



REFORMING THE SYSTEM OF NATIONAL STATISTICS IN GEORGIA

National statistics, among many other policy issues, is given significant attention in the European Neighbourhood Policy Action Plan (section 4.5.5). The ENP AP stipulates that reform of national statistics should take two forms: first, statistical methods that are fully compatible with European standards should be adopted, particularly those pertaining to national accounts, business statistics, and external trade statistics; second, harmonisation with EU standards and practices should be accompanied by institutional reform of Georgia's Department of Statistics. Together these goals should ensure an optimal balance between resource availability and quality of data on one hand, and Department efficiency and independence of local branches on the other.

This report summarises the activities of the three main agencies responsible for gathering national statistical data: the Department of Statistics, the Ministry of Finance, and the National Bank of Georgia. In addition to describing current methods for data gathering, analysis, and dissemination, the report discusses planned reforms that are designed to enhance the impartiality of data collection and reporting.

State Agencies Involved in Generating Statistics

Georgia has a decentralised system of national statistics. While the Georgian legislation on statistics assigns a leading role to the Department of Statistics, other agencies like the National Bank and the Ministry of Finance also gather, analyse, and disseminate important statistical data. The Department of Statistics administers National Surveys. It also provides crucial information for public policy making, for example inflation rates, GDPs, consumer price indices, labour statistics, agricultural statistics, environmental statistics and health statistics. The Ministry of Finance provides data on government income and expenditures, public debt, imports and exports, etc., while the National Bank is the sole source of statistical information on monetary issues. In fact, none of the agencies can function without the information provided by the other two. Together these three agencies constitute Georgia's system of national statistics.

Data collection, analysis, and distribution responsibilities, however, are frequently delegated to other administrative bodies. For instance, while responsibility for the generation of education-related statistics has been delegated to the Ministry of Education and Science, the data must be reviewed by the Department before the Minister of Education and Science approves it for distribution. The Ministry collects and disseminates comprehensive data on numbers of educational institutions according to legal status, distribution of students according to gender and age, distribution of teachers according to education, age and speciality, material and technical bases of educational institutions, national exams, etc.

Main Challenges for National Statistics

Inter-agency cooperation

Effective public policy making requires coordination and cooperation among various agencies. It is hardly possible to imagine policy-relevant statistical information derived from a single source. For instance, to calculate a single payment balance data should be provided by the Department of Statistics,



the National Bank, the Customs Department, the Insurance Oversight Service, the Department of Tourism, etc. GDP calculation is assigned to the Department of Statistics, though it requires data from the Ministry of Finance and the National Bank. The final calculation is disseminated and used by the Ministry of Finance to forecast economic growth for the government's strategic document "Basic Data and Directions." Interagency cooperation is not always smooth; sometimes agencies do not meet each other's expectations. For instance, the