



INNOVATIONS FOR SUCCESSFUL SOCIETIES

DELIVERING ON THE HOPE OF THE ROSE REVOLUTION: PUBLIC SECTOR REFORM IN GEORGIA, 2004 - 2009

SYNOPSIS

Following the peaceful Rose Revolution in November 2003, Georgia President Mikheil Saakashvili and State Minister for Reform Coordination Kakha Bendukidze sought to overhaul the country's Soviet-style bureaucracy, which had become the target of public anger. Borrowing ideas from libertarian, free-market think tanks and the New Public Management model, Bendukidze recruited a staff, eliminated redundant functions in the executive arm of government, consolidated ministries and slashed the size of the civil service. Bendukidze's vision of limited government complemented Saakashvili's goal of eliminating corruption by reducing opportunities for bribe taking. Although Bendukidze was instrumental in developing many of the reform policies, his office left the implementation of reforms to individual ministries. This case chronicles the steps that the Georgian government took to reorganize and consolidate its operations, capitalizing on public support in order to make rapid and bold changes.

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INTRODUCTION

Just months after the Rose Revolution swept Mikheil Saakashvili's movement to power at the end of 2003, a team of new officials attempted to remake the Georgian government, reduce corruption and improve transparency and efficiency. Irakli Porchkhidze, 23 years old at the time and fresh from graduate school and a job with the Open Society Institute's rule of law initiative, worked with Konstantine Vardzelashvili, the new deputy minister of justice, to reorganize passport, ID card and personal registration services into a new Civil Registry

Agency. The two aimed to eliminate redundant functions and end a culture of corruption.

In working toward that goal, Porchkhidze often had to sit down with civil servants more than twice his age and quiz them about their daily tasks. Vardzelashvili recalled, "You had to see it to believe it: These older civil servants looking across the table and asking, 'Who is this young guy?' But most could not justify their employment, and they were fired."

Youthfulness largely defined the Ministry of Justice staff and much of the new government at the time. The charismatic 36-year-old Saakashvili

filled his Cabinet with recent college graduates who had supported peaceful demonstrations against former President Eduard Shevardnadze's regime. Saakashvili and his co-revolutionaries campaigned on an anti-corruption platform, and after winning the presidential and parliamentary elections with 96% and 67% of the vote, respectively, the new president and his United National Movement party believed they had a mandate to dismantle the government and start anew.

In restructuring the government, Saakashvili looked for a clear departure from the practices of the previous regime. Vardzelashvili, who had worked before the Rose Revolution at an influential Georgian non-governmental organization called the Liberty Institute, recalled, "We knew what we didn't want to have and we understood well the reasons that made the previous system fail. Our strategy was not to reform the public service but to build from scratch. Limited bureaucracy and simplified procedures were at the core of our approach." In the early months of 2004, under the direction of Saakashvili and Zurab Zhvania, an opposition leader and past speaker of Georgia's Parliament who became prime minister, ministries began to cut back the size of government and reduce the corruption that had characterized everyday interactions between government officials and ordinary citizens under Shevardnadze.

Within a month of his inauguration at the end of January 2004, Saakashvili pushed a series of laws through Georgia's Parliament that amended the powers of the executive branch. Although he stressed that the changes would strengthen Parliament's role and establish a new system for the separation of powers between the branches of government, in reality the legislation boosted the power of the president and the prime minister and reduced parliamentary influence. Saakashvili called for Parliament to vote on the laws only two

days after he introduced them, ignoring a constitutional requirement for at least one month of public discussion on proposed amendments before a parliamentary vote. In the face of Saakashvili's post-revolution popularity and with only one month before parliamentary elections in March, legislators passed the president's proposals with little opposition.

Because the legislation expanded the conditions under which the president could dissolve Parliament and call new elections, Saakashvili gained powerful leverage for his efforts to revamp the structure and functions of government. Domestic and international observers criticized the changes for creating "an opportunity for authoritarianism if the holder of the presidency ever chooses to use his full powers."¹ The president responded that Georgia's extraordinary circumstances in 2004 constituted a political and economic crisis that required extraordinary measures.

Saakashvili and Zhvania identified the corrupt public sector as an impediment to the growth of private industry and sought the advice of international donors on how to reform the civil service. Included in the February legislation was an amendment of the Law on Public Service that created a 12-member Public Service Council, chaired by Saakashvili, that could dictate policy related to changes in the civil service. The president selected Kartlos Kipiani to serve as council secretary and as chairman of the council's implementing arm, the Public Service Bureau. The Public Service Bureau predated the revolution but never had the political backing to institute significant changes in the civil service. Kipiani had worked in several capacities for the bureau before the revolution, and he returned from studying abroad to take the positions.

