

Project  
Economic Crime and Money Laundering

Topic:  
Efficiency of the Middle Term Costs

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Evaluation criteria of effective functioning of any budget system is the way the budget reflects social-economic policy of the government; and one of the main evaluation indicator of the government is the parameter of performance of the approved budget. Despite positive events at the last period concerning accomplishment of the budget income and its adequate financing, budget process of Georgia, cost effectiveness considered by the budget as well as directivity at the result needs further improvement let alone its transparency.

Lack of strategic priorities and mechanisms of accomplishing these priorities, as well as result evaluation is one of the reasons of improper utilization of public finances. Introducing upper verge in the budget sphere (the upper verge is determined by Ministry of Finances) and lack of strategic goals (Branch ministries are directed at adopting of only allowed assignments) is one of the reasons of improper utilization and corruption of the public finances.

The “Main Data and Directions for Years 2006-2009” document developed by Georgian government is the first effort to consider the budget program financing of further years. This document was prepared by branch ministries and part of the programs is of less priority, ineffective, is not directed at the final result and is hardly evaluative. All this creates real ground for corruption source and not purposeful utilization of public finances.

Already processed strategies must be considered in the budget process. At the same time, main instruments must be considered in the budget process that makes these strategies purposeful and effective.

Lack of strategy created fertile ground for country’s budget process formation and corruption deals during its accomplishment. Nearest past and nowadays of our country is the clear confirmation. Quite proper system strongly adapted corrupt nature law-breaking is taking place in the budget system. For example, in the costs of endless agriculture and food industry programs are reiterated from year to year; or by changing names or integrating with other programs get into the budget law again. Namely: in 2006 622.0 thousand GEL is allowed for development of animal breeding. Import and spread of economically profitable new sort of fish and promotion of small fish industry – 300 thousand GEL; Department of Vine and Wine “Samtrest” – 1 020.0 thousand GEL. Moreover, financing of such kind of programs is increasing from year to year. The budget of 2006 is more obscure and unclear in comparison with the budget of last year. Those programs that were in the budget of 2005 do not appear in the budget of 2006. There is no mention about how one or another program had ended and what evaluation had been made to the program itself. The point is that most of the 2005 programs were united in budget of 2006 within limits of one program; by this the budget became non-transparent. It is also unclear on what must be spent investment projects for grant accomplishment, which had been gained from the foreign sources, and on what must 15.7 million

GEL be spent that had been allowed from the costs of project co-financing and co-operating. The budget of 2006 shows that the sum will be spent on rural development projects but there is no list of given development projects. It is also unclear what are the 12 million expenditures of agriculture management when only 5.1 million GEL is allowed for agriculture and food industry staff in the budget of 2006.

Elaboration of country development strategy must be strong factor for avoiding corruption deals, not including unjustified programs of the budget sphere and effective utilization of the budget resources.

First stage of preparation of annual budget is clear definition of fiscal planned figure and such kind of strategic scheme where goals and priorities are detailed. Ability to transfer strategic priorities to the budget and then provide factual expenditures to be appropriate to budget assignment is mostly dependent upon improvement of middle-term macro economical, fiscal and revenue prognosis. Moreover, while preparing the budget following important and long-term factors must be considered:

Introduction of budget upper verge (the last word for its determination is on the Ministry of Finances), and on the other hand lack of strategy and evaluation indicators of that strategy from the central government part (Branch ministries determine expenditures directions of the budget resources within the allowed frames) worsens the issue about irrational and ineffective utilization of the budget resources and creates fertile ground for corruption in the budget sphere.

Against this background, the middle term expenditure planning brought in by the governance in the country's economic and budget sphere must be undoubtedly considered as a step forward. The "Main Data and Directions for years 2006-2009" document is prepared by the government. The mentioned document has been prepared by Ministry of Finance, National Bank, and Branch ministries who tried hardly to accomplish their departmental interests; as a result programs of less priority, ineffective, not result-oriented, and hardly controlled ones reflected in the document. Most of them are programs the budget expenses of which are reiterating from year to year endlessly. **Once again, this confirms the fact that planning of middle term expenditure and reflecting the program in the future budget is not united integrated procedure system that generates a need to create one interdepartmental structural unit with participation of interested committees of the parliament, which provided united integrated system makeup reflecting in middle-term expenditure document of the programs and in future budget; and system transparency at all its stages – from elaboration to execution.**

In the "Main Data and Directions for years 2006-2009" document, made by the government there is the list of programs only and no pointing at organizational expenses necessary for program accomplishment.

