



# The Role of the International Community in Facilitating Financial Reform in Georgia: Budgetary Planning and Audit.

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## Executive Summary

With the help of international technical assistance the Georgian financial system has improved its operation significantly since 2004. It now produces a comprehensive and timely annual budget and a less detailed four year budget in the form of an annually updated 'Basic Data and Directions' document. It has gradually adopted international standards in budgeting and financial management, centralized treasury accounts and started to implement the appropriate information technology for revenue and expenditure management.<sup>1</sup>

Improvements in budgetary planning are reflected in the assessment of the Open Budget Initiative (OBI). With a score of 53% (against an average of 39%) Georgia is in the top third of the 85 countries reviewed by the OBI. It has also been classified the second greatest improver since 2006, increasing its score in that time by 20%. Amongst the improvements the OBI particularly notes the introduction of multi-year budgeting [which is part of the Medium Term Expenditure Framework discussed below], the publication of a citizens' budget and the elimination of extra-budgetary funds.<sup>2</sup>

Each of these reforms have been facilitated with help and under some pressure from International Organizations and Civil Society. The Medium Term Expenditure framework has been developed with the help of a consortium of donors, under the organization of the World Bank and the elimination of extra budgetary funds occurred after wide civil society, political and IO pressure.

Part of the motivation for reform is clearly the desire to appease the demands of the international community, with NATO, the European Union and international donors in mind. This has become even more important recently. Following the August war, a donor's conference in October pledged a USD 4.5 billion package of loans and aid. This has created a lot of interest in aid monitoring and, in addition to the donor organizations who are monitoring their own disbursements, an Georgian NGO coalition has been formed to keep track of aid use.<sup>3</sup>

However, tracking disbursement is only part of the problem. The majority of the aid money is being disbursed in the form of direct budget support so is paid directly into the treasury account. As a result the main oversight placed on the use of the money is provided by the budgetary mechanisms of the government. It therefore seems timely to assess the effectiveness of the reforms to budgetary mechanisms in facilitating long-term planning and oversight.

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<sup>1</sup> For a summary overview of reforms up until 2006 see Transparency International, Georgia. (2006) *Public Finance Reform Initiatives: A Brief Overview*. Tbilisi, Georgia. Most of the key reforms since that time are either discussed in the Open Budget Initiative or this paper.

<sup>2</sup> Open Budget Partnership. (2008) *Open Budgets. Transform Lives: The Open Budget Survey 2008*. Washington DC. p56

<sup>3</sup> This coalition includes Open Society Georgia Foundation, Transparency International, Economic Policy Research Center, Transparency International Georgia, Georgian Young Lawyers Association, Green Alternative, Eurasia Partnership Foundation and a number of independent experts (including the author).

This paper will look at the main two, internationally financed, reform projects that target budgetary planning and oversight. It will ask whether the Medium Term Expenditure Framework (MTEF) has succeeded in encouraging longer term policy-planning and whether the reforms to the Chamber of Control has succeeded in providing oversight.

While the reforms provided by the MTEF are generally considered vastly more effective than the reforms to the chamber of control, they do show some similarities. The MTEF became part of government budget planning policy in 2006 (with preparation for this starting in 2005). Its development was supported by the World Bank (with funding from DfID, SIDA and the Netherlands) as well as additional technical assistance from the US Government. The core document produced by the MTEF, 'Basic Data and Directions', was produced in 2006, 2007 and 2008, and shows revenue projections as well as the main budgetary priorities for four years in each ministry. This document has seen gradual improvements and is generally seen as a success for the government, enhancing transparency and encouraging long-term planning.

However, even though the documents are better, the spending priorities of the government change so often that long-term budgetary planning is made extremely difficult. As a result, without the will to curb this budgetary volatility long-term planning tools will remain vastly less effective than they could be.

Reforms to the Chamber of Control have seen more limited success due to problems of leadership and political resistance. While there has been considerable effort by the same World Bank program along with UNDP and GTZ to improve the legal environment, operating procedures and human resources, little improvement has occurred so far. The many versions of the new law on the Chamber of Control were delayed over a three year period. New operating procedures were not implemented because of the absence of a new overarching law and many of the employees who were trained by the World Bank were fired by the last chairman in what appears to be a deliberate effort to keep the responsibilities of the CoC constrained.

The law governing the CoC was changed very recently, as was its leadership, and these changes offer some hope that reform to the institution may finally emerge. However, again, the opportunity for change tells us nothing about the political will to have real change occur. Without the desire to subject the government to financial scrutiny the CoC is unlikely to be given the space it needs to evolve.

The current political situation in Georgia is tense but in that situation there is reason for concern and hope. The concern is that it will be hard to push for positive change since the government is currently extremely resistant to criticism and the media in Georgia is not particularly free to offer any. Added to that, the international community, concerned about the instability that political change might bring, are very resistant to apply pressure to the government, even though they have a lot of leverage.

There are two examples of international community failing to apply pressure when it could have done so. First, the World Bank and the European Commission completed a Public Expenditure and Financial Accountability (PEFA) Assessment in August/September 2007.

This was intended for publication in October/November but its release has been continually delayed by one political crisis after another in the country. This document would generally be used to frame the public debate over future reforms. However the World Bank and European Union have failed to persuade the government to allow its release. The second troubling sign is that the post-war reconstruction aid has offered very few *new* conditionalities on the support offered.

That said, there is still some scope for hope. Some ministries are clearly motivated to change because they simply want to do a good job. For those that are more resistant to change, both internal and external pressure exists. The development bank funds come with *some* conditionalities that require the budget mechanisms of the government to meet minimum standards. On top of that dissatisfaction with the government has grown significantly in the last eighteen months and with it, there has been increased pressure on the government to be transparent and deliver on their promises. At the same time increased clarity of budgetary planning, that the government now provides, makes it easier for civil society groups to call the government to account. For all of these reasons it is in the government's interest to reform, and to be seen to reform, in order to ensure the continued flow of foreign aid and to ensure continued domestic political support.

An opportunity does, therefore, exist for international organizations and civil society to assist the government in the next stage of the reforms. To do so effectively it is imperative that this reform does not just look at the legal framework for service delivery or the procedures that institutions utilize. Watch-dog organizations and those who work with the government on budgetary reform must ensure that policy is developed according to a stable and long-term strategy and services promised are actually delivered.

## Recommendations

### ***Ministry of Finance***

- Continued roll-out of outcome-oriented budgeting. This will produce two effects
  - Improved planning since it will allow the connection of priorities and targets with costs
  - Improved evaluation. Goals will only be able to be meaningfully assessed when they are provided at the level of detail able to identify clear targets (with an understood baselines) against a defined timetable
- Release the Public Expenditure and Financial Accounting (PEFA) report completed by the World Bank and European Commission 18 months ago. This report was written in intensive consultation with government with the precise intention of moving the debate forward.