At the same time, the president and prime minister searched for someone to lead economic reforms. In May 2004, during a period of

relatively warm relations, Georgia and Russia co-sponsored an economic forum in Tbilisi. Among the Russian businessmen present was Kakha Bendukidze, a wealthy oligarch of Georgian descent who had moved from Tbilisi to Moscow in 1977 to complete his studies. He had lived in Russia for more than 25 years, taking advantage of the transformation in the country's private sector and eventually rising to become the chairman of Russia's largest maker of heavy machinery.

In Russia, Bendukidze was known for his outspoken views. He favored economic liberalization at a time when Vladimir Putin's United Russia party sought to increase state influence over the private sector. His economic principles aligned with the reform vision of the new Georgian government and prominent think tanks like the Liberty Institute, which had supported the Rose Revolution. At a break in the economic forum, the prime minister, Zhvania, asked Bendukidze to meet with him privately. After a few hours of discussion, Zhvania called Saakashvili, and the president asked Bendukidze to join the Cabinet as minister of economic development. Bendukidze accepted the challenge as an opportunity to implement policy on a large scale in accordance with the free market principles he had long advocated during his years in Russia.

During the next several years, Bendukidze reshaped Georgia's public sector, overseeing the reorganization and consolidation of ministries and departments. He worked on the assumption that stimulating the economy required streamlining the civil service and reducing corruption in government as well as instituting open-market policies to attract foreign investment. By 2005, with Saakashvili's explicit backing, Bendukidze had become the most influential voice in the transformation of Georgia's public sector. Working in close consultation with the Cabinet, the prime minister's office and the president, Bendukidze oversaw a decentralized effort that

encouraged ministers to generate their own reforms within a coordinated vision of policy objectives and principles.

Although he held considerable influence over Cabinet meetings by virtue of his forceful personality and extensive business acumen, Bendukidze was not directly involved in implementing all of the government's reform agenda. During the first four years following the Rose Revolution, many ministers developed their own strategies for addressing problems like accountability within their ministries and for achieving the common vision. Indeed, some ministries and agencies showed early progress in designing and implementing reforms, and became models of success that other ministries could follow.

This case study chronicles the steps that young, motivated and largely inexperienced Cabinet ministers and deputy ministers took to reduce corruption, eliminate redundant functions in a bloated bureaucracy, generate revenue to fund salary increases, and improve the morale and quality of civil servants—all with the goal of bolstering the public's confidence in the government and getting Georgia's economy back on its feet.

THE CHALLENGE

The problems that Georgia's new government faced in early 2004 were deeply intertwined and reflected the failed policies of the Shevardnadze government. Ministries and departments were disorganized and had overlapping, unclear responsibilities and little accountability. During the decade that followed Georgia's independence from the Soviet Union in 1991 and the subsequent transition to a market economy, the country endured an economic crisis. Gross domestic product per capita declined from US\$1,611 in 1990 to \$517 in 1994, according to the World Bank, and remained stagnant for the

rest of the decade.² As private sector employment fell, the government became the employer of last resort. Monitoring and oversight collapsed, and low wages and late salary payments fueled a culture of favors and bribes.

Concerned about the high rate of unemployment, the Shevardnadze government had refused to reduce the size of the civil service despite a weak revenue base. With poor monitoring and no coherent policy, the central government was unable to determine how many civil servants it employed, much less hold its public institutions accountable. Offices that employed more than a dozen staff often had only one or two workers present on any given day. In 1998, Georgia's government employed 133 of every 1,000 citizens, according to the International Labour Organization, a United Nations agency. By comparison, for that same year Ireland, a similar-size country, employed 78 public servants for every 1,000 citizens.

The government's weak revenue base created pressure to keep salaries low and drove civil servants to supplement their incomes with bribes and other forms of corruption. By 2002 the average salary for a civil servant was less than half the cost of providing for a family of four. Some staff members earned as little as 30 Georgian lari (about US\$15 at the time) per month. "Corruption was the alternate budgetary system for the country," said Giorgi Vashadze, who succeeded Porckhidze as head of the Civil Registry Agency.

A 2002 survey of businesses by the International Finance Corporation of the World Bank found that 70% of firms expected to pay a bribe at some time during the year. Transparency International rated Georgia 124th out of 133 countries in its 2003 Corruption Perceptions Index. Although the government's dense network of regulatory and licensing agencies—for automobile emissions, food safety, construction permits, and many other purposes—served little

regulatory function, officials exacted payments from citizens in return for certifications and pocketed the money.

In 2003 Georgia had 21 different types of taxes with varying rates, but the government succeeded in collecting only 35% of the levies, according to the Ministry of Finance.³ Mismanagement, poor record keeping, bribes, complex regulations and lack of enforcement all undermined revenue collection. Because tax inspectors were as poorly paid as other civil servants, many diverted the money they collected into their own pockets, further shrinking the government's income stream.

