

PUBLIC BUDGET AND GOVERNANCE IN THE CIS: EVIDENCE FROM GEORGIA AND THE REPUBLIC OF MOLDOVA¹

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The public budget is a basic category of public finance, as a tool at the service of government to rule the economy and society. The budget planning can be seen as a political process of designing the procedures for procuring resources available to the state, subsequently embodied in the structure and size of public spending, while setting economic and social priorities. Budgeting is a central policy area not only for generating and allocating resources; the budget process is also a key to the institutionalization of democracy. Democratic practices open budgeting to the public and their representatives and forces government to consult citizens before taking action.

Keywords: *public budget, governance, budgeting, medium-term expenditure framework, democratic practices, transparency.*

GUVERNAREA ȘI BUGETUL PUBLIC ÎN ȚĂRILE CSI: EVIDENȚĂ DIN GEORGIA ȘI DIN REPUBLICA MOLDOVA

Bugetul de stat este o categorie de bază a finanțelor publice, ca instrument în slujba guvernului pentru a influența economia și societatea. Planificarea bugetară poate fi privită ca un proces politic de proiectare a procedurilor de achiziție a resurselor de care dispune statul, concretizate ulterior în structura și mărirea cheltuielilor publice, concomitent cu stabilirea priorităților economice și sociale. Bugetarea este un domeniu de politică centrală nu doar pentru generarea și alocarea resurselor; procesul bugetar este, de asemenea, o cheie pentru instituționalizarea democrației. Practicile democratice deschid publicului și reprezentanților acestuia posibilitatea planificării bugetare și forțează guvernul să consulte cetățenii înainte de a lua noi măsuri.

Cuvinte-cheie: *buget public, guvernare, planificare bugetară, cadrul de cheltuieli pe termen mediu, practici democratice, transparență.*

The budgeting process in the Republic of Moldova and Georgia is guided by the Medium Term Expenditure Framework (MTEF) process. The MTEF was introduced in 2002 in the Republic of Moldova and in 2005 in Georgia. At its heart, the MTEF approach seeks to link expenditure allocations to government policy priorities using a medium-term perspective (i.e. three to five year time horizon) to the budget planning process [2, p.2]. MTEF is a strategic planning process within three years in Republic of Moldova and four years in Georgia, in which policy priorities are trying to be mapped to existing financial resources. Within MTEF process the budgeting process starts in diagnosing the condition of public finances by measuring key macroeconomic indicators, forecasting the evolution of these indicators, the assessment of the general public resources, setting limits and detailing sector expenditure by planning expenditure programs, the approval of the draft budget by the executive authority and the adoption of the public budget by the legislative authority.

MTEFs are not a recent innovation, but their spread around the world is a recent phenomenon. In one form or another, MTEFs have been around since at least the early 1980s, when Australia launched its forward estimates system [8, p.11]. In the late 1990s MTEFs were introduced mainly in the European Union to support budgetary targets set as a precondition for the monetary union [8, p.27-31]. The adoption of MTEFs by 8 of 12 countries of Eastern Europe, Caucasus and Central Asia coincided with the introduction of Economic Development and Poverty Reduction Programs and its inclusion by the World Bank and other donors their standard advice on budget reforms. Besides that, the introduction of MTEF is due to these countries' sought to adapt quickly to the standards of the Western Europe.

Republic of Moldova and Georgia both have success with implementing the reform, however, despite the fact that the implementation of the reform in Georgia begun later, Georgian authorities are ahead of schedule. According to the information presented on the official site of the Ministry of Finance after the implementation

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of MTEF in 2005, gradually all the Ministries, other spending agencies and Autonomous Republics have been included in the process of preparing the above-mentioned document. In 2010 priorities of all the self-governing entities and information about their budgets were included in the Country's Basic Data and Directions document (BDD), MTEF being one of the main parts of BDD document of Georgia.

The main act of the Public Financial Management reform in Georgia was the adoption of a new budget code in December, 2009, aiming at consolidating and simplifying budget legislation, unifying central and local budgets and accelerating the budget approval and execution process. Together with the adoption of this code medium-term budget planning was closely integrated into the annual budget cycle. The budget code also introduces program budgeting, as part of MTEF reform. The Government of Georgia submitted the draft of the 2012 state Budget to the Parliament in a completely new program budget format, which means that the assignments are allocated to ministries and other spending agencies according to their programs and sub-programs and descriptions of the programs and sub-programs are defined under the appropriate priorities.

