



INNOVATIONS FOR SUCCESSFUL SOCIETIES

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SCHALKWYK: Today is the 6th of May, 2009. I'm at the Free University of Tblisi with Mr. Khakha Bendukidze. To start this interview, before we start talking about particular reforms that you've been involved in, I wonder if you could tell me about the positions that you've held in the Georgian government and what led you up to getting in to the government?

BENDUKIDZE: I was Minister of Economic Development in 2004. In 2005, I become State Minister for Reforms Coordination and was in this position until February 2008, and then I became the Head of State Chancellery and worked in this position until February of this year (2009). So actually I stayed within government for four years and nine months.

SCHALKWYK: All right and what were your responsibilities as the Minister of Economic Development as opposed to the State Minister for Reform Coordination?

BENDUKIDZE: Actually in general I was doing the same things. I mean, there were some differences. I was promoting reforms and economy in general means everything to my understanding and so in both—both these duties and then continued—this is State Chancellery—

[Interruption]

SCHALKWYK: This is part two of the interview with Mr. Bendukidze.

BENDUKIDZE: I was promoting reforms and there was not a big difference what I was doing during this four years, nine months. Even today when I am not a part of the government, I continue to promote reforms as an independent person and also advise my ex-colleagues in government.

SCHALKWYK: Could you tell me a bit about the goals of the reform program as you understood them and—?

BENDUKIDZE: It was to make Georgia a more successful country. Actually what was the main goal was to build a new Georgia, it was part of nation building process and to build an economic basis for that, which means the long term, sustainable, broad-based economic growth.

SCHALKWYK: What role did you imagine the public sector and the civil service in particular, to play in that development of a new Georgia?

BENDUKIDZE: Actually, I am not a big fan of government so I think that public service and the government in general should be focused on a very small number of issues and be based on transparency, responsibility, and public involvement. Do the best it can in the areas of defense, public order and depending upon the country's history and legacy, some other issues like dealing with poverty or funding primary or secondary education or something like that. But I think that it is really important, especially for developing counties, not to spread government over all types of activities. So remove government from minor issues, let society do these things and focus on major issues.

SCHALKWYK: So in that regard, what were the challenges in reforming the public sector and the civil service in Georgia when you joined the government in 2004?

BENDUKIDZE: Actually I am not sure that we have finished the civil service reform. Through 2004 we had over-stuffed, inefficient government offices. Full of people who have no understanding of why they are doing this or that thing and most importantly there were a lot of excess functions. Most of these functions were just abolished. In my understanding it was the consensus between different parts of the political league that they needed to be abolished. Some of us thought that they needed to be abolished because government does not need to be in that function. Some of us more mild reformists would say they thought that they now need to be abolished temporarily because at that time we had no capacity to run those functions but the consensus was that they needed to be abolished. We went through what we call different types of government activity and closed a lot of government agencies, consolidated them, removed functions, downsized, etcetera.

SCHALKWYK: And so which functions were abolished and how did you go about choosing which ones should remain and which ones should be abolished?

BENDUKIDZE: It is my understanding that regulation generally creates not good things but bad things, so, the more regulation you can remove, the better. But that was always questioned for consensus between other people and I, like-minded people and some others. So we were abolishing where we have consensus. Because there was a typical European or American style network of agencies that included a lot of agencies, which from my deep belief in standards were not creating any public good, they are not adding any value. That includes different sorts of, I don't know, small business administrations, business support initiatives, anti-trust or terror commissions, highest control mechanisms, support agencies in innovation, support agencies in technology, economy, support agencies in different industries, agencies regulating different industries, agriculture, engineering, , licensing agencies, permit-issuing agencies, there were a lot of them.

Actually I think we abolished or consolidated more than thirty different agencies. And different support agencies of energy saving initiatives, supervising different processes, not helpful, but some understand that they need to be supervised. I think that we abolished most parts of those institutions. Not all of them, unfortunately, but most parts of those institutions. Of course if you talk about this with some US (American) or European liberals they'll have a stroke maybe and they can argue that all these agencies are creating lots of public goods. Employment agencies, trade inspections, labor inspections, etcetera. Huge list can be made. But I think that that they all are constraints, and they all are retarding the country development.