Georgia's government was caught in a downward spiral. The absence of transparency, pervasive corruption and poor salaries all contributed to low morale and weak motivation in the civil service, and bred a culture of impunity. In 2003—just before the Rose Revolution that swept Saakashvili to power—Transparency International's Global Corruption Barometer found that 55% of the surveyed population expected corruption to increase during the next three years; only 10.5% expected a decline.⁴

FRAMING A RESPONSE

In the spring of 2004, Georgia's leaders invoked what they considered their electoral mandate to slash the size of the government and overhaul the bureaucracy. Saakashvili and his prime minister, Zhvania, pushed for a wholesale restructuring of Georgia's 18 ministries and 18 independent departments. Saakashvili had the political power to achieve his aims. Thanks to the legislation that Parliament had passed with little debate during the early days of his presidency, he had the authority to reorganize the government and to dismiss Parliament if legislators failed to approve a budget after three months. Furthermore, under such circumstances, the president could approve the budget by his own decree.

The same legislation expanded the power of the prime minister to include the responsibility to appoint all Cabinet members except those for the ministries of defense, interior and security, who were appointed by the president. Although the post of prime minister ostensibly could provide a counterbalance to presidential power, in practice Saakashvili controlled the prime minister's office.

Among the new measures was the Law on Structure, Responsibilities and the Role and Operation of the Georgian Government, which provided the legislative framework for the new government and reorganized the civil service's ineffectual management body, the Public Service Bureau. Accompanying amendments to the Law on Public Service set up a 12-person policy-making committee called the Public Service Council, headed by the president and including representatives from the executive, legislative and judicial branches, along with three representatives from local governments. The creation of the council left the Public Service Bureau with little say in policy decisions.

On advice from the World Bank, Saakashvili appointed Kartlos Kipiani to head the Public Service Bureau. Kipiani had extensive experience working for the bureau before the revolution, and he hoped to use his position to remake the civil service to fit the priorities of the new government. But his ambitions were frustrated by a lack of policy direction from the newly created Public Service Council. Indeed, the council, of which Kipiani was a member, rarely convened because the president had a full agenda dominated by pressing international matters.

Failing to receive significant direction on strategy, Kipiani moved ahead with what he considered his top priority: a comprehensive rewrite of Georgia's civil service code as the first step in a broad and systematic reform effort. Kipiani approached the United Nations Development Programme to seek funding and support. He wanted the code to provide a clear

structure and identify which regulations were common to the whole civil service and which areas would need specific considerations for staff in places like the prosecutor's office or the police. Throughout the drafting process, he brought in people from the prosecutor's office, parliamentary committees on legal issues and procedural issues, and other offices that would be affected by the new code.

But Kipiani's efforts to develop a new code were undermined by a growing battle among political factions over a core concept of the civil service: how to structure employment. The debate centered on two of many possible models. One side favored a career-based civil service similar to other European countries, while the other wanted greater ministerial control based on contractual employment of civil servants. Caught in the middle, Kipiani recalled, "I was saying, 'I am the head of the Public Service Bureau; I am not a politician. So you decide what kind of system you want and then of course I will develop...the concrete details.' As a matter of fact, they couldn't reconcile with each other."

The career-based model, favored by Khatuna Gogorishvili, chairman of the parliamentary committee on rules and procedures, advocated a clear separation of political appointees and professional civil servants to ensure that senior civil servants would maintain institutional memory within ministries regardless of political changes at the Cabinet level. Under this model, Kipiani's Public Service Bureau would help to standardize human resources policies across the government.

Pushing for the other alternative was Bendukidze, who as head of economic development had already begun internal reforms at his ministry. Bendukidze wanted to reduce the size of government by privatizing many functions and employing the remaining workers under contracts. Wary of re-creating the overstuffed and underperforming bureaucracy of the past,

Bendukidze and other supporters of the contractual model argued that the increased job security of a career-based civil service would lead Georgia back down the path of corruption and nepotism. Bendukidze insisted that individual ministries should maintain control over their own affairs.

Bendukidze's ideas reflected his business experience. When he returned to Georgia in June 2004, he was 48 years old and had a personal fortune estimated at as much as US\$70 million. At the time of the Rose Revolution he had been the head of the largest heavy machinery manufacturer in Russia. Although he had been careful not to criticize Vladimir Putin's regime openly on matters related to democratization and politics, Bendukidze had been a staunch advocate of economic liberalization and an influential lobbyist on economic policy, helping to pass Russia's flat income tax in 2001. He put his views to work when he joined Georgia's new government.

During his first few months as head of the Ministry of Economic Development, Bendukidze eliminated the antimonopoly division and the inspectorate that controlled prices. Saakashvili, Zhvania, Bendukidze and others in the Cabinet moved quickly, capitalizing on the momentum of the recent revolution, for they knew that the window of opportunity for significant changes might be short. "Expectations were so high," said Vakhtang Lejava, Bendukidze's deputy. "You have to buy time for reforms by delivering something quickly."