Although currently MTEF became a functional tool in budget planning in the Republic of Moldova, accompanying the Project of the state budget law, however, statistics show that after 11 years of reform, only 43.3% of the executed state budget expenditures in 2013 are programs based expenditures. Comparing to Georgia, in Republic of Moldova the draft of the Law on public finances and fiscal responsibility, prepared in the context of reform measures of the management of public finances to strengthen fiscal discipline, was initiated by the Ministry of Finance on the 1st of July 2010. The draft was approved by the Government on the 12th of October 2011 and submitted to the Parliament on the 27th of November 2011. The draft of the law was discussed in Parliament in two readings, i.e. on July 11, 2012 and July 12, 2013, and was to be examined in the final reading in the autumn of 2013, but it did not happen.

Planning a realistic public budget is a first step towards a good governance of a country. Although during the last decade a series of reforms in the field of public finance have been promoted in Republic of Moldova, as it could be seen in comparison to Georgia, there are currently a number of issues dealing with transferring the best European and international practices in the field of budget planning. The transfer of experience to the Commonwealth of Independent States (CIS) countries, including Georgia and Moldova does not mean importing the technical models from more advanced countries but should be focused on the role of informal structures and on adapting the reforms to the national environment, because national budget systems are being adversely affected by such factors as informal rules and traditions, political instability, private interests, macroeconomic instability, international context etc. That is why discovering, investigating and presenting the political and social factors that influence the transfer of the budgetary reforms to CIS countries would be a way to eliminate the limits in the way to Europeanization.

Unlike Republic of Moldova the promotion of the budgetary reform in Georgia was realized in the context of an entire program of reforms that have created a proper ground for the MTEF reform. To understand the Georgian system of reforms one must first understand the context in which they had happened. In November 2003 Georgia went through the peaceful Rose Revolution which unseated an unpopular government. Hence, the main efforts were concentrated on the reform of Government structures and the reduction of corruption in public institutions. As a result of these transformations in 2013 Georgia ranks 55th of 177 in the Transparency International 2013 Corruption Perceptions Index; on a scale of 0 (highly corrupt) to 100 (clean), it scores 49. Regarding Republic of Moldova it ranks 35 and it scores 35. Other surveys also highlight significant improvements in the area of corruption in Georgia compared to Moldova, such as the June 2013 Doing Business Survey. According to this survey Georgia ranks 8th and Moldova 78th of 189. More than that 2005 Business Environment and Enterprise Performance Survey of the European Bank for Reconstruction and Development identifies Georgia as the transition country with the largest reduction in corruption in the 2002-2005 periods [9].

The planning of the public budget is both a technical and, what is more important, a complex political process, that implicates a large number of different stakeholders, starting with formal structures, represented by officials, public servants, and informal structures from the civil society. The civil society includes individual citizens, different interest groups, churches, professional organizations and NGOs who participate in the budget process with no explicit legal authority. The civil society's implication in the process of the public budget planning can improve the political actions and hence have positively impact on the public interest. On the contrary, the experience shows that usually informal actors represented by lobby groups, that have strong connections to the political class, but are hidden in the shadows of the political scene, act against

the public interest for personal or group gain. Although the transparency of the public finance is a declared principle in the legislation of Republic of Moldova, today the lack of transparency and of control from the media and the NGOs has led to the fact that some informal actors had become a real problem as their impact on the management of public finance is alarming. The process of public budget planning is significantly harmed by informal actors.

In the period immediately following the break-up of the Soviet Union and the fall of the Iron Curtain there was a time for the process of economic and political liberalization of the former soviet countries, but at the same time it was and a fine moment for the establishment of the phenomena of informal actors, that is due to corruption and the weakness of the state structures in the first years of CIS countries' independence. The term „informal actor” is most easily defined in relation to what it is not - it is not a formal actor. Whereas a formal actor holds official, state-sanctioned political power and has an obligation to act in the state's public interest by virtue of his position, an informal actor uses his formal connections to exert influence over the management of state resources and political processes, but without holding formal office in that state [1, p.64]. Basing on this definition we can say that the informal actors are the non-state actors, however another, and more common, point of view is that this term refers to different groups of persons that are not officially registered, whose actions cannot be seen, but who have great influence on the public policies within the state.

