgian Law "On the Budgetary System and Budgetary Authorities," dated May 29, 1996, is the main legislative document regulating the budgetary process in Georgia. In accordance with article 4, item 3 of the abovementioned law:

"The budget is assembled based on the indicators of the "Plan of Social and Economic Development of Georgia," expert evaluations of the Ministry of Finance, and financial

programs that should be implemented in compliance with international financial liabilities.” [2]

In accordance with the law “On the Fundamentals of Economic and Social Development of Georgia,” article 1, item 2:

“The plan is of a recommendatory character; it defines strategy, objectives and trends of social and economic development of the country and methods of their implementation. The estimations of the draft plan are fundamental in the formation of the state budget.” [3]

Practice also shows that the advisory character of such plans makes the responsibility of the institution that developed it very vague. The existing situation is made even more unclear and risky by the aforementioned statement of the law “On Fundamentals of Social and Economic Development of Georgia.” According to article 6, item 2 of this law, it is not mandatory to debate short-term projects of the plan in the relevant economic committees of the Parliament. It is obvious how short-term state target programs could be used to serve the corrupt goals of public officials. Certain target programs have been exclusively developed in accordance with the interests of representatives of executive power.

In accordance with the legislation, state target programs are considered to be the means for the implementation of the state’s structural policy and the mechanisms of control for economic processes in the county. Therefore, it is quite logical that in recent years financing programs during the process of budget formation became more and more frequent. While in the year 2000 only about 160 state target programs were presented for consideration to the commission of the Ministry of Economics, Industry and Trade, the number of such programs increased to 172 in 2001, 210 in 2002, and 271 in 2003. [4] It is also noteworthy that in 2000 and 2003 the number of state target programs approved by the state budget experienced an increased growth rate: 86 percent in 2000 and 2003. For the period of 2000 to 2003 the costs for the approved state target programs increased from 286, 478 to 631,159, a change of 220 percent. Meanwhile, the increase of costs specified in the budget constituted

44 percent of the total and the increase of budgetary revenues 85 percent. Despite the problems of implementation, today target programs represent a significant and growing segment of state budget expenditures. This phenomenon should not be threatening to market relationships, though in conditions of low budgetary revenues and permanent sequestration of the budget, it is extremely important to examine target programs more closely.

A special commission prioritizes target programs submitted by different budgetary institutions in the order of their importance and necessity of their implementation in the forthcoming fiscal year. Representatives of the Ministry of Finance and other ministries and institutions are widely involved in this process.

In the documented expenditures of the Georgian state budget only the total costs of certain target programs are registered. The practice of not specifying the costs for state target programs violates the Georgian law “On the Budgetary System and Authorities” and the Order of the President, dated December 24, 1998, “On Selection and Financing Rules for State Target Programs.” These documents state that:

“Unified economic and functional classification for reflecting budgetary revenues and expenditures is in use in Georgia...” (Article 11, item 1). [5]

The necessity of administering target programs according to the abovementioned principle is stipulated in the law “On the Fundamentals of Social and Economic Development of Georgia,” article 3, item 3.

It is the responsibility of institutions with relevant competencies and authority to identify reasons for the ineffectiveness of the aforementioned acts. It is obvious, though, that submitting target programs to the budget without cost specifications significantly complicates the possibility of comprehensively evaluating them.

The existing situation benefits those public servants who are using budgetary expenditures for their own interests and are seeking to maintain the current state of affairs.

The materials of the Ministry of Economics, Industry and Trade reveal that target programs submitted by certain initiators often duplicate each other and serve the interests of certain groups of people rather than the country as a whole.

The inclusion of 30 additional programs, worth GEL 7.6 million, into the Georgian budget of 2002, was a serious violation of the law. These programs were not envisaged by Order 319 of the President of Georgia, “On Approving the List of State Target Programs, for Implementation in 2002.”[6]

There is also an inconsistency between the target programs and the programs of social and economic development of Georgia.

The National Economic Plan of 2003, geared toward the development of agriculture and forestry, encompasses the following: supplying the farmers of Georgia with modern agricultural machinery and tools through the support of international organizations and donor countries, creating regional service centers, and supporting cooperation between villages. Activities envisaged by the Irrigation and Drainage Programs of 2003 are of crucial importance for increasing agricultural production. These activities include the rehabilitation of irrigation and drainage systems and the formation of a financially independent land-reclamation association and the creation of legislation that would accommodate its activities.