Bendukidze believed that it would be better to have no organization at all than to have one that was corrupt and ineffective. "If there is a dysfunctional public agency, that part of government is existing only on paper, it is not creating anything good," he said. "In tackling corruption it's better to abolish the agency." During 2004, Bendukidze developed a policy of economic reform that emphasized deregulation,

privatization and a strong market economy, and he began with his own ministry. He slashed the ministry's staff by two-thirds, from almost 2,000 to fewer than 700, and moved to establish short-term, contract-based employment designed to increase managerial flexibility and control.

Bendukidze's influence grew during that first year. Cabinet members respected his success as an international businessman, his rhetorical skills, his strong personality and his ability to boil down complex issues into a few core principles. He and his staff prepared rigorously for Cabinet meetings, taking care to read every document fully. Preparation "creates a very special power," he said. A dominant force at Cabinet meetings, Bendukidze sometimes shamed other ministers by calling attention to mistakes that they had made or missed. Saakashvili's explicit support bolstered Bendukidze's position when he intimidated younger, less experienced ministers.

At the end of 2004, Saakashvili decided that Bendukidze's approach offered the best vision for public sector reform. The president put Bendukidze in charge of a new unit, the Office of the State Minister for Reform Coordination, that would act as an umbrella organization for changes in the structure and size of the government during the next three years. Saakashvili gave his full backing to Bendukidze, who articulated a broad vision for rapid transformation that contrasted with Kipiani's systematic approach, which had stalled over the drafting of the civil service code. Although Kipiani's Public Service Bureau still had the legal mandate to manage many of the same responsibilities, lack of high-level support left him on the sidelines of the reform effort. Saakashvili officially dismissed him in 2006.

Looking to surround himself with people who were willing to disrupt traditional ways of doing things, Bendukidze recruited young and relatively inexperienced staffers, many of whom were recent university graduates. The team also included experienced deputies like Vakhtang

Lejava, who had worked as a consultant for a UNDP land management project and who shared Bendukidze's philosophy and principles.

GETTING DOWN TO WORK

Rejecting Kipiani's proposal for a broad and systematic reform process, Bendukidze decentralized reform efforts. Each ministry would design and implement its own reforms, and Bendukidze's office would help to synchronize policy objectives and principles. Bendukidze and Lejava worked with ministers to draft strategic visions and mission statements, and aligned those objectives with the Ministry of Finance's efforts to develop three-year budget frameworks for each ministry. Ministries that performed well during the first few months of the transition received greater autonomy. Bendukidze and his small staff worked with underperforming ministries to ensure that their strategic plans were consistent with the government's overarching motives of a slimmer, more flexible government with less corruption and improved efficiency.

The transformation of Georgia's public sector required reorganizing and consolidating government ministries and departments, slashing the number of civil servants in each ministry, and hiring a largely new workforce. The government also took several initial steps to generate revenue for improved salaries, and a few ministries showed success in their efforts to train and monitor their young, motivated but inexperienced staffs.

Reorganization and consolidation

In designing the structure of their organizations, many ministers borrowed from models that conformed to their visions for reform. For example, the Ministry of Justice borrowed elements of the New Public Management (NPM) model after consultations with countries including Australia and New Zealand. The NPM model emphasized outputs in terms of service delivery

rather than inputs, and increased the autonomy and flexibility of middle-level managers on the basis of agreed-upon performance contracts.

Using the NPM model as a guide, several ministries, including those of justice, economic development and environment, consolidated various operations into new agencies that maintained legal autonomy, including the ability to hire and fire staff. In other countries, many agencies that used the principles of NPM had chief executive officers and boards of directors, but in Georgia deputy ministers ran the agencies without board oversight. The agencies retained the decentralized ministerial flexibility that Bendukidze desired, but because of Saakashvili's new powers, the framework also increased the president's ability to control ministers and deputy ministers.

In order to eliminate overlapping responsibilities, Saakashvili's government closed all 18 of Georgia's independent departments and merged many functions into the ministries. Saakashvili and Zhvania reduced the number of ministries from 18 to 13 but allowed individual ministers to chart their internal reforms. Bendukidze worked with other Cabinet ministers to identify redundant functions among the ministries and departments. The new officials surveyed their existing ministries and compared functions and responsibilities with one another.

Bendukidze and the Cabinet ministers recommended realignments and consolidations. For example, the government disbanded the Ministry of Infrastructure and shifted some of its functions to the Ministry of Economic Development. The Ministry of Internal Affairs assumed many of the responsibilities of the former Ministry of State Security, which Saakashvili eliminated in 2005. The Ministry of Finance took over the overlapping and vague responsibilities of the former Customs Department, Tax Department and Financial

Police, consolidating them to establish the Revenue Services Division within the Ministry of Finance.