In the “Main Data and Directions for years 2006-2009” document method of extrapolation was utilized for forecasting aggregated macro economical indicator. This kind of method for economical forecasting means that the tendency formed in the past and current period of economic stability will develop in the same way and direction in future. It is clear that the mentioned method can only give desirable result when mechanisms of economic development are stable and steady. If these conditions are not fulfilled (in case of Georgia it is evident, and not only in Georgia) perspective research by means of exploitation method gives quite distorted and thus practically unutilized result. Accordingly, the fact is that unreal prognosis has quite real ground in the above-mentioned document, the main reason of which is prognosis method considered as inappropriate as an extrapolation type.

As it is mentioned above there must be the coincidence between terms considered by economic development and poverty reduction program and middle-term expenditure frame document – “Main Data and Directions for Years 2006-2009”. That means that they must be identical in time. But we encounter the following problem: most of the programs represented in “Main Data and Directions for years 2006-2009” document are meant for the years 2006-2009, whereas most of the programs according to the economic development and poverty reduction programs should be finished in 2005-2007.

Programs elaborated by branch ministries for accomplishing strategic goals are not directed at certain results. Accordingly, there is no evaluation of achieved results by means of specific indicators. Also it must be mentioned that 2005 budget instructions include specific form that demands information presentation about activities/programs of the consumptive department pointing out goals and indicators. But the budget of 2005 showed that the mentioned requirements was not met. Apparently, such kind of tendency will continue in the next year because the budget project does not consider concrete goal and utilization of specific indicators for evaluation of achieved results and result-oriented programs. As it is known, exactly those programs not directed at concrete goals and results are the source of not purposeful charges.

**Project selection and evaluation, clear emphasis of purpose-and-program planning must become priority of country’s middle term costs planning.** For the purpose of task realization, it is necessary to include additionally specific generalized indicators in the “Main Data and Directions for years 2006-2009” document. This indicator shows the share of State purposeful programs in basic parameters provision of several considerable macro economical figures.

1. Country’s whole internal product, including the State purposeful programs (quantitative and percentage figure);
2. The whole capacity, including the State purposeful programs (quantitative and percentage figure);
3. Annual growth of employed, including the State purposeful programs (quantitative and percentage figure);

4. Annual expenditure share of the consolidated State budget on the State purposeful programs.

Lack of evaluation indicators give expenditure units opportunity to manipulate results. Result manipulation gives a chance to repeat programs in the budget law endlessly.

**Indicators must cover organizational goals.** These goals have to be specific, not aggregative, and measurable in one or another form. In this context indicator must provide the link between goals, distributed resources, and results achieved by the organization. Indicators must show the following aspects more specifically:

- Result-oriented – feasibility and number of accomplished programs;
- Productivity – average production;
- Value – average value of the revealed and adopted resource unit;
- Time management – time is needed for accomplishing each task;
- Service demand – type, frequency and number of received results;
- Opportunity of goal achievement - relativity of scale and demand of the goal;
- Result – type of expected result; result timeliness and its influence on the reciprocal goals of the organization and country.

#### Proposals

- Ministry of Finances must answer for the preparation of middle-term expenditure frame document that is the most important component of macro economical scheme, despite how responsibility is distributed on the preparation of macro economical prognosis. It must have the ability to consider macro economical prognosis, evaluate various risks referring to macro economical and fiscal operation plan that will be the basis for comparison and reality check-up;
- In the country, the project is prepared by the respective branch ministries, which pay close attention to project workup and technical aspects instead of managing those processes by means of strategies. Its is necessary to have tight coordination in the sectors between project preparation, sector policy and budget formulation;
- Its is necessary to create operational mechanism of financing of axecutive activities for effective accomplishment of programs;
- Updatable program evaluation, as well as achieved level and definition of expenses for each next year must be paid considerable attention;
- Outlay part must be given in the middle-term expenditure frame document not only according to economic classifier as it is in the “Main Data and Directions for years 2006-2009” document, but also

according to functional classifier . This gives us opportunity to evaluate which strategic plan or sector the government prefers in the future long-term and middle-term period;

- Drawing up the current budget, it is necessary to keep conformity between middle-term expenditure document and programs considered by annual budget.
- Representing of middle-term expenditure frame document in the expenditure functional cuts will be conclusive moment for financial resource distribution between economic sectors. And it will make determination of real upper verge clearer for the annual budgets;
- In parallel with determination of expenditure functional cut of middle-term expenditure frame document there must occur detailed prognosis of future charges of current programs;
- Extrapolation method of existing prognosis must be changed into financial prognosis method because extrapolation method gives incomplete future picture by past trend revelation of fiscal steadiness and stability of State strategy;
- By this approach, possibility to accomplish corruptive and other types of criminal deals will considerably decrease.