### **Chamber of Control**

- Work with civil society to develop a single example of an 'efficiency and effectiveness' audit (probably in the form of a public expenditure tracking survey) in one of the key social sectors like health or education. Use this to demonstrate how such an audit would work and the benefits of it.

- Work out a development plan for the CoC BEFORE new employee trainings are employed since blanket training in ACCA style audit may be unnecessarily time consuming and organizationally inappropriate for the employees.
- Undertake a human resource audit to assess the size that the CoC will need to be in order to fulfill its mandated function. Then develop a plan for recruiting and training staff quickly.
- Formulate an internal set of procedures to supplement the new law. Retraining of staff and development of new procedures need to be carried out simultaneously

### ***International Organizations and NGO***

- Develop criteria for evaluating the consistency of long-term budget planning and budgetary evaluation and make funding conditional on these criteria. Any conditionalities need to focus on practical effectiveness rather than simply legal/financial restrictions
- Focus on line-ministries to ensure that they develop the capacity to implement the new procedures mandated by the Ministry of Finance.
  - try and develop their ability to plan budgets according to new output-oriented planning model, using evidence based public policy development tools.
  - Enhance their oversight ability. In the absence of an effective Chamber of Control, it is even more important that the Inspector Generals in the line-ministries have the capacity necessary to fulfill this role.
- Finance capacity building in NGOs/civil society for public service delivery. Oversight should focus on the level of delivery rather than just macro-budgetary transparency and legal procedures



## **The background of public finance reform in Georgia since 2004**

The reforms to the Ministry of Finance budget management process and the Chamber of Control date back to the Rose Revolution of 2003. Soon after this political shift, the government radically reshaped both of these institutions, firing many of the staff and re-organising them fundamentally. At the same time the government approached a number of international organizations and asked them for technical assistance.

The largest of the technical assistance projects was the World Bank's Public Sector Financial Management Reform Support Project (PSFMR-SP) that started in 2006 after the government produced a Public Finance Management Reform Strategic Vision in 2005.<sup>4</sup> This gave support to a range of government institutions, particularly the Ministry of Finance and the Chamber of Control. GTZ and The United Nations Development Programme have also been working with Chamber of Control since 2003 and 2004 respectively.

From the point of view of World Bank operations, this project emerged both as a valuable activity in itself and also as a means of facilitating the reforms necessary to allow budgetary lending. The main instrument through which the World Bank offers direct budgetary support is Development Policy Lending (DPL). Since DPL exists to support government budgets it is only offered if host governments demonstrate the right reform trajectory, against a number of different criteria. Before 2004 the World Bank had stopped DPL to Georgia because it was considered that the administration of Eduard Shevardnadze had not been undertaking the necessary reforms.

After 2004 this attitude changed. The government undertook a range of immediate reforms to public finance management and World Bank reinstated its DPL lending under the Poverty Reduction Support Operation. One of the reasons for this was that

the bank was actively involved with the government on the DPL (Development Policy Lending), budget support, and a track record of reforms was necessary for this. Governance and public administration was on top of that list.<sup>5</sup>

In 2005 the government of Georgia approached the World Bank to help initiate public sector financial management reform. Since they did not want to use debt to undertake technical improvements, the project was started in 2006 with USD 15 million of aid provided by the World Bank, United Kingdom Department for International Development, the Swedish Development Agency and Netherlands Ministry of Foreign Affairs.<sup>6</sup>

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<sup>4</sup> Ministry of Finance of Georgia. (January 2006) *Public Finance Management Reform: Strategic Vision*. Tbilisi, Georgia.

<sup>5</sup> Interview with Elaine Imanadze, Program Officer for the World Bank, 13<sup>th</sup> October 2008

<sup>6</sup> World Bank. (January 18 2006) *Project appraisal document on a proposed grant in the amount of SDR 2.1 million (US \$3.0 million equivalent) to the Government of Georgia for a public sector financial management reform support project* p3

This program undertook its first review of the proposed reforms in 2005 and at the beginning of 2006 published its project appraisal of the intended technical support. The project had four components,

- 1/ To strengthen planning and budget capabilities through the Medium-Term Expenditure Framework
- 2/ To introduce an integrated treasury management systems
- 3/ To improve the management of the civil service
- 4/ To strengthen the oversight capacities of the Chamber of Control, Parliament and civil society groups.

The combined value of the PRSP program since 2005 has been USD 122.7 million.<sup>7</sup> In addition, a range of other organizations, like the Asian Development Bank which just provided USD 40 million of budget support, have deferred to the World Bank's same standards of conditionality. The EU also places financial reform as a condition of its public finance support, which has up until now valued around Euros 80 million (USD 104 million). As a result, the government has been under considerable pressure to demonstrate improvements in its public finance management.

All of this has become particularly important because of the enormous increase in direct budgetary aid that Georgia is receiving in the aftermath of the August war. On 22 October 2008 a donor's conference was held to raise money for Georgian post-war recovery and reconstruction. The conference attendees pledged a total of USD 4.5 billion. This made up of both aid and debt and while the exact structure of the payments is still unclear, in 2008 USD 400 million had already been provided in direct budgetary support.

This has both stimulated the involvement of civil society in budgetary monitoring and highlighted the importance of budgetary reform more generally. First, this has provided an opportunity for civil society to be more involved in budgetary matters. Up until now, the major areas of technical assistance have not involved significant input from civil society. The only clear exception to this rule was the formation of a single treasury account, which occurred as the result of pressure from a range of actors including civil society and NGOs.

The huge injection of donor money has created more interest in budgetary oversight. As a result, one group of NGOs have formed a coalition to divide up the work of monitoring the aid money.<sup>8</sup> However, the biggest problem for this group is that they lack the capacity to assess government service delivery, so most of their planned analysis is an assessment of the form and function of the aid, or discusses the legal and procedural elements of disbursement.<sup>9</sup>

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<sup>7</sup> This money has been disbursed through four Poverty Reduction Support Operations since 2005 and one supplement to the fourth PRSP. See:

<http://web.worldbank.org/external/default/main?menuPK=301780&pagePK=141143&piPK=399272&theSitePK=301746>

<sup>8</sup> This coalition includes Open Society Georgia Foundation, Transparency International, Economic Policy Research Center, Transparency International Georgia, Georgian Young Lawyers Association, Green Alternative, Eurasia Partnership Foundation and a number of independent experts (including the author).