In related efforts to reduce opportunities for corruption, Saakashvili's government cut the staff of each ministry significantly. This process took place at the ministerial level, under the direction of each minister, and in some cases occurred in distinct stages over several months. In the first year alone, Saakashvili's government laid off approximately 40,000 civil servants, representing 35% of ministerial employees. In a move that drew criticism from international organizations, the government pressed many officials to submit letters of resignation, a practice meant to reduce opportunities for legal recourse. The elimination of entire departments and subordinate functions accounted for many of the layoffs, and the February 2004 legislation allowed Saakashvili and his Cabinet to avoid legal complications in the name of reorganization. Among the notable steps was the disbanding of the Traffic Police and the formation of a new Patrol Police service. Because Saakashvili had called for precisely such sweeping changes loudly and consistently during the lead-up to the Rose Revolution, the wholesale dismissals came as little surprise to the public or even to those who lost their jobs.

The overhaul of ministerial staff began at the highest levels—a clear strategy by Saakashvili to assert that times had changed and the old way of doing business was no longer tolerated. Many well-known officials were detained in 2004 and prosecuted on charges of corruption. Major television channels broadcast the arrests and helped fuel the new government's popularity. After taking many former ministers into custody, Saakashvili moved to arrest their deputies, signaling that no corrupt official was immune to investigation.

Plea bargaining became common under Saakashvili, who had been involved briefly in the legal profession while in the U.S. and had

appreciated the usefulness of the practice in speeding the work of the courts and reducing the load on the prison system. Many officials agreed to pay fines in exchange for having charges dropped and expunged from their records. Dozens of mid-level officials resigned in order to avoid prosecution.

Prominent international organizations and domestic critics raised warning flags about the widespread use of plea bargaining. The Council of Europe issued a report stating, "On the one hand [plea bargaining] allows some alleged offenders to use the proceeds of their crimes to buy their way out of prison and, on the other, risks being applied arbitrarily, abusively and even for political reasons."⁵ In 2005, the government responded by amending plea-bargain procedures so that charges and convictions remained a part of each defendant's criminal record.

Although civil servants who lost their positions in realigned ministries and departments could apply for vacancies, many did not do so because they could not meet new skill and testing requirements for the open positions. Privatization and international investment created private-sector opportunities for many of those who lost their jobs, but unemployment remained above 12% during the first three years of Saakashvili's term and reached 13.8% in 2005 and 2006.

In ministries that underwent relatively little structural change, the minister and newly appointed deputies developed criteria for overhauling the staff, removed officials known to be corrupt and retained a few experienced workers who could help with the transition. There was no set procedure for these personnel moves, and many in the new government later conceded that they had made mistakes by eliminating capable staffers.

The Ministry of Justice's subordinate agencies, the Civil Registry Agency and the Public Registry (which administered the registration of personal identification documents and land,

property rights and titling, respectively,) served as examples of success in personnel management, particularly under the leadership of Minister Giorgi Papuashvili in 2005. Given that public opinion surveys identified document processing as the most corrupt function of government, the new administration targeted reform in that sector to showcase meaningful change.

One advantage that both new agencies had over other government operations was that they generated their own revenue streams. Their semi-autonomous status gave them greater flexibility to overhaul ineffective systems, replace corrupt personnel and improve service delivery. The ministry and its subordinate agencies announced vacancies publicly and developed written exams for each position based on the specific skills and cognitive ability.

Although former department employees were among those invited to compete for the new positions, nearly all applicants were young, computer-literate recent graduates. Papuashvili and his team announced vacancies in small batches during the first few months. After a core team was in place, new recruits entered a trial period, without pay, and would spend several weeks training for the position and demonstrating their abilities. Working for the new government was an attractive opportunity for many young graduates, according to Vashadze, one of the many applicants recruited through the new hiring process. A hiring board within the ministry interviewed applicants. Because of time constraints and the high standards and criteria required for consideration, the board sometimes considered only two or three candidates for a position. Some Ministry of Justice officials later said they would have preferred to have had more applicants and more time.

Improving Salaries

Recognizing that higher salaries were necessary to recruit capable civil servants, deter

bribery and improve morale and motivation, the government took several steps in 2004 and 2005 to raise the pay of public servants. Saakashvili courted international donors by trumpeting Georgia's democratic values. During the first few weeks of 2004, even before Saakashvili's inauguration, the Open Society Institute (OSI), a private foundation started by financier George Soros, cooperated with the UNDP to fund a salary-supplement program. The program, which boosted pay for top and mid-level government posts, aimed to lure applicants from jobs in the private sector. The OSI and the UNDP intended the salary-supplement program to act as a stopgap measure to attract the talent necessary to carry out economic reforms. The donors designed the program to last three years, during which time the new government would bolster its revenue position through spending cutbacks and tax reform. However, because of the government's success in reducing costs and generating revenue, the OSI-UNDP initiative ended after a single year.