Of course that means that international pressure is really high. Maybe five or ten years from now some of them will be restored. So that's an unfortunate result of being internationalized. We gain this period of time of not having those institutions after that it will take time for those institutions to build their capacity once more and to implement and to introduce more and more regulations.

SCHALKWYK: So the agencies that remained—.

BENDUKIDZE: Sorry?

SCHALKWYK: The agencies that remained, why were those ones particularly chosen to remain?

BENDUKIDZE: Because in some cases we are part of international agreements which prescribe us to have this or that type of agency. In some cases the consolidation

consensus within political elite was non-existent; it was impossible to demolish that agency. So it was part of some political tradeoff. In some cases, agencies remained but the functions were diminished quite significantly.

SCHALKWYK: So can you give me an example of some of these agencies that remained that you ideally would have abolished?

BENDUKIDZE: For example, the Transport Administration remained. Of course there was another Transport Administration before. Before we had three independent agencies regulating transportation: car transportation, marine transportation and aviation. So we merged all of them together. The head count went down three times and we removed all economic regulation. They were doing it before and now they are just supervising on safety issues. So safety issues are where the well-organized, few agencies can create some type of public good, more or less, and not create a lot of harm for society. Economic regulation is much more terrible.

This was also done because we are part of the International Maritime Organization, this International Convention on Aviation and other things so we need to have some state agency dealing with this. So that's an example of that type of agency. We merged bank supervision, insurance supervision and the Security Exchange Commission to create FSA (Financial Services Authority) and that's due to historic tradition, world wide, that securities and exchanges are regulated because I think there is not, despite what G-20 Heads of State can set, there is not a big consensus that regulation occurs. Also, most of this regulation, I think that this is one of the biggest mistakes global community is doing right now, stepping in deep regulation of previously unregulated things, instead of removing the real sources that built up this financial crisis.

SCHALKWYK: So you say that in much of the reforms you were able to reduce the number of staff quite drastically. Could you tell me how you went about choosing which staff to be reduced?

BENDUKIDZE: Well I can tell you my personal experience. When I became the Minister of Economic Development, the whole head count of the Ministry and agencies, which were subordinate to the Ministry was close to 2,000. When I moved to the position of State Minister, the reforms coordination, within cabinet, the head count was 600 something. It was done on assessment. I think that was a very important issue for public service reform because if you have, let's say, three agencies and two of them are not needed and one is needed and you fire all people from two unneeded agencies, you could be firing better people than you have in this one remaining agency.

So, of course you need to be really careful about it and when you are really making it open, transparent exams, testing or whatever assessment, there are very few concerned people why they are not in there because in reality they understand that their answers were really vague and they have no capacity. Of course if they see that someone much weaker remains, they will be really unhappy. When they saw the result that the most skilled and talented personnel stayed and they are out, of course they are also not really happy but their unhappiness is not aggressive. Lastly, I did the same in the State Chancellor office, it was a half a year ago and we reduced the head count 30% which was also dramatic. We had the Minister of Economic Development help other ministries in 2005-2006, and it was also quite dramatic with a 30% head count reduction. It was as I said merit based, that's really important and naturally

nobody complained openly because there was no ground for this complaint. What could you say? I want to have a job but there is a guy who is doing it better. Why does he stay? No. It's impossible and that calmed down the situation.

SCHALKWYK: So when you made these cuts, did you have a goal to get the Ministry of Economic Development to 600 people?

BENDUKIDZE: No. It was not about head count. You cannot have that type of precise prediction. It took time. Of course, at the end of the day, you need to define how much people you need doing this or that agency based on functions.

SCHALKWYK: All right.

BENDUKIDZE: Because there can be compromises. I think at that moment you could do more radical reductions and maybe have not 600 but 400 persons. But of course there is some compromise. There were some agencies like the Tourism Development Agency, which I wanted to abolish completely but the Prime Minister was optimistic about the future of this agency and also the head of this agency was quite a skilled guy and a good worker. He was very talkative about future developments, etcetera so it was a compromise because I could have spent one week more dealing with this particular issue but I would get, I'll say, zero Tourism Development Agency. But by the end we reduced it from 60 something to nine persons so it was nearly done. Of course it was a compromise not to close it completely. It was what I call a good compromise.