<sup>9</sup> The exception to this rule is IDP housing where detailed service delivery is being carried out. Little of the evaluation has yet been produced so far, though there have been a total of three reports Transparency

The more direct form of pressure for financial form comes from the conditionality of financial support. Direct budgetary support comes with three different kinds of conditionality: expenditure, political, procedural. Most donors have some expenditure requirements, at least excluding on what money can be spent. However, due to the fungibility of government finances these are rarely effective. The European Union is the only donor with explicit procedural constraints and has signaled that the priorities of the European Neighborhood Policy will provide the framework for those constraints.<sup>10</sup>

Most important for the purpose of this research are procedural constraints, that focus on spending oversight mechanisms. Many countries have their own specific procedures for actions like procurement, monitoring and evaluation, but considerable national variation exists. For example, 'The Ukraine has stated that its support to the Georgian government is simply given in good faith, and that Tbilisi may use these funds as it sees fit. In contrast, one EU member state halved its planned budget support due to a perceived lack of capacity in oversight, but may raise its contribution in future again if it observes improvements'.<sup>11</sup>

However, most interesting for our purposes are those for whom the procedural conditionalities link with the procedures of the government itself. The United States aid, European Union aid and the direct budgetary support from the development banks, have all made their aid conditional on continued improvement in Georgian government budgetary processes. This gives them a tremendous stake in ensuring that the procedures are followed correctly (since the government is spending their money) and a tremendous potential source of leverage for future reform.

This makes reform projects like the PSFMR-SP even more important. However, the PSFMR-SP covered a wide range of issues, from human resources to information technology. Therefore, the rest of this paper will consider the effectiveness of two elements of the project, the Medium Term Expenditure Framework and the reforms carried out in Georgia's main audit body, the Chamber of Control.

### ***Medium Term Expenditure Framework***

The Medium Term Expenditure Framework requires that the government of Georgia to conducts it budgetary planning on a rolling four year cycle (up-dated annually). In this way, in the first four months of each year the line ministries are required to develop a medium term action plan for the next four years, outlining their priorities for that period as well as projected costs. These action plans are used to produce a 'Basic Data and Directions' document that outlines the overall government priorities for the next four years. It also

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International Georgia. (9 December 2009) *Access to Information, Accountability and Aid to Georgia*. Tbilisi, Georgia., Economic Policy Research Center. (November 2008) *Monitoring of the Millennium Challenge Program: Stage 3 Report*. Tbilisi, Georgia. and Open Society Georgia Foundation. (February 2009) *Analysis and Recommendations of Economic Challenges of Georgia and Governmental Strategy Against the Crisis*. Tbilisi, Georgia.

<sup>10</sup> Meeting between Transparency International Georgia, Georgian Young Lawyers Association and European Commission representatives, discussing the European Neighbourhood Policy

<sup>11</sup> Transparency International Georgia. (9 December 2009) *Access to Information, Accountability and Aid to Georgia*. Tbilisi, Georgia. p5

provides the Ministry of Finance with the basic data they need to develop the spending ceilings for the line ministries. These budgetary ceilings are then sent out to the Ministries as part of their budget circulars to start the annual budget planning process in June.

The medium term action plans were first adopted by Presidential decree in 2006 and the 2006 strategic vision for the Ministry of Finance places the development of the MTEF as a key priority.<sup>12</sup> The first of these Basic Data and Directions documents, produced in 2006, related to 2007-2010. The most recent in 2008 covered the period 2009-2012. The logic behind the MTEF was that it would require a more long-term and consistent expenditure planning system. As explained in the planning document for the PSFMR-SP the MTEF was,

for ensuring greater budget predictability for line ministries (January 18 2006)... and strengthening budget planning and management processes within the MoF and line ministries so that the budget is implemented consistent with the strategies and priorities identified in the MTEF.<sup>13</sup>

Assessing the effectiveness of the MTEF in achieving these goals is difficult. The full versions of the BDDs for 2006 and 2007 are available, but only an abbreviated form of the 2008 has been published so far (with a full version forthcoming). Certainly the BDD has made it easier to gain a complete picture of stated government priorities. As a result the Ministry of Finance Strategy for 2007 states that even with the first BDD it 'is generally recognized as the most important overall strategy document of the government'.<sup>14</sup>

Between 2006 and 2007 there has been an increase in the detail and specificity of the budgetary priorities of the line ministries. In addition the 2007 BDD has started to talk about indicators of success.<sup>15</sup> As Timothy Grewe, an advisor to the Ministry of Finance from the US Treasury Department has stated, 'BDD does a pretty good job of formulating the priorities nationally and focusing on its service objectives...there is a lot of work to do but every year it gets better.'<sup>16</sup>

Similarly Lia Skhirtlavze, who works for the Ministry of Finance has argued, 'The first BDD was produced in 2005 [though published in 2006 for 2007-2010] but this only offered very general priorities but after our project it was improved and now it now includes all ministries, state ministries and the regions with detailed priorities and action plans'<sup>17</sup>

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<sup>12</sup> Ministry of Finance of Georgia. (January 2006) *Public Finance Management Reform: Strategic Vision*. Tbilisi, Georgia.

<sup>13</sup> World Bank. (January 18 2006) *Project appraisal document on a proposed grant in the amount of SDR 2.1 million (US \$3.0 million equivalent) to the Government of Georgia for a public sector financial management reform support project* p5

<sup>14</sup> Ministry of Finance of Georgia. (March 2007) *Strategy 2007-2011 and Priorities for Cooperation with Development Partners*. Tbilisi, Georgia.

<sup>15</sup> Government of Georgia. (2006) *Basic Data and Directions for 2007-2010*. Tbilisi, Georgia. p5 and Government of Georgia. (2007) *Basic Data and Directions for 2008-2011*. Tbilisi.

<sup>16</sup> Interview with Timothy Grewe, Resident Advisor to the Georgian Ministry of Finance, United States Treasury Department, 29<sup>th</sup> September 2008

<sup>17</sup> Interview with Lia Skhirtlavze, Ministry of Finance, 14<sup>th</sup> October 2008

Though there is clearly some variation between ministries, ‘Some ministries did a very good job without any assistance, for instance, [the Ministry of] Foreign Affairs and [the Ministry of] Justice; some of them had plenty of assistance, for example the Ministry of Agriculture, but still its BDD submissions were extremely weak’.<sup>18</sup> As she further explains, ‘You can try to analyze what are the reasons but I think it is just commitment’.<sup>19</sup>

In addition, everyone that discusses these reforms is very careful to acknowledge that there is still a long way to go, for example, the use of performance indicators has little practical usefulness yet,

At the moment, there is a tendency to use performance indicators that was too broad. Two years ago, the Ministry of Economy gave as their performance indicator ‘improved economy’ or in the Ministry – ‘high level of primary education’. Now they understand that they have to develop performance indicators for each program.<sup>20</sup>

What is clear is that the government of Georgia and the line ministries have become better at producing policy planning documents that give the appearance of long term planning. However, it does not seem as though this has created stability in budgetary planning practice.