Although changes in the operations of tax and customs agencies significantly increased revenues, some did not come easily. One example involved the local government that controlled the port in the region of Adjara along with the port's lucrative customs duties on oil. Aslan Abashidze had been the leader of Adjara since 1991, and during the 1990s he had developed an army that was independent of central control in Tbilisi. Georgia's former president, Shevardnadze, had allowed Abashidze to control the region and its revenues rather than risk a civil war. Saakashvili, however, had criticized Shevardnadze for placating Georgia's various separatist movements and sought to assert central government control over Adjara and its revenue stream.

In May 2004, only a few months after he took office, the president ordered Abashidze to disband his militia and cede control of the region. Demonstrators gathered in the streets of Batumi,

the port city in Adjara, protesting Abashidze's administration and raising the stakes in the confrontation between the two men. Although some international observers feared that Saakashvili's support for the street demonstrations might lead to open conflict, Abashidze backed down and fled to Russia.

Moving in late 2004 to simplify Georgia's complex tax structure, the government adopted a new code that slashed the number of taxes by two-thirds, to seven from 21. Bendukidze and his counterparts in the Ministry of Finance concluded that any taxes that were not being collected should be eliminated in favor of a simpler mechanism. For the first three years the new tax code included a flat-rate income tax of 12%, a 20% value-added tax (VAT), and a 10% tax on dividend and interest income. Absent from the code were taxes on capital gains and inheritance, for instance.

The changes created an environment that was friendly to business and foreign investment, in keeping with Bendukidze's vision of an open, market-based economy. From 2003 to 2007, compliance, or the actual amount of tax revenue received as a percentage of potential tax revenue, more than doubled to 78% from 35%, largely due to changes in the tax code and improvements in tax administration, and tax revenue as a percentage of gross domestic product increased to 23% from 15%, according to the Ministry of Finance.⁶

The corresponding improvement in pay accounted for some civil servants' salaries increasing 15-fold during the course of the first two years. Even though the civil service shrank significantly, the amount of money allocated for salaries increased by 132% from 2004 to 2007. Employee compensation within the central government increased from 13.4% of central government revenue in 2004 to 19.1% in 2009. Economic growth bankrolled the pay increases. Overall the state budget increased from US\$350

million before the revolution to US\$6 billion in 2006, corresponding with consecutive years of GDP growth of 9.5% in 2004, 9.3% in 2005, and 8% in 2006.

Training and performance monitoring

For the agencies within the Ministry of Justice, new technologies allowed managers to reduce staff interactions with the public, thereby limiting opportunities for the solicitation of bribes. Computerized operations increased transparency and allowed the agencies to monitor the performance of new staff and identify areas that needed improvement. The agencies supplemented electronic data with annual reviews in which supervisors evaluated their staffs and authorized bonuses for exceptional performance. Under the leadership of Vashadze, Porchkhidze's successor, the Civil Registry Agency built an electronic database that included 900,000 previously unregistered Georgian citizens and began electronic processing of new identification cards. Moving to computerized systems reduced costs and standardized processes for all forms of personal documentation.

The Ministry of Justice also created training modules that aimed to develop the skills required for particular positions, along with courses that improved staffers' knowledge of their work while providing leadership and management training. Porchkhidze and Vashadze both emphasized the importance of continuous on-the-job training by department heads and the need to follow up with frequent survey-based measurements to monitor performance and identify areas where additional training was required. The use of a mentor system also proved successful, as managers paired new staffers with experienced employees. Given the youthfulness of most of the staff, the age difference between mentor and mentee often was not great, but by pairing individuals together managers built an additional mechanism for

monitoring staff performance and growth.

Reflecting the lack of a unified approach across the government, performance monitoring was uneven. During the first few years after the Rose Revolution, many ministries failed to track staff performance through internal evaluations. Without a centralized and systematic evaluative measure, some ministries relied on citizen surveys to measure the performance of their operations. Agencies within the Ministry of Justice, for instance, solicited feedback from citizens applying for passports or registering private businesses. But although broad success could be measured through surveys, by 2007 many ministries still lacked formal job descriptions, hiring procedures, and effective mechanisms for performance appraisal.

In several underperforming ministries, Bendukidze's team worked with deputy ministers to identify areas of inefficiency and borrowed examples from the Ministry of Justice and other successful ministries. One initiative, known as the Knowledge Transfer Campaign, sought to identify staffers who needed extra guidance and to pair them with mentors. Alongside individual mentoring, many ministries conducted professional development workshops that emphasized computing skills, customer service and innovative thinking. Many ministries offered bonuses to employees who developed innovative projects or programs.