On the other hand, the list of priority state target programs of 2003, approved by Order 406 of the President of Georgia, dated September 20, 2002, and agricultural activities approved by the state budget in 2003, envisage about 20 activities that do not comply with the list of measures provided in the National economic plan. The total cost of the programs contained in the plan is GEL 16 million, and most of them are one-year programs.

Another paradox is that the National economic Plan of 2003 stipulates the formation of a financially independent and self-financed land-reclamation association. This means the reduction of state financing for the Land-Reclamation Systems Management Department.

Nevertheless, in the 2003 state budget total expenditures allocated for the Land-Reclamation Systems Management Department were increased by GEL 662,600 totaling GEL 796,090 [10]

It is clear that the development of the National economic plan and the creation of target programs do not occur in a unified or integrated procedural system. This necessitates the creation of at least one inter-institutional structural unit with the participation of interested Parliamentary committees. This entity would ensure the creation of a unified, integrated system for both economic plans and state target programs and would help accurately reflect their respective costs in the state budget. It would also monitor the transparency of the system in all of its stages, from development to implementation.

Below are some programs that were contained in the 2003 State Budget that are particularly problematic:

- Program – “Reintroduction of fishing in the internal waters of Georgia,” Code 3119. Budget: GEL 100,000. The program almost directly duplicates the mission of the Center of Rare and Almost Extinct Types of Fish, (Code 2005, Budget: GEL 5,800) which operates under the Ministry of Environmental Protection of Georgia.
 - Program – “Identification of Specific Zones of Vine-growing,” Code 3122, Budget: GEL 340,000. The activities of the Academy of Agricultural Sciences (Code 6400, Budget: GEL 267,780 serves a similar purpose.
 - Program – “Vine Cultivation,” Code 3121, Budget: GEL 1.200. The program envisages the cultivation of vines on 120 hectares, including 72 hectares of the Saperavi grape. [11]
- Considering the fact that the abovementioned programs constitute a significant segment of the budget, it becomes clear that the problem requires immediate attention.

This research revealed the main shortcomings of the development, selection, financing and implementation of state target programs. In particular:

- The absence of a single coordinating institution that would be responsible for verifying the validity of state target programs and monitoring their costs, along with the process of their inclusion into the state budget;
- Budgetary institutions try to attract additional resources in the form of target program financing, supposedly intended for accomplishing those functions, even though they are already financed by the state budget;
- Evaluation and control of some of the target programs is impossible due to their particularities;
- The goals of the national economic plan and the development of state target programs often contradict each other.
- Frequent duplication of state target programs takes place.

All of the aforementioned points clearly demonstrate the necessity for developing a unified and comprehensive system for developing, selecting and evaluating state target programs, especially at the current stage of development of the country.

References

1. Georgian law “On Conflict of Interests and Corruption in Public Service,” October 17, 1997;
2. Georgian law “On the Budgetary System and Authorities,” May 29, 1996;
3. Georgian law “On Fundamentals of Social and Economic Development of Georgia,” October 28, 1997;
4. Current status of the development, financing and execution of state target programs and the means of their improvement. Report of the Ministry of Economics, Industry and Trade, Tbilisi, 2002;
5. Order 711 of the President of Georgia “On Rules of Selection and Financing of State Target Programs;” December 24, 1998.
6. Order 319 of the President of Georgia, “On State Target Programs to Be Implemented in 2002.” August 10, 2001;
7. Order 77 of the President of Georgia as of 13 March 2003 “On Approval of the List of State Goal Programs for Implementation in 2003”;
8. National Plan for Economic and Social Development of Georgia for 2000, Ministry of Economics, Tbilisi, 2000;
9. National Plan for Economic and Social Development of Georgia for 2001, Ministry of Economics, Industry and Trade, Tbilisi, 2001;
10. National Plan for Economic and Social Development of Georgia for 2003, Ministry of Economics, Industry and Trade, Tbilisi, 2003;
11. Georgian Law on the State Budget for the year 2003.