The simplest way of assessing constancy of priorities is to look at the areas of government that spend the most money. At the level of the entire government the yearly shifts in priorities of the government are well documented.<sup>21</sup> However, more worrying still are the budgetary amendments over the course of the year. These are large enough that they reflect changes in government priorities over the course of one year. Figure 1 shows the budget for each year as it is stipulated in the initial law, the actual spending that occurs (after amendments to the budget) at the end of the year and the percentage difference between the two.

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<sup>18</sup> Interview with Elaine Imanadze, Program Officer for the World Bank, 13<sup>th</sup> October 2008. A similar

<sup>19</sup> Interview with Elaine Imanadze, Program Officer for the World Bank, 13<sup>th</sup> October 2008

<sup>20</sup> Interview with Lia Skhirtlavze, Ministry of Finance, 14<sup>th</sup> October 2008

<sup>21</sup> Transparency International. (January, 2007) *Budgetary Priorities in Georgia: Expenditure Dynamics since the Rose Revolution*. Tbilisi, Georgia.

Table 1: Ministerial total budgets and their amendments over the course of the year 2005-2008

Ministry	2005			2006			2007			2008		
	Initial	Actual	% Change	Initial	Actual	% Change	Initial	Actual	% change	Intial	Actual July 2008	% Change
<b>Finance</b>	760,155	574,203	-24%	716,067	744,452	4%	770,275	770,901	0%	1,063, 660	1,918,394	80%
<b>Economic Development</b>	103,390	167,470	62%	219,948	222,136	1%	419,655	405,591	-3%	387,762	389,503	0%
<b>Justice</b>	40,554	49,884	23%	53,538	77,640	45%	117,032	144,528	23%	129,601	128,603	-1%
<b>Foreign Affairs</b>	31,800	33,115	4%	40,572	43,859	8%	49,850	57,546	15%	59,036	59,279	0%
<b>Defence</b>	138,885	366,765	164%	392,570	684,040	74%	513,270	1,494,516	191%	1,100,000	1,395,225	26%
<b>Interior</b>	151,646	182,162	20%	225,500	277,702	23%	297,786	467,444	57%	600,000	640,000	6%
<b>Foreign Intelligence Special Service</b>	3,000	3,019	1%	3,018	3,024	0%	3,270	3,529	8%	3,747	5,747	55%
<b>Education and Science</b>	69,339	80,947	17%	340,504	358,165	5%	389,354	418,277	7%	490,048	453,704	-8%
<b>Culture, Monuments and Sport</b>	26,319	34,433	31%	41,979	53,757	28%	65,380	74,168	13%	70,300	77,844	10%
<b>IDPs</b>	60,282	61,867	3%	29,094	59,239	104%	44,170	60,946	38%	60,250	85,065	41%
<b>Labour, Health and Social Protection</b>	558,425	631,808	13%	740,788	766,418	3%	919,990	1,013,058	10%	1,284,033	1,295,867	0%
<b>Energy</b>	119,542	230,349	93%	229,749	243,196	6%	217,254	226,447	4%	61,473	94,373	53%
<b>Agriculture</b>	51,636	41,356	-20%	60,451	63,166	4%	47,980	78,881	64%	78,107	77,107	-2%
<b>Env. Protection and Nat. Resources</b>	34,301	24,478	-29%	34,184	29,158	-15%	34,909	40,369	16%	38,718	38,778	0%
<b>Total</b>	2,149,274	2,481,856	15%	3,127,962	3,625,951	16%	3,890,175	5,256,198	35%	4,363,075	6,659,489	52%

Source: Ministry of Finance (March 2009)

As we can see in the 2005-2007 the increase in the ministerial budgets has totaled 15% in 2005, 16% in 2006, 35% in 2007 and 52% in 2008. Up to 2007 this reflected an increase in receipts over the level expected, particularly in 2007 where a dramatic increase in tax-receipts and privatizations resulted in more resources available to the government. For 2008 this paper is only showing the amendments up until July, since amendments after the war seem irrelevant for our purposes.

These alterations occurred in a public manner, were agreed to by the parliament and duly accounted for (with the caveats suggested below). So what is the problem? The first concern is that dramatic increases hardly seem to suggest good strategic planning on either the part of the Ministry of Finance or the Line Ministries affected. From the point of view of the Ministry of Finance, the aggregate inaccuracies in prediction are understandable. While the official tax burden (demanded taxes) went down significantly in the period of 2004-2007, tax collection rates went up even more significantly. Added to which, the increase in deficit spending allowed by the sale of a couple of specific state assets was also hard to depend upon.

The government also made a conscious decision to be cautious in its estimation of tax receipts, using previous year's collection rates combined with reduction in overall tax-burden to calculate likely tax-take. This was useful in order to avoid over-inflating expectations of government spending, to control the spending of ministries and to ensure that ministries set themselves achievable goals. As the head Deputy head of the responsible policy unit explains

We under-estimate revenues as a means of ensuring that we keep control of the government deficit. Also, we do not want to reduce ministerial budgets in the course of the year [which would happen if revenues were over-estimated] because we want ministers to have goals that are executable<sup>22</sup>

In a similar vein, an economic advisor to the Ministry of Finance pointed out, 'Prior to 2004 we made over-optimistic predictions about growth and had to decrease expenditure throughout the year. It is far better to increase budgets through the year'.<sup>23</sup>

However, while under-estimating receipts might make political sense it makes policy planning difficult.<sup>24</sup> In particular, the last round of budget amendments usually occurs in November or December and it seems unlikely that unexpected money will be spent wisely particularly if it is allocated at the end of the year, to be spent in the same year.

While the under-prediction of government revenue may make sense, the way those resources are allocated cannot be so easily explained. Rather than putting these funds in reserve for allocation in the next financial year, when they could have been incorporated into a long-term planning process, they were spent immediately in a way that made

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<sup>22</sup> Interview with Pridon Aslanikashvili, Deputy Head of Financial Policy Unit, 29<sup>th</sup> January 2009

<sup>23</sup> Interview with Hennie Maters, Economic Adviser, Ministry of Finance of Georgia, 4<sup>th</sup> January 2009

<sup>24</sup> A similar point has been made by a wide range of institutions, including a host of local NGOs. For an analysis of this issue in 2006 see Economic Policy Research Centre. (2006) *Monitoring of the State Budget Execution for the Year 2006*. Tbilisi.

planning difficult if not impossible. In addition, the fact that their expenditure was focused on a very small number of ministries, not only exaggerates the problem for those ministries, it seems to suggest radically shifting policy priorities over the course of the year.