OVERCOMING OBSTACLES

Continuity of management and staffing became a significant problem because Saakashvili frequently shuffled Cabinet members during his first three years as president. As a result, institutional memory was short and internal operations often were poorly organized. Some ministers would hold their positions for only a few months before they were transferred or replaced, and many young staffers barely had the

opportunity to learn their job responsibilities before moving to new postings.

Mary Gabashvili, who worked in the Ministry of Education, noted that although policy priorities were consistent among ministers, internal planning and procedures were in constant flux. New ministers typically brought deputy ministers who had their own ways of doing things. Not surprisingly, agencies that experienced fewer turnovers of deputies, such as the Ministry of Justice's Civil Registry Agency, achieved greater success in implementing long-term strategies.

In addition, the contract-based model failed to retain many of the young, talented professionals who had joined the government in the exuberance that followed the Rose Revolution. Civil service contracts tended to last only a year or two and lacked the extended incentives of a career-based model. As professionals left to take higher-paying jobs in the private sector, their departure left many ministries without long-serving staffers who could help maintain consistency in policy directives and implementation.

Saakashvili had varied reasons for constantly shuffling ministers and other high-level government officials. The president replaced some ministers for underperformance; though young and motivated, they lacked the skills to manage the challenges they faced. And he often moved ministers who had demonstrated competence in one arena to other jobs where their skills were needed. From a political viewpoint, the frequent high-level transfers effectively limited the power of potential rivals by restraining ministers from establishing their own fiefdoms, as had been the case before the Rose Revolution. But cabinet shuffles kept many ministries off balance and added to the challenges of implementing sustained reforms.

In 2007, political crosscurrents began to slow Georgia's reform momentum. In September, former defense minister Irakli Okruashvili, who

had resigned following allegations of corruption, accused Saakashvili of having ordered the murder of a prominent businessman. When Saakashvili had Okruashvili arrested, protests erupted. In November, when Saakashvili sent riot police to clear the protesters from the streets, violence broke out. The police used harsh tactics including water cannons and tear gas against the demonstrators, injuring several. Police shut down the opposition television station, and Saakashvili declared a state of emergency.

The episode tarnished the image of Saakashvili's government, and the rapid nature of the reforms slowed considerably in the months that followed. Bendukidze became a lightning rod for criticism from the opposition, as Saakashvili's detractors claimed that aggressive privatization efforts had opened the door to foreign ownership of formerly state-owned enterprises. Such criticism had been building since 2005, as relations with Russia began to sour. As political pressure mounted, Saakashvili again shuffled his Cabinet. In January 2008 he eliminated Bendukidze's office and made him head of the State Chancellery, a role with less public visibility.

In 2008, the global recession and the August war with Russia diverted the government's focus from structural reforms in the civil service. Bendukidze left the government to open a new university in Tbilisi. Although he remained an active adviser to the president and a frequent visitor of the presidential palace, his official role ended.

As enthusiasm for sweeping government reforms cooled, however, some ministers seized the opportunity to focus more closely on internal changes such as human resource management. One of them was Zurab Adeishvili, who had served briefly as minister of justice immediately after the revolution and had returned to the post in November 2008. Adeishvili brought with him the same strategies that had seen success in his

previous position as the head of the Prosecutor's Office, where he had slashed the size of the staff to 400 from 2,000 while championing reforms in finance and human resources functions. His approach emphasized the importance of careful budgeting and monitoring of staff skills, performance and motivation. Adeishvili provided an example of a capable minister exercising his autonomy effectively.

In other ministries, such as education and agriculture, frequent changes of ministers and deputy ministers stalled internal reform efforts. Elene Imnadze, senior public sector specialist for the World Bank's South Caucasus Regional Office, said, "The positive side of the flexibility is that it allowed ministers with a vision and an understanding and support...to move forward quickly and successfully. But at the same time, in the absence of one system and shared principles, those [ministries] without a leader of such caliber...suffered."

ASSESSING RESULTS

In helping to liberalize the Georgian economy and transform the government into a leaner organization with far less corruption, Bendukidze and others on Saakashvili's reform team made impressive gains. In 2010, Transparency International's Global Corruption Barometer found that 78% of Georgians felt that corruption had decreased, and only 3% of those surveyed admitted to paying a bribe in the previous year.

Increased transparency at the lower levels of government improved the business climate, in keeping with Bendukidze's vision for growth. The World Bank-IFC Doing Business Report for 2011 rated Georgia 17th in the world for ease of doing business, up from 112th six years earlier. Simplified tax and customs policies, including the creation of tax-free areas for industrial zones and warehouses, and the elimination of barriers to starting businesses, contributed to the

improvement in the Doing Business rankings. The government eliminated unnecessary paperwork required of the public. The number of required licenses and permits shrank to 137 by 2006 from 909 before the reforms. Revenue produced by economic gains paid higher salaries that provided additional motivation for civil servants.