Or, the Investment Promotion Agency. I think that of course it's not needed to have Investment Promotion Agency but we have several agencies and instead of shutting all of them it was also a political compromise that we merge all of them together and reduce very significantly the headcount and reduce the functions. I think that is what is happening everywhere maybe except some very powerful dictatorships where people can deal with these issues and not pay attention to other peoples thoughts. Colonel Gaddafi is writing a book, he wrote that you need to make changes during the six months after the revolution. Colonel Gaddafi who is not a big democrat and has problems dealing with people. Meaning if you have democracy, you need to make changes freshly as soon as you built public confidence in the government or among these issues. You cannot delay it.

SCHALKWYK: What was the public opinion about the reforms you were doing, especially the layoffs?

BENDUKIDZE: No, I think the layoffs did not have a big negative outcome, because our message was very clear that one excess bureaucrat in public service means five less jobs in the private sector. These people were not creating any good. It's really easy to explain. One of them who was dismissed came to me and said, okay, why did you fire me? What bad thing was I doing? I was just coming to my office and doing nothing. So I was not doing anything bad. Why did you dismiss me? I made it clearly understandable. Of course, these people by themselves, either they cannot claim that they were dismissed wrongly, etcetera, or they during the last few months and years, they have been building quite significant opposition to the existing government and I think that what we have today is like carnival but what we have is one month in government, we have big meeting against government and that plays into resentment, etc. Some of these people, of course, are people who were fired from the public sector. This is the nature of

building a country. The public politician needs to have credibility from the public and then he needs to use this credibility for doing something.

SCHALKWYK: Do you know what most of the people who were laid off are doing at the moment?

BENDUKIDZE: Some of them were not laid-off by me, but what you are looking for is what happens to the government. Some of them they were, unfortunately for us, they were quite wealthy in Georgian standards because they were corrupted, for example maybe they were rogue police or something like that. They may have small businesses, or maybe not very small, and there were some people who were in their late ages and they're on their pensions now. Their kids are now mid-ages. I think that very few of them are unemployed because they were extremely quite well connected and most of them, if not all of them, they have good chance to make a new story with their life.

SCHALKWYK: In terms of making structural adjustments within ministries and in government as a whole, who was responsible for making the decision to say, abolish agencies or merge agencies? Was it the Ministers?

BENDUKIDZE: Ministers and the Cabinet. We had a special commission, which I headed within the Cabinet which was involved in streamlining ministries. At the end of 2004, we introduced the ministry's function, mission and revision procedure. Later it became part of the medium-term budget planning. Each Minister needed to have their own mission statement and their main goals and main operations, how they will be run. The idea was that also that sub-level agencies also need to be saving. It was quite interesting innovation at that moment because most of the Ministers found that they have no written mission statement, which is not a big deal because you can have this mission statement implicitly in your action plans, but most of them began thinking about it. Some of the Ministers and I said it was a very good exercise because we now understand more what we need to do, this or that thing.

So it was a very good experience and it only took one year to build this program, to rebuild this process and then it was included in our budgeting. We were doing three-year forecasts for budget spending, medium-term expenditure framework, as it is called by many countries, and it's part of that process. It is part of what's called basic data documents.

SCHALKWYK: Then those would be presented to the Cabinet?

BENDUKIDZE: They were presented to the Cabinet and then it goes to Parliament because it's part of the budget, so—

SCHALKWYK: All right.

BENDUKIDZE: So, budget consists of two parts. One is the, let's say, description of the goals and actions and the other is just tables and figures. How much you are spending.

SCHALKWYK: So what was the role of the State Minister for Reform Coordination and how did that fit in to the responsibilities that ministers had for their own ministries?

BENDUKIDZE: It was—it was, let's say in some way, supervising ministry. Because what difference in Georgia between the line minister and the State Minister is they both are members of the Cabinet but line minister is responsible for rallying the

ministry, the agencies, etc. and the State Minister is an ad hoc position created for some purposes for which you have no ministry. I have 20 plus strong offices and was dealing with all of the ministries or most of ministries. If you look to corporate world, it is like chief strategic office or something like that. Close explanation let's say. So the formal and informal aim for this position was to coordinate the reforms in different ministries and to make more, let's say, coherent reforms touching different ministries and to be a stick for other Minister's reforms.