To put this another way, if the government had clearly defined *priorities* for its spending over the four years covered by the MTEF then one might expect increases in cash receipts to be allocated more or less equally (as a percentage increase in budgets) across departments (since this would maintain those priorities). That this does not happen seems to suggest that in spite of apparent long-term planning, actual priorities are unclear and changeable.

Within the Ministries that saw the most dramatic increases it also suggests that funds being spent are not part of any long-term strategic plan. In 2007 the budget for Ministry of Defence increased to three times its planned allocation, Ministry of Agriculture increased by two thirds and Ministry of the Interior increased by more than half. If these increases were not planned for at the beginning of the year then one has to wonder how effectively they were integrated into ministerial planning. As the former minister of finance says,

In the case of defense the spending is so high that they need better budget planning more than most. For example, we can't buy goods without thinking about future costs. If we buy capital equipment and machinery then we need to think about the costs that will bring with it.<sup>25</sup>

So there is basically a two layer problem. The first layer is the ability of the key government decision makers to stabilize in their priority choices (this relates to the top level funding priorities). Second, probably more importantly, the culture of change, both in terms of budgetary expectations, institutional framework and leadership make the setting of stable priorities near to impossible.

This is not to say that budgetary adjustments happen without reason. As the head of budgetary planning in the Ministry of Education said, 'The finance ministry makes these budgetary changes over the course of the year because things change and these changes cannot be predicted in the budgetary planning process'.<sup>26</sup> The 2007 amendments to the defence budget happened within the context of a worsening security environment and the shift in priorities in favor of social expenditures at the end of 2007 and throughout 2008 occurred in response to believed political demands and then in response to a war. As a result one could argue that the general environment within which political decisions are made is too fast moving to allow for long-term planning. As one NGO expert explained 'All the time they are changing the plan, all the time we are changing the priorities'.<sup>27</sup>

However, it is too easy to explain the mercurial tendencies of Georgian budgets as the consequence of an unavoidably fast moving environment. Some changes in policy do not seem to reflect changes in circumstances or overwhelming political necessity but simply demonstrates an action-orientation within the government which instinctively under-values

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<sup>25</sup> Interview with former Minister of Finance, Aleko Aleksishvili, 27<sup>th</sup> January 2009

<sup>26</sup> Interview with Vakho Nozadze, Head of Budget Division, Ministry of Education and Science 28<sup>th</sup> January 2009

<sup>27</sup> Interview with Nino Evgenidze Project Coordinator Economic Policy Research Centre 29<sup>th</sup> January 2009

planning. One expression of this is a statement made by the head of budgeting in the Ministry of Education,

For us the medium term is the long-term because there are so many reforms taking place and the government does not want to wait to enact them. Over time this will become more and more stable.<sup>28</sup>

One example of what seems like unnecessary urgency was a budget amendment that was made during 2008 to transfer GEL 40 million for school repairs to the local government. While it is easy to appreciate the desire to decentralize budgetary control it is hard to avoid concerns that local government structures might have been ill-prepared to spend this money wisely. Would it have been unreasonable to hold-off on this reform until the beginning of the next planning cycle?

Of course, the responsibility of these changes does not merely rest with the executive government. Since parliament has to approve budgetary amendments this should provide a brake to overly regular budgetary alterations. Unfortunately, in the current environment, where the ruling party controls the vast majority of the parliament there is little resistance to these changes.<sup>29</sup>

Another possible reason why the MTEF has been ineffective so far in its impact on long-term budgeting is that the process has simply not developed far enough to force detailed forward planning. Often, when talking to those involved in the reform process they seem to evaluate the reforms, not on the basis of what benefits they bring now, but for the changes they may bring in the future. After all, the reform process has only been underway for three years. Should we see the reforms as sowing the seeds for future development? Lia Skhirtlavze from the World Bank argues that, 'The biggest change [within the line ministries] has been to develop the understanding that we need longer term planning. They are now developing four year budgets.'<sup>30</sup>

In the short-term one may question the impact of this change in perspective. As former minister of finance Aleko Aleksishvili has argued 'If you look at the institutions, only a few of them have strategic documents which gives their plans for the next three years or more'.<sup>31</sup> Two major amendments to the process that are currently underway may make medium term planning more effective. The first change is that long-term budgets will become an increasingly important part of the (currently far more important and far more detailed) annual planning process.

The second stage is to move us away from line-item budgeting that offers fairly general ministerial objectives, towards outcome oriented budgeting that provides budgetary justification and planning around individual strategic objectives and then provides

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<sup>28</sup> Interview with Vakho Nozadze, Head of Budget Division, Ministry of Education and Science 28<sup>th</sup> January 2009

<sup>29</sup> A similar point was made by the World Bank. Interview with Elaine Imanadze, Program Officer for the World Bank, 13<sup>th</sup> October 2008

<sup>30</sup> Interview with Lia Skhirtlavze, Ministry of Finance, 14<sup>th</sup> October 2008

<sup>31</sup> Interview with former Minister of Finance, Aleko Aleksishvili, 27<sup>th</sup> January 2009

performance evaluation criteria within individual projects. A former minister of finance explains how this would work,

It is clear that we need to go through three stages. The Ministries need to develop their vision, this will allow us to develop indicators of success/failure and then we can formulate program budgeting since we will be able to decide between programs in terms of their ability to fulfill indicators.<sup>32</sup>

Currently, the government is working with five ministries to achieve this level of budgetary planning, the ministry of justice, health, education, agriculture and culture. The first attempt to produce these forms of budgets was carried out for the first time in 2008 and the results were varied. All five ministries will try again this year, with the justice and health gaining support from the European Commission. As this practice develops it will at least force ministries to more clearly identify their priorities and justify their individual line items in terms of what they can deliver. And this is clearly no small thing.

However, the biggest challenge remains whether the broader political environment will allow strategic visions to persist. The Ministry of Defence has a very detailed strategic documents that is, at least partially, aimed at an international audience. However, the budgetary components of the Ministry of Defence was made irrelevant even before publication by changes in the 2007 budget.<sup>33</sup> Similarly, the Ministry of Education plan proposes gradual increases in education expenditure, so that it gradually approaches 3% of GDP, but education has seen its role in GDP decrease since 2006.<sup>34</sup>

These documents may serve a number of secondary roles. If they force clarity in the ministries then this may provide incentives for policy stability at a Cabinet level. As Hennie Maters argues,

I am confident that it [the policy planning environment] will stabilise because policies are now a lot better formulated than they were in 2004. 2008 objectives are better articulated and there are even quantifiable objectives. If you look at the policies that are produced by the ministries there has been a significant change.