At each stage in the budget process, formal and informal institutions interact. Though legislative changes and capacity-building have strengthened formal institutions, decisions continue to be influenced by informal practices. Their continued prevalence undermines the formal institutions of the budget process in Moldova. Behind the scenes, the actors manoeuvre strategically to ensure that their interests are protected.

Today Republic of Moldova's economy, as the economy of many CIS countries, after more than 20 years of transition, can't be called a market economy. That is because the country is dealing with the phenomena of oligopoly on many important markets, so this means that there are undeclared barriers for entering the market. Many people that are doing business in Moldova go into politics as to protect their properties, or finance the political parties to represent their interests. The fact of the informal actors's persistence in the shadows of the political scene was confirmed by the most famous metaphor launched by the former Prime Minister Vlad Filat „puppeteer”, with reference to oligarchic groups. In Moldova there is even an entire movement that fights informal actors who damage domestic consumers. Another important negative impact of informal actors on the public finances that should be mentioned is the fact that these actors compromise the budgetary reforms, made to enhance the process of public budget planning. This phenomenon is very dangerous for the socio-economic development of the Republic of Moldova, but also for the democratic and European path of the country. The main factor contributing to the persistence of informal actors' disruptive influence on public budget management is the lack of transparency in the preparation and execution of the budget. A reliable solution to this problem is a more active involvement of civil society in public decision-making, and increase transparency in budget planning and execution. Transparency or clarity about the content of the budget is an important criterion of good Governance. Parliament, media and civil society can only participate in the debate about budgetary policies and outcomes if institutional rules guarantee transparency.

In the last decade, Georgia and Moldova have undergone dramatic changes, often described as „colour” or „electoral” revolutions: the Rose Revolution in Georgia in 2003 and the so-called Twitter Revolution in Moldova in 2009. These events show the desire of citizens to be involved in the act of Governance and the role of civil society in changing the political course of a country. It is one function of civil society to bridge the gap between the formal political process and citizens, but this is hard to accomplish even in Western democracies. A healthy civil society is considered an integral part of any democratic system of governance [4, p.2].

Regarding Georgia, NGO representatives take active part in the act of Governance. For instance NGOs took part in the work of the State Commission for the preparation of the Medium-Term Action Strategy. During Economic Development and Poverty Reduction Programme (EDPRP) preparation, the Government created a database of 750 NGOs to allow for continuous consultations with civil society during implementation. Two coalitions of NGOs organized several debates and workshops aimed at discussing EDPRP development [9]. The 2009 amendments to the law on self-governance in Georgia required local authorities to engage citizens in policy formulation. Public councils and citizens' advisory committees, composed of public figures and NGO representatives, operate in Tbilisi city hall and in some national ministries, but most exist only on paper [4, p.11-12]

The MTEF means greater transparency, accountability and involvement of civil society in the planning. However, after analyzing the working groups implicated in the MTEF process in the Republic of Moldova it should be mentioned that currently NGOs involvement in planning the state budget is very low, and is not the public authorities' fault. The Moldovan authorities are more open to dialogue, because the preparation of sector strategies is made in working groups that include and representatives of Civil Society, compared to Georgia where sector strategies are prepared by line ministries. However, only 5 NGOs out of 6415 registered in Moldova, namely, the Independent Analytical Centre „Expert Group”, the Institute for Development and Social Initiatives, the „Positive Initiative” Association, the National Council of Student Organizations and the National Youth Council are involved in the work of various working groups of the MTEF process this year. For comparison business interests are represented by five organizations and the number of trade unions involved in this is seven. So, the civil society's participation in the budget planning is only an appearance, despite the fact that there are created the proper conditions for their involvement in the budgeting process.

The active involvement of the civil society could make more connections of the budget with the real world and public priorities, and greater transparency in the management of public funds. This participation could lead to the breakdown of existing convenient but ineffective arrangements of resources distribution. Finally, civil society organizations participating in the MTEF can control whether the sector's strategic priorities get or not to be reflected in the national budget. Without this reflection any stated policy risks to remain a simple statement [7].