SCHALKWYK: Could you say that again?

BENDUKIDZE: *To be a stick.*

SCHALKWYK: Okay.

BENDUKIDZE: *Used by President and Cabinet in general to move people and also it was, I think it was very good solution because in one hand, you have no bureaucracy under yourself, and from that point of view, of course you have nothing for, what is called, bureaucratic exchange – you should do that, I'm not doing that and so let's trade off on that – But, on other hand, you are free of this agency so you have nothing to trade off but you have nothing to pay for. Your expenses cannot go down because they are already small and the Minister of Finance has no power over you because they cannot steal your budget. Nobody can do anything with you. You need to be very, very straightforward and have this straightforward voice at Cabinet meetings. You can play this stick role effectively.*

SCHALKWYK: *So did you develop plans for ministries? Or did ministries come to you with—?*

BENDUKIDZE: *Oh no, ministries were developing the plans. It was done like this: mission statement, vision, goals, and execution. They would come on this commission of Ministers at the level of First Deputy. They presented and we were working all together with that. Then it was presented to Cabinet. So it was initially, then when we built this medium-term expenditure framework, it was included within this medium-term expenditure framework process and it is reviewed around the Cabinet meetings. It was of course reviewed when I was there and was part of budget planning.*

SCHALKWYK: Okay.

BENDUKIDZE: *Budget planning included not only cabinet meeting per se but also a lot of pre-meetings on different levels including pre-meetings with the Prime Minister to discuss a particular budget of some line ministry.*

SCHALKWYK: Okay and at this point, how do you think the sequencing or planning of reform, the steps that needed to be taken—

BENDUKIDZE: *I think actually this is the wrong question. Not because I don't like that question but because it is easy to say that it's the wrong question because you are not doing reforms based on some plan which you prepared over two years. That's possible in some cases but when you have a rapidly changing country and a rapidly changing environment, you do the reforms that can be done now. Because there is no perfect plan of reform, (no plan) with the consequences and that reform one needs to be done before this. Maybe in China where you have a central committee and a politburo, whatever, you can do reforms on that way but I think even in China you cannot do it.*

Today it is possible to do this reform because the political configuration, the balance of powers in Parliament, is such that this reform can be done. Tomorrow, this reform might be impossible to do and maybe in three years from now it can be done once more. So when you have that situation, I think that talk about some prescription for reforms and the consequence and prerequisites of this reform, as a prerequisite for that reform, etcetera. Ten years from now maybe we can talk about it because everyone will forget what was in reality but today I think it's too fresh to lie.

SCHALKWYK: All right. Perhaps this is a similarly difficult question, but what would you have done differently thinking back to when you started in 2004?

BENDUKIDZE: *No, I think I would make fewer compromises. I would be more stubborn first of all. The second, I think that in 2005 we made the mistake of not discussing more openly and more aggressively with the public what we were doing. So it was a political mistake based on the attitude of the Prime Minister who was appointed at that time and maybe all the Cabinet. We need to do our business, we need to promote reforms and the President will be creating political coverage of those reforms in general but not the particular reforms. So I think that that was a mistake and we paid quite a big price for that mistake. Because of course, most of the reforms or all of the reforms, they can be explained and you are doing these reforms for the public and for the future of Georgia. All of the reforms would have more supporters than people against.*

If you find good words to explain, if you have good public relations, because if you say okay, we need to do something tomorrow after which you will be in bad shape, you'll have problems of course and nobody will say okay and realize that they are reforms. You can explain why we are making these reforms. You can show them countries that have made these reforms and succeed and you can explain in very plain words what was the outcome of this or that reform. Of course the problem is that you can have outcries, very loud opposition, for a group of interest, but you can neutralize that group of opposition by explaining to the general public as to why this is possible, why it needs to be done.

SCHALKWYK: Once you reduced the size of the civil service and the bureaucracy, were there any reforms to increase the performance of the civil servants or to—?