Alternatively they may force the government to think through the longer-term consequences of particular policy options (even if they don't become the final policy

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<sup>32</sup> Interview with former Minister of Finance, Aleko Aleksishvili, 27<sup>th</sup> January 2009

<sup>33</sup> For example the Ministry of Defence in its 2007 Strategic Defence Review predicted a GEL 736 million budget for 2008. By the end of 2007 this had already been massively exceeded with a budget of GEL 1.49 billion, with a slight increase in 2008 to Gel 1.54 billion (after the third revision). As a proportion of GDP the same strategic document suggested that defence spending was expected to decline from 3.9% of GDP in 2008 to 2.3% in 2016. Actual budget for 2007 was 8.7% of GDP and in 2008 7.9%. Georgian Ministry of Defence. (2007) *Strategic Defence Review: Final Report*. Tbilisi, Georgia. p93. Financial data provided by the Ministry of Finance (December 2008).

<sup>34</sup> The proposed increase is clearly explained in Government of Georgia. (2006) *Basic Data and Directions for 2007-2010*. Tbilisi, Georgia. p36. There is some discrepancy over the value of the decline. According to the Georgian-European Policy and Legal Advice Centre. (October 2007) *Georgian Economic Trends, quarterly review*. the decline has been from 3% to 2.4%. According to the Ministry of Finance the decline has been from 2.6% to 2.4%.

choice). They may also, as Tamuna Karosanidze from Transparency International Georgia has suggested, 'provide civil society actors with some set of policy 'objectives' against which ministries can be held to account'<sup>35</sup>. However, without political will, they are unlikely to force public policy stability on Georgian budgetary planning anytime soon.

## Chamber of Control

A second focal point of public finance reform, supported by a range of institutions is the Chamber of Control. Under the Soviet System the Chamber of Control held a position that was part auditor and part policeman. On the one hand, its role was to investigate institutions where fraud was suspected and on the other hand it was intended to provide an oversight of tax collection and government expenditure.

Until the very recent amendments to the law of the CoC, its principle role was to carry out 'revisions/controls' of the expenditure of central government. These revisions take the form of highly restricted audits. There were three different forms of revisions undertaken. The first looks at the mid-term and the final-term expenditure reports of government agencies. These routinely take a couple of weeks and involve 2-5 people depending on the size of the agency. The second form of revision takes a more detailed look at the book-keeping of an agency, aiming to cover each government agency once every three or four years. This can involve a team of up to about 10 'revisionists' for a period of up to 6 months. Finally, the CoC can, under its own initiative, or at the request of the President, the parliament or the State Prosecutor decide to investigate different elements of state agency in an 'unplanned' revision.

The most commonly cited problems with these 'revisions' has historically related to their mandated scope and the procedures and professionalism with which they are carried out. In terms of their mandated scope there are essentially two problems. First, the CoC has a schizophrenic nature that is part policeman and part financial auditor. As former Minister of Finance argues,

The biggest problem with the Chamber of Control is that its functions are not clearly defined. It's not just about the people. It's not even about quality and standards. It's about organizational function. They see themselves as policemen.<sup>36</sup>

The aspiration to be both policeman and auditor creates a conflict because it ultimately produces an institution which is not very good at either function. The purpose of an audit should be to look for systematic weaknesses in the accounting and delivery provided by an institution. In the process, the auditor verifies that the accounts are a 'true and correct' picture of the organisations activities. If inaccuracy or structural weaknesses exist then one possible result will be undetected theft and corruption, but this is only one of many negative effects and not necessarily the worst. Systematic misreporting may produce a range of inefficiencies in resource-use without any illegal activity taking place. At the same time, a group of people, collectively dedicated to commit illegal activities may be able to do so even

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<sup>35</sup> Communication with Tamuna Karosanidze, Executive Director, Transparency International, Georgia (January 3<sup>rd</sup> 2009)

<sup>36</sup> Interview with form Minister of Finance, Aleko Aleksishvili, 27<sup>th</sup> January 2009

if reasonable safeguards are in place, and an audit of the institution may not be the best way to uncover illegal activity.

The second problem with the legal structure and procedures of the CoC is that they have extremely limited scope of activities. An audit should have responsibility for verifying that information in a statement of accounts reflects activities in the world. To do this it is necessary to check the break-down of aggregate accounts and track expenditures back to the purchases made or the services delivered.

However, the CoC restricts itself to examining book-keeping within state agencies. Part of the reason for this is that inside each ministry there exists a general inspection unit, and it is the job of this unit to ensure that purchases documented in the ministry reflect materials that exist in the world. These units also lack well worked out audit and oversight procedures and tend to respond to complaints rather than taking any initiative. For example, in the case of the Ministry of Education and Science the General Inspection Unit only responds to specific complaints by parents.<sup>37</sup>

The biannual revisions of the CoC are also extremely restrictive in their investigations, only looking at areas of ministerial expenditure where declared spending has exceeded or fallen below the values highlighted in the budget, or where revisions have been made to expenses agreed in the annual budget law. As a result, line-items where spending levels were 'as expected' are not looked at in any way.

The more intensive three-yearly 'revisions' go beyond this and look at budget items that match expected levels, however, the revisionists rarely go to the point of checking that money going out of the ministry is buying the things it claims to be buying or providing the services it claims to provide. They do not check that school repairs actually took place or that hospital equipment was ever actually purchased (unless someone complains about this). They certainly do not check the efficiency of expenditures (whether goods/services purchased were the cheapest available for a given level of quality) or the effectiveness (whether items purchased were utilised to provide the greatest level of value).

On top of these structural problems there are also problems of expertise within the CoC. Up until now the revisionists have largely been required to undertake fairly rudimentary investigations into book-keeping within government agencies. In this task they seem to have some demonstrated capability, but if we are to stretch that set of tasks, even a little, then it would require skill-sets that most of the staff simply do not possess. With an average age of 52 most of the revisionists are probably not even computer literate and may have difficulty using functions like spreadsheets and word-processors beyond an elementary level.<sup>38</sup>

### ***Reform efforts in the Chamber of Control***

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<sup>37</sup> Interview with Nana Khamakadze, Head of Accounts Division, Ministry of Education and Science, 28<sup>th</sup> January 2009

<sup>38</sup> Interview with Levan Bezhashvili, Chairman, Chamber of Control, 30<sup>th</sup> January 2009

Prior to the Rose Revolution, because the CoC was involved in policing and money, it became a very powerful instrument for attacking political enemies and soliciting bribes. When the new government came to power at the beginning of 2004 the CoC, like the police and the tax agencies, became an immediate target for their anti-corruption activities. Around 300 people, or half the staff, were fired and the Chairman, Sulkhan Molashvili, resigned in January and was arrested in April 2004. Zurab Soselia, was appointed as the first new Chairman of the CoC in June 2004. He was a well respected senior politician who, from the start, made it clear that his desire was to develop the CoC into a Supreme Audit Authority (SAA), with greater independence from government and a more extensive and formalised audit process.