Today there are many problems with the NGOs in the CIS area, and the main is their financial instability. Citizens are reluctant to contribute their time or financial resources to NGOs. Instead they mostly donate money to fellow citizens in need, supporting churches, monasteries, beggars and victims of natural disasters. Donations to NGOs in Moldova are ten times lower than to churches. In Georgia, 83 per cent of NGOs report that they have never received an individual donation. But it is not all the fault of the state; their work is also hampered by deficiencies in society itself. Civic leaders are unprepared for effective cooperation, council members have no skills in policy analysis or budgeting, and many violations have occurred as a result of activists dishonestly withholding information [4, p.4].

Increasing transparency in public financial management can be achieved through supporting and developing the media sector. The media also holds a favourable role on planning and rational use of resources and approval of the public budget. A positive impact of media activity on the budget process can be ensured primarily by the professionalism and independence of journalism. According to the Freedom House Reports press freedom in Moldova and Georgia increased since 2008, as it can be seen in Figure 1.

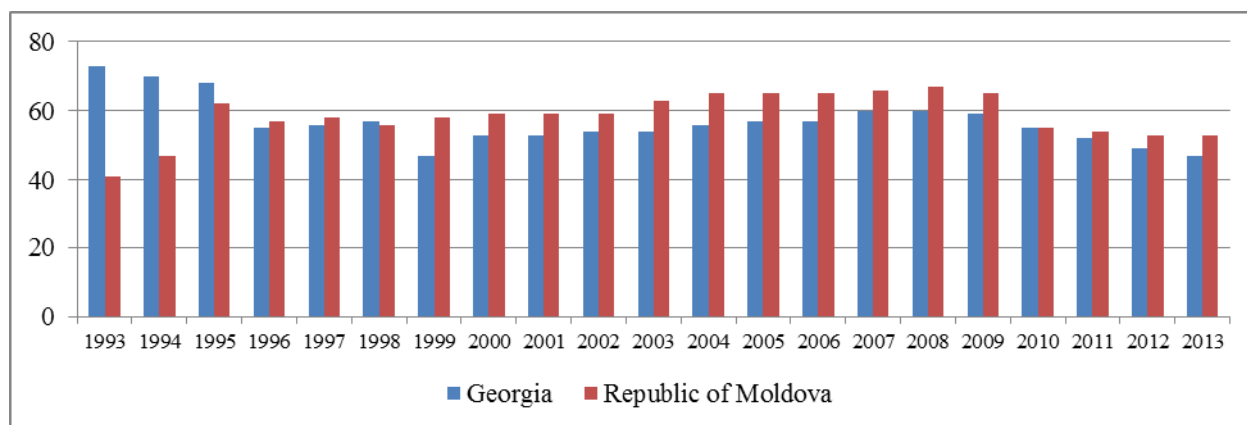


Fig.1. Evolution of press freedom in Moldova and Georgia

Source: Prepared by the authors based on the Freedom House Reports data

Some cases limiting journalists' access to public events in Moldova have been reported during the last year. The best example of this is limiting journalists' access to the Parliament lectures. Media representatives are required to sit in a separate room in the renovated building of the Parliament, without access in the meeting room and video sequences are transmitted on several monitors installed in this room. The authorities intend to end the online broadcasting of the Government meetings. The draft law was already approved in

the first reading on 18th of October, 2013. Thus ceasing the online broadcasts will adversely affect the transparency of decision-making.

Moldova still lacks a segment of the media that are sufficiently independent in terms of finance, so that citizens could benefit from a correct, objective, balanced and unbiased informing. This is because a large number of media institutions are owned or controlled by politicians. That is why improving the legislation is the least that could be done.

In conclusion we can say that, although during the last decade a series of reforms in the field of public finance have been promoted in Republic of Moldova, there are currently a number of issues dealing with transferring the best European and international practices in the field of budget planning. The transfer of experience to CIS countries, including Georgia and Moldova, does not mean importing the technical models from more advanced countries but should be focused on the role of such factors as informal rules and traditions, political instability, private interests and informal structures, macroeconomic instability, international context etc. The process of public budget planning is significantly harmed by informal actors, especially the lobby groups. Behind the scenes, the actors manoeuvre strategically to ensure that their interests are protected. The main factor contributing to the persistence of informal actors' disruptive influence on public budget management is the lack of transparency in the preparation and execution of the budget. That is why a reliable solution to this problem is a more active involvement of civil society in public decision-making, and increase transparency in budget planning and execution. Parliament, media and civil society can only participate in the debate about budgetary policies and outcomes if institutional rules guarantee transparency.

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