

The Main Weaknesses of the Management System in State Administration of Georgia

The Effectiveness of Government Administration

In 2001, an independent research group commissioned by the State Chancellery carried out studies of the effectiveness of government administration in five areas:

- The effectiveness of the management systems of the Ministries and other governmental organizations.
- The benefits of the activities of the Ministries and other governmental organizations.
- The rational division of functions of the governmental organizations for the determination of the well-marked fields of their activities.
- The experiences of the formation of governmental structures of other countries, which have some similarities with Georgia and are considered as candidates of EU and NATO membership.
- And the analysis of professional work in the area.

The studies revealed a number of weaknesses in the governmental management system. Elimination of these would improve the effective functioning of governmental organizations and at the same time significantly decrease the level of corruption.

The Productivity of the Central Management System of Executive Power

Analysis of the instructions sent by the State Chancellery to the Ministries, entities and governmental commissions reveals an unstable and deteriorating trend of execution. The percentage execution of instructions in 1999 was 78%; it was significantly improved in 2000 and comprised 70% and in 2002 - 66%. But the frequency of instructions was quite different. The average daily number of instructions to different governmental organizations issued by the State Chancellery in 1999 and 2000 was 12. In 2001 this number decreased to 10.5 and according to the data of 2002 collected in the study, it is significantly increased and amounts to 19.5.

According to the recent 6 months data, the number of delays in carrying out instructions increased, and the number of executed instructions decreased. It seems that the existing management system reached its limits. Paralysis of the system may begin, if immediate measures for the realization of structural reforms do not start. Though the State Chancellery has improved coordination of the governmental structures compared with the previous years (e. g. the percentage of instructions performed by the governmental commissions reached 85%), the existing system of management excludes any possibilities of achieving better results.

The large number of the State Chancellery instructions addressed to the Ministries creates an impression that the ministries can not function without the closest supervision from the State Chancellery. According to the received orders, the Ministry of Finance is in first place. In the first half of this year the average number of the daily instructions addressed to the Ministry was 2. The percentage of unexecuted orders is very high.

Effectiveness, Motivation and Chamber of Control Analysis

Economic factors have the strongest influence on the work of the government and among them the issues of financial management are the most important. The process of transformation of governmental structures should include fundamental improvement of financial management.

Analysis of the material of the Chamber of Control shows that the vast majority of inspected governmental institutions is in deep financial-economic crisis, and is strongly affected by the existing problems in the receipt and expenditure of budgetary funds.

The weak capacity of the state budget indicates the need for cardinal changes in the activities of governmental organizations. The inspections performed by the Chamber of Control show that almost all the governmental institutions' financial provision is strongly lagging behind the parameters approved by the Decree of 13 December 2000 on "Georgian state budget of 2001".

The existing situation severely affects the remuneration of public servants of Ministries and State Departments of Georgia. Studies of the results of budget fulfillment of 2001 reveal that the average amount of salaries is so low compared to with the consumers' basket, that the salary loses its motivational function. Indifference of civil servants toward fulfillment of their duties makes it impossible for institutions to function effectively.

The general economic condition of the country makes it difficult to overcome the budgetary crisis. But it should be noted that in parallel with budgetary financing, non-budgetary sources of financing are widely used (mostly through violation of law). The amount of these financial sources according to our studies in 2001 amounted to 58 538.9 thousand GEL, or 8.1 % of total tax revenues (720 313 thousand GEL), and factual amount was (630 492.8 thousand GEL) which made approximately 10 %.

The studies produced by the Chamber of Control revealed such typical categories of violation of the activities of governmental institutions as:

Non-fulfillment of rights and duties delegated by the law;
Exceeding of rights delegated by the law;
Non-purposeful utilization of budgetary funds;
Violation in the receipt and utilization of non-budgetary funds (special financial sources);
Imperfections of use and management of state property, etc.

Examples of fraudulent activities are:

- The delegation of rights and duties of governmental organizations and entrepreneurial functions to private juridical persons and use of budgetary funds for personal purposes;
- In the majority of state enterprises, illegal use and management of state budgetary funds and neglect of state interests.
- Autocratic administrative attitudes detrimental for market relations, which exhaust the financial potentials of entrepreneurs and encourage the accumulation of non-budgetary funds by sub-departmental structures and other entities.

The analysis of violations show that inflexible management systems, ineffective coordination and in some cases duplications of functions, and low remuneration rate of public servants should be considered as stimulating factors of corruptive practices.

To overcome the existing financial-economic violations of governmental institutions it is very important that functional budget formation is replaced by targeted and results based financing.