The three main institutions working in the Chamber of Control since 2004 are the World Bank, United Nations Development Programme and GTZ. The European Commission considered offering support to the Chamber of Control in 2006 but decided that it was already 'crowded' so they have been working with the audit sections of line ministries directly.

Reform efforts have aimed at tackling weaknesses in legislative framework, internal procedures and human resources. GTZ has worked on all three of these components, offering advice on the drafting of new laws and providing some short-term trainings. They also co-audited a number of institutions with the CoC between 2004 and 2006.<sup>39</sup> UNDP focused on the provision of technical support, particularly in relation to human resource management, they provided computers and a resource centre. Finally, the World Bank has focused on resource development, formulating a training programme that was originally designed for all the auditors, to help train them to international auditing (ACCA standards).<sup>40</sup>

Unfortunately, each of these areas of reform has suffered from a combination of political resistance and institutional instability. Legal and institutional reform was developed first with Soselia as head of the CoC. The aim of this reform was to change the CoC into a Supreme Audit Authority. This was presented to the Parliament for consideration in early 2005. While the discussion of the draft law was already underway Soselia had a stroke in February 2006 and left in a coma and died in March 2007. The organisation was not able to move forward for almost a year and a third since it only had an acting head.

Levan Choladze was appointed in May and his appointment is generally seen to have seriously impeded reform. When he became head of the CoC it had about 700 staff, by the time he left it had around 300. Amongst the staff he fired were many of those had been trained in the World Bank program. According to several people who were involved in the process, he also forced out many of the international advisors who decided that reform was

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<sup>39</sup> In German auditors conducted joint audit with the CoC on Renovation of the Russian Military Highway in 2004, Goorjani District government in 2005-6 and Borjomi-Kharagauli National Park in 2006. Interview with Kaki Kenchishvili, GTZ, 5<sup>th</sup> February 2009.

<sup>40</sup> United Nations Development Programme. (2007) *Assessment of UNDP Project: Assistance to the Chamber of Control (2004-2007)* Tbilisi, Georgia. and World Bank. (January 18 2006) *Project appraisal document on a proposed grant in the amount of SDR 2.1 million (US \$3.0 million equivalent) to the Government of Georgia for a public sector financial management reform support project* **Need to put in more specific info about GTZ**

impossible with him as the head.<sup>41</sup> He was replaced by Levan Bezhashvili, the current head, in July 2008. Bezhashvili is a well respected former politician and former Governor of Georgia's eastern region of Kakheti but lacks an independent power base and so will find it hard to push forward with unpopular investigations.

Human resource development was similarly ham-strung by opposition and by events. The original plan had been to try and train as many of the auditors as possible to international standards, with the expectation of gradually replacing those who refused training. However, as the World Bank acknowledge, 'most of the auditors, some 400 staff, were included, but over the last two years many have dropped out, resigned or been fired and this was the main project. It has not been very effective.'<sup>42</sup>

Resistance to increasing the power of the Chamber of Control has been strong in the executive branch of government for the simple reason that the government does not want to empower an institution with the ability to criticise it. In Georgian political culture there is a very strong sense that acknowledging weaknesses in ones policy is a sign of political vulnerability rather than a sign of strength. Another example of this is the delay in the publication of the Public Expenditure and Financial Accountability (PEFA) document. The PEFA is an investigatory device used by the World Bank and the European Commission to analyse strengths and weaknesses of the budget system. A Georgian PEFA was finished by the European Commission in August 2007 but has not been released yet at the request of the Ministry of Finance. There is no suggestion that the PEFA contains any shocking revelations since the strengths and weaknesses in the document and outlined in this paper are fairly widely understood and agreed upon. However, its release has still been delayed for over a year and a half.

### ***Recent changes and future prospects***

There had been considerable efforts to pass a new law governing the Chamber of Control since 2005. In December 2008 a new draft law on the Chamber of Control was adopted by the Parliament of Georgia, and has now been signed by the President. This does not create a Supreme Audit Authority in name though it seems to set the groundwork for developing the institution into an SAA over time. The new law contains three main areas of change.

The first change is that the institutions technically covered by the Chamber of Control has been expanded so that it now, once again, is also responsible for audit of local government. This change was brought in because it was decided that, while regional financial autonomy is a good idea in principle, the regions simply lack the capacity to review their own finances. It was also expanded so that legal entities under Public Law (like schools and universities) are now technically part of its responsibility.

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<sup>41</sup> This opinion was reported to me in a number of different interviews with individuals who have been involved in the reforms, although they preferred not to be named.

<sup>42</sup> Elaine Imanadze, Project Officer for the World Bank, 13<sup>th</sup> October 2008. Out of the 374 individuals who originally started the training 28 people finished the second part of the training. 22 people are expected to start the third and final part of the training. In total there are 54 people currently undertaking the ACCA training (Correspondence with Levan Bezhashvili, Chairman, Chamber of Control 3<sup>rd</sup> February 2009).

The second change was to try and enhance the independence of the institution. Formally, the previous law had protected the independence of the CoC by offering five year fixed terms to Chairmen (only to be curtailed by impeachment). However, the new law strengthens the autonomy of the position by allowing the chairman to select his own deputies (they were previously political appointees) and by guaranteeing that funding for the institution can never be reduced. Finally, to balance the potential political influence of the institution, the new law gives the parliamentary opposition the right to direct the CoC to direct one 'unplanned audit' per parliamentary session (twice a year).

The final change to the law is potentially most far-reaching but also the least clear in its impact at this time. Under the new law 'revisions' were reclassified as 'audits' and the law specifies that audits should include financial audits, the rational for budget choices, cost efficiency (did they get the most for the money) and effectiveness (did they provide the best services given resources allocated).

However, the law itself does not specify how these audits will be carried out. Georgian Young Lawyers Association (GYLA) undertook analysis on best practice in Supreme Audit Authorities internationally and were also asked to comment on the draft law (their comments were largely rejected).<sup>43</sup> GYLA has argued that,

They have changed the name of some of the operations undertaken, so that they now call the 'revisions', 'audits' and they call for a 'performance audit'. But the operation of the organisation is still the same. In the old system they were basically supervising the book-keeping. Under the new law they are doing the same and the lawyers at the CoC agree with us on that.<sup>44</sup>

The head of the CoC disagrees, explaining the limitations of the legislation as the necessary product of current institutional weakness and a desire for flexibility. He says,

There was little point in producing a law that said we are a Supreme Audit Authority and pretending that we were capable of operating according to international best practice when we were not. We wrote the law according to what we thought we could do at the time.

And with this caveat he argues that the change in the wording of the law is significant,

The change of the wording from 'revisionist' to 'auditor' is significant, as is the stipulation that we are aspiring to investigate both 'efficiency' and 'effectiveness' because it shows that we still aspire to become a Supreme Audit Authority, but writing the law will not make it happen.

At the same time, they argue that keeping the terms of the law fairly sparse is a strategy to allow for greater flexibility in a time of change. Marie Iarrera from the European

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<sup>43</sup> Georgian Young Lawyers Association. (12th December 2008) *Concept of the Supreme Audit of Georgia*. Tbilisi, Georgia.

<sup>44</sup> Interview with Tamar Chugoshvili, Program Assistant, Georgian Young Lawyers Association, 29<sup>th</sup> January 2009

Commission points out 'the law is intended to offer the general framework while the detailed methodology should be formalized inside the institution'.<sup>45</sup>

The World Bank 2008 report also agrees that the law is generally consistent with best practice.<sup>46</sup> However, it is important to be careful in what this implies. The law is very thin on detail and while there may be good reason for this, it also means that the law itself guarantees very little. While it does call for a financial audit, a compliance audit and an audit of efficiency and effectiveness (the so called 'performance audit') the detail is so thin that we can say that the law allows for, rather than requires these audits.<sup>47</sup>

As GYLA points out both the old law and the new law stipulated that they used the the charters of INTOSAI as the basis of good practice but this did not make any difference in the past so why should it now.<sup>48</sup>

As a result it is hard to assess the impact of the law at this point. Certainly there is a worry that the reform of the law will allow a superficial change that creates no change in practice. As GYLA continue to argue,

We simply don't have the institutions in place to facilitate performance audits, and its definition under the law seems to suggest that this will merely look at book-keeping. If the legislation does not stipulate what a performance audit is, beyond book-keeping, then this will not work.<sup>49</sup>

One concern is that the law has only been passed to appease international pressure. As already mentioned, the World Bank (and a range of other development banks that operate using their assessments) and the European Commission have budgetary management conditionalities on direct budget support. More directly, the government lost Euro 11.5 million (USD 15 million) of macrofinancial budgetary assistance and a portion of its Euro 5 million (USD 6.5 million) financial reform strategy grant specifically because they had not passed the new law on the CoC.<sup>50</sup> Passing the law will fulfill the conditionalities for the time being even if nothing else follows from it. As GYLA, again, argue,

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<sup>45</sup> Interview with Maria Iarrera, Attache, Trade and Economic Issues, Institutional Capacity, Delegation of the European Commission to Georgia, 3<sup>rd</sup> January 2009

<sup>46</sup> International Development Association and International Finance Corporation. (6 May 2008) *Country Partnership Progress Report for Georgia for the Period FY06-FY09*. p7

<sup>47</sup> Article 2, 2008 Law of Georgia on the Chamber of Control. Interpretation provided by Tamuna Karosanidze, Executive Director, Transparency International, Georgia, 3<sup>rd</sup> February 2009

<sup>48</sup> Correspondence with Tamar Chugoshvili, Program Assistant, Georgian Young Lawyers Association, 4<sup>th</sup> February 2009. This provision is Article 1, Paragraph 3 of both the old law and the new law.

<sup>49</sup> Interview with Tamar Chugoshvili, Program Assistant, Georgian Young Lawyers Association, 29<sup>th</sup> January 2009

<sup>50</sup> Interview with Maria Iarrera, Attache, Trade and Economic Issues, Institutional Capacity, Delegation of the European Commission to Georgia, 3<sup>rd</sup> January 2009

the only purpose of the new law adoption was to convince international society that Coc reform was undertaken in Georgia. Unfortunately, it is a well exercised practice in Georgian government. As I see the government succeeded in it once again.<sup>51</sup>

All of that said, even GYLA agree that the new law is better than the old one and the very fact that the law has finally been passed (after 3 years of delays) must be seen as a good thing, but whether this translates into real changes is currently hard to decide. On the surface the Chairperson of the CoC expresses an interest in expanding his institution's ability to conduct a wider range of audit functions. Amongst other things it seems like this will require a significant increase in the size of the institution, and the fact that this is not planned yet is a source of concern particularly given that the institution is less than half its historic size.

In addition, the most commonly expressed concern does not relate to either the law, procedures or human resources, but simply the political will to allow reform and allow the CoC to work properly. As Economics Expert and former Member of Parliament Vladimir Papava says,

It does not matter what law is written. The main problem is one of political will. If the president wants it then the existing law would allow for the Chamber of Control to work effectively. If the President does not want it then the CoC will not be able to make independent investigations, whatever the law says.<sup>52</sup>

Basically the problem is that in the current political climate which is so totally dominated by one party, the ruling party can stop the CoC from conducting investigations where it does not want them, or stop the release of their reports if it does not like its findings.<sup>53</sup> That said, the political environment is somewhat different to where it was a few years ago. As a result, while it the government might want to avoid independent investigation, it might also see the benefit of appearing to open itself up to scrutiny.

One case seems to be indicative of the current conflict of inclinations that exists in the government to the Chamber of Control. In 2007, the CoC investigated the Ministry of Education and found significant irregularities. While the investigation was initially not released by the State Prosecutor it was released to the Parliament at the request of the opposition and the Minister responsible was called to account. After a display in front of the parliament which insulted the CoC and enraged the opposition, the investigation was stopped and the responsible investigator inside the CoC was sacked. There are numerous other common stories in Georgia of apparent political interference in the CoC in the past in the past. Of course, historical interference does not mean that the CoC is not capable of

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<sup>51</sup> Correspondence with Tamar Chugoshvili, Program Assistant, Georgian Young Lawyers Association, 4<sup>th</sup> February 2009. This provision is Article 1, Paragraph 3 of both the old law and the new law.

<sup>52</sup> Interview with Professor Vladimir Papava, Senior Fellow, Georgian Foundation for Strategic and International Studies, 3<sup>rd</sup> February 2009

<sup>53</sup> The executive can apply pressure to stop investigations, the State Prosecutor (who is the first receipt of exceptional investigations) can choose not to publish it or the parliament (also run by the ruling party) can shut down investigations in parliament. According to a range of different interviewees this has happened several times.

change but the burden of evidence clearly rests with the government to show that it is willing to open itself up to independent scrutiny.