BENDUKIDZE: *Yes, it was, not directly because I think that doing some things which are in general good, like making really precise job descriptions, but I mean, we are doing various things very quickly, it's impossible. The main thing was that we raised pay. Actually, the pay was increased in comparative terms, 15 times. We completely deregulated the pay system within the public sector so what we have is two fixed pays. The lower pay which is close to, let's say, living standard and the upper pay which is the Minister's salary and Minister is allowed to pay any salaries within (that range). He can pay different salaries to different positions if he wants. So from that point of view, the factual situation today is that our civil service is really a merit-based system and we are now on the verge of institutionalizing the civil service reform. We are building a new civil service court and granting this not based on common decree of the President, order based on new law of civil service, which will institutionalize the merit-based civil service in Georgia without ranks and all these things.*

Which, in my understanding, are maybe good but they are good in another type of country with long experience of well-working civil service, layers and how you

are moved and after you pass your graduation you go to civil service and then you pass over forty years later from civil service. Which is not a model that can be used in Georgia now. Maybe twenty years from now or thirty years from now, this can be used. This model is maybe inefficient but this can be used because the institutions would not be so profound as thirty years from now. I greatly believe that this model is bad. This dead model is used in many countries but this model is dead.

It is copied from military, yes? We had military service and then you copy the civil service to be the military service without sword and gun. But what happens after the '70's worldwide? What happens is military service was changed from that type of army to a contractual army. If you can contract soldier and officer, why can't you contract civil servant? Why do you need to have a contractual army, which actually means it is merit based and why you don't need an army like the early 20th century army-like structured civil service? I think it is very simple for me and for people to understand it. You cannot have successful civil service based on these very artificial Pythagorean rules. Civil servants need to be promoted based on this and that and there are layers and a ratio of salaries between different layers. Some fixed ratio.

SCHALKWYK: So why do you think some people want to implement such a system?

BENDUKIDZE: Let's take most of continental Europe. Because it's working more or less and you have no competition. You have no two different systems in the same country and one system out-performing the other one, right? Why do they want it? That's why they want it. Because there is not a huge downside from the system. German Public Service? That should be a signal to change this public service, yes? You need to have really strong signal but you cannot have really strong signal today, in Germany or France. You can have a very weak signal, but weak signals are not enough to change the system fundamentally and quickly. Of course it's clear that fifty years from now the system will be changed. You will have no soldiers and officers in public service. Lots of functions will be out-sourced. Executive pay will be merit based and result-orientated, etc. But it's inertia.

Why don't we have democracy in many countries? Is democracy better? Of course it's better. But why don't we have democracy? Because there is this legacy of old ideas.

SCHALKWYK: So could you tell me a little bit about the relationship between the work that the Reform Coordination Ministry did with the Public Service Bureau while you were working there?

BENDUKIDZE: The Public Service Bureau was designed on these old ideas. Actually today we have this parallel situation. We have this old designed law and we have a new reality and we are trying to make this new reality work within the framework of this old law, which is career-based public service. The design of Public Service Bureau was that there was a Public Service Council which is headed by the President and actively promotes changes. The President doesn't believe in that model of public service reform but it was not the most important issue of Georgia's reality so it was on the backburner. I mean nobody was paying a lot of attention to changing this public service law immediately and maybe we'll have some chance, some options to do this in nearly half a year or something like that. So that's why Public Service Bureau was not very successful in implementing that law because they had the same understanding. They were not very harmful because they were good guys who understood the reality.

SCHALKWYK: So apparently the ministries retain control over their own staff?

BENDUKIDZE: Sorry?

SCHALKWYK: Ministries retain control over their own staff?

BENDUKIDZE: Yes.

SCHALKWYK: Okay.

BENDUKIDZE: The idea of building something like the Indian model, where you have this agency – I forget the name of this agency. If we change this structure of the government through constitutional reform, which we are trying to discuss with opposition now, we'll have the Westminster Model. The political reality in Georgia is, from the understanding of the political classes, we have responsible ministries and Ministers and they are in charge of this or that.

SCHALKWYK: Okay so before we finish, do you have anything else you'd like to say? Anything else you would like to add about the reforms in Georgia?

BENDUKIDZE: No, I think I can speak about it many hours so I am not sure that you have that time.