Analysis of Overlap in the Executive Government System and Scope of Competence of Public Institutions

The system has been operating without a unified public strategy for social, economic and political development. In such conditions the approach established in the executive government, according to which each of the government agency formulates and implements public policy in its field of competence, has contributed to the demise of the national economy. As a result, the current system appears to allow for overlapping by various government agencies. Namely:

- All executive government agencies (Ministries, Departments, subordinated sectoral institutions) in the economic fields have been granted the following right under their charters: identification of priority needs in foreign economic relations, liaison with international donor organizations and companies, attraction of overseas credits, formulation of a list of facilities for privatization and management of sectoral enterprises, etc.
- Some government agencies intervene in the competencies of others. Such controversial relationship exists between the following agencies:

- Ministry of Environment and State Departments of Forestry, Protected Areas, Reserves, Hunting, Geology and Land Management;
 - Ministry of Transportation and Telecommunications and State Department of Highways;
 - Ministry of Labor, Health, Social Security and State Departments of Veterans and the Youth;
 - State Inspection for Technical Surveillance, Department of the Ministry of Agriculture and Food for Technical Supervision and Labor Inspection of the Ministry of Labor, Health, Social Security;
- There are frequent cases when the government agencies delegate their functions to subordinated institutions or public legal entities (which also have right to delegate functions to other institutions), in contradiction with the existing legislation of the country.

Analysis of the charters formulated for various government agencies shows that there are numerous issues to be addressed. We would mention here several of them:

Sources of Funding for Government Agencies

According to Article 4, 1 of the Law of Georgia on the Structure and Competencies of the Executive Government Agencies, "government agency is one that is funded from the state budget and is carrying out executive governance as a task assigned to it under or on the basis of law". This definition is interpreted differently by government agencies and a concept of other non-budgetary sources of funding it has also been introduced in their charters.

The definition of property in the charters of various government agencies is another element. It appears to consist of fixed assets and working capital, financial resources, other assets transferred by the state for management that need to be captured in a separate balance sheet of the agency. The source of financial resources is not explained.

Assignment of Income Generating Functions

A number of government agencies have been assigned functions in their charters that are aimed at the generation of additional income. It also needs to be noted that under the charters a number of government agencies own treasury enterprises and other institutions of unclear legal and organizational form that are not stipulated in the existing legislation. This fact once again confirms that charters need to be updated.

According to the Law of Georgia on Structure and Competencies of the Executive Government, institutions subordinated to government agencies are deemed to be executive government agencies. "The President of Georgia and the government agencies exercise governance over the institutions subordinated to government agencies that are funded from the state budget and major function of which is not executive governance. Subordinated institutions may exercise executive governance under the law".

Despite this legal requirement, subordinated organizations have been assigned a number of functions that are contradictory to their charters including policy making, monitoring and regulatory functions.

Streamlining Organizational Structures

To streamline the organizational structure, it is essential to separate the competencies of the government agencies, making them consistent with the assigned tasks and functions. Functions should be separated both vertically and horizontally. Vertical separation implies identification of functions among various agencies so that decision making on conceptual issues is concentrated at the higher levels, while on the lower levels implementation methods are devised. Horizontal separation refers to dealing with common functions in the same way across organizations e.g. standard activities for regulation.

It is possible to use other criteria for separation, such as policy decisions or other considerations. For efficient operation of an organizational structure, it is essential that both vertical and horizontal

separation is based on the same criteria. If such separation criteria differ, the wholeness of the system is at risk of deterioration of coordination, and initiation of mismanagement.

To improve the situation we need to define unified principles for composition of organizational structure. It is essential to separate primary fields of competence, which implies **three functional clusters: law enforcement, economic and social.**

As a rule, difficulties arise when we try to identify cross-cutting functions. It should be noted that consolidation of all the necessary functions within a cluster should not be allowed. Otherwise, it means that building mini states within a sovereign state.

To avoid overlapping, we should define and separate **mechanical and functional forms of overlapping. Mechanical overlapping** is caused by the informal and/or temporary distribution of the same activities across different organizations. **Functional overlapping** occurs where duplication is formalized by same functions being built into the charters of different organizations, for instance planning, organization and coordination functions among various institutions, thus making the governance impossible.

For optimal separation of functions, it is essential to define the strategic tasks of each unit. With this purpose the study defined and graded priorities, formulated strategic tasks, designed adequate organizational and structural forms of decision-making purposes of portfolio ministries within the indicated functional clusters. The model was tested against international experience. These principles were used to review all the organizational structures, and thus a systemic approach was ensured.

After the vertical layer of the organizational structure was addressed, we had to review the situation with regards to the inferior level represented by subordinated institutions and regulatory structures. Regulatory bodies should be of one typical structure in legal terms and in the way their top management is appointed. "Public legal entities" that are not assigned to carry out regulation functions are a separate issue. It is justified to review all these structures and to keep a unified approach in the process of their formation and appointment of their top management.

The matter becomes more complex in the case of subordinated public institutions, though here again we can overcome this difficulty by using a unified approach. A ministry is responsible for public governance that may be separated into several tasks. Implementation of these tasks may be ensured either within a Ministry or beyond its structure by maintaining subordination and on the basis of economic justification and importance of the task. A very clear example of a subordinated public institution is the Customs Department subordinated to the Ministry of Finance. In this particular case both parameters (importance of the task and economic justification) have been used.

Equally important is to allow for a horizontal separation of functions. As with vertical separation, we should use a unified approach and the same principles for functional separation of ministries and subordinated institutions. It is justified to base the separation judgment on the functional cluster principle and to pay special attention to optimal equality of cross-cutting functions. Equality is achieved through using the economic justification principle.

Thus, the study was able to separate competencies both on vertical and horizontal levels of organizational and structural arrangements. We also managed to define and grade priorities for formulation of organizational structures, and identify strategic tasks.

The main principles for distribution of governance functions are concentration of conceptual works at the higher level of organizational structure, delegation of industrial and operational functions to the following levels of the structure by using the economic justification principle. As it was expected, we designed a model of compact governance system. It should be noted that it is possible to reduce the number of public institutions on both institutional and subordinated levels of governance system.

Study Results: Negative Effects in Governance that Need to be Addressed for Improvement of the System

Negative features in the current systems of public administration identified by the study were:

Inertia and Inflexibility

Despite the transformation process, public administration institutions by form and essence maintain features characteristic of the "soviet" structure: autocratic management, weak delegation of authority, poor communication with the general public, incomplete execution of functions, weak horizontal links between the public institutions, orientations less to do with solving current problems of public importance and more to do with the implementation of particular interests. Such institutions express mistrust towards innovations, thus having a damaging overall impact we need to establish modern structures, use non-traditional governance methods and take relevant decisions.

Disorganization

The dismantling of a totalitarian regime, the transition from a planned economy to a market economy, from autocratic governance to democratic rule, i.e. these are the current process components meaning that from one completely different system we are moving to a new one. At this stage of transformation, public administration is based on old system. Like any other post-soviet block country, Georgia demonstrates that the following three are interlinked aspects conditioning public administration disintegration:

1. Public institutions do not experience any more unwanted limitation and total control. Administration does not depend now on political power. At the same time, control system needed for democratic governance is not fully implemented. Thus, public institutions have found themselves in an actually uncontrolled environment;
2. As a result of privatization, former state owned enterprises are not any more being controlled by public institutions. Many civil servants employed in public administration institutions have been left without a function. Instead of total control and limitations set by the state, it was necessary now to formulate and facilitate policy for the development of relevant sectors. Because the process has not been properly prepared, certain public institutions have been much interested in self-management of the process without limitations, prohibitions and control.
3. Operation of public administration in an uncontrolled environment is facilitated by lack of unified public administration and on the other hand by overlapping and ambiguous functions. There are several levels of overlapping: among public institutions, subordinated bodies, and staff employed in them. One of the major reasons for these deficiencies is ignorance of modern principles in the process of organizational structure building.

Lack of a Comprehensive Development Programme

Development strategy and advanced programmes for its implementation have not yet been developed for public administration institutions. They should include optimal ways for problem resolution, and principles for building relevant structures. The fundamentals of management are ignored. Structures, as an implementation mechanism are not built and improved in line with the formulated strategy, but are based on subjective judgment. To develop comprehensive development programmes, emphasis should be given to the study of external factors and the projection of possible changes. Without these works, it is impossible to either establish long-term development strategy or to build necessary organizational structure. Taking into consideration experience of developed countries, it is essential to plan timely changes in accordance with the planned developments. The reality of today is as follows: executive government structures act "today" on developments observed "yesterday". It is now clear that with such an approach we maintain old self-content structures that are not problem oriented.

Inadequate Nature of Legislative Base Regulating Performance of Public Institutions This applies more to regulations and enforcement norms, their anomalies and inadequacy with the current process. Without a refined legislative base, it is impossible to imagine the normal operation of public institutions and civil servants.

Poor Motivation

Civil servants equally need material and moral incentives. Experience of other countries demonstrates a need for uniform incentive structure for civil servants. Major emphasis should be given to provision of serious social guarantees to civil servants. It is impossible to imagine proper operation of public administration, elimination of negative occurrences and desirable future development without improvement in this area.

Lack of Organizational Culture and Code of Conduct in Public Administration A civil servant represents the state, and the proper operation of public institutions to a certain extent create image of the statehood. The higher the public institution, the more it should require from its staff in terms of organizational culture, values and behavior. In every institution these requirements should be

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