Although Bendukidze's office took control of efforts to reform the civil service and co-opted the role initially envisioned for the Public Service Bureau, the piecemeal implementation of the reforms and the rapid pace of the reforms produced inconsistent results. Many ministries struggled to draft strategic plans and implement internal reforms related to hiring, training, monitoring and promotions. The frequent turnover of ministers and their deputies exacerbated these shortcomings. Many Georgian officials said that civil service reform was simply a lower priority for the president when compared with fighting corruption and fixing the economy. Indeed, major reorganization steps generally served broad objectives, such as economic growth, rather than the goal of civil service reform.

REFLECTIONS

The reform of Georgia's public sector was neither systematic nor comprehensive, and centrally coordinated civil service reform never occurred. Instead, the country's leadership pressed individual ministries to develop their own ways of implementing President Mikheil Saakashvili's vision of increased flexibility and efficiency. The government's success in leading Georgia out of the shadow of the Shevardnadze regime stemmed largely from the momentum created by the Rose Revolution.

Although a structured civil service reform might have produced greater consistency in many aspects of government, Saakashvili's team favored flexibility. Central to the articulation of that vision was Kakha Bendukidze's Office of the State

Minister for Reform Coordination. Vakhtang Lejava, Bendukidze's deputy, reflected that the lack of top-level coordination was a positive rather than negative aspect of the reform effort. "When you centralize reforms, you get mediocre results everywhere," Lejava said. "You don't get very bad results, but you also don't get very good results because you are not experimenting and you are trying to just create a common denominator. When you do it in a decentralized manner, of course there is the risk of failures. But on the other hand, you have a chance of success. Then, when you have a role model, you can push all others to [match] that level."

Bendukidze was adamant that the speed and magnitude of the reforms were crucial to success. He brushed aside opposition from parliamentarians who objected to the extreme nature of his policies. When asked if he would do anything differently, he stressed that the nature of the reforms did not allow for extensive planning and debate. "I would maybe compromise less," he said.

Tina Burjaliani, the deputy minister of justice in 2011, agreed that the momentum following the Rose Revolution was critical to achieving quick results. "After the revolution we started the reforms without much explanation," she said. "It wasn't needed. There was huge public demand for the reforms, combined with the after-revolution euphoria. But as time passed, we had to be more careful and we had to be much better planned."

Mary Gabashvili, who helped carry out reforms in the Ministry of Education, said better communication with all stakeholders and the ministry's staff could have helped the government overhaul the system more effectively. "You need to make sure people have a clear understanding of the final goal," she said. "If they see the big picture, they can come up with their own ideas, making [the reforms] less dependent on individual personalities."

In the absence of extensive planning and coordination, influence and personality in many ways became the driving forces behind the reforms. Indeed, Lejava said Georgia's success could be attributed to the dedication and resolve of its reformers. "If you are not prepared to really

change things and you don't believe in the change, then you have excuses for why it will not fly," he said. "People generally don't trust those leaders who themselves have no confidence in their ideas."

¹ See Areshidze, Irakly. "An Opportunity Lost? Constitutional Changes in Georgia at the Start of the Saakashvili Presidency" (25 February 2004). Available at <http://www.cipe.org/pdf/publications/fs/areshidze.pdf> (accessed 11 November 2011).

² World Databank. Numbers are in 2011 U.S. dollars.

³ Kemularia, Rusudan. "Tax Reforms in Georgia," presentation by the deputy minister, Ministry of Finance of Georgia (12 April 2011). Available at <http://www.imf.org/external/np/seminars/eng/2011/revenue/pdf/rusuda.pdf> (accessed 11 November 2011).

⁴ "Global Corruption Barometer: 2003," *Transparency International*. Available at http://www.transparency.org/policy_research/surveys_indices/gcb/2003 (accessed 11 November 2011).

⁵ "PACE Resolution 1415 (2005)," Council of Europe, 2005. Available at http://embassy.mfa.gov.ge/index.php?lang_id=ENG&sec_id=141&info_id=4681 (accessed 11 November 2011). See also, Transparency International's report on plea bargaining in Georgia available at <http://transparency.ge/sites/default/files/TI%20Georgia%20-%20Plea%20Bargaining%20in%20Georgia%20ENG.pdf> (accessed 11 November 2011).

⁶ Kemularia, Rusudan. "Tax Reforms in Georgia," Presentation by the Deputy Minister of Finance, Ministry of Finance of Georgia (12 April 2011). Available at <http://www.imf.org/external/np/seminars/eng/2011/revenue/pdf/rusuda.pdf> (accessed 11 November 2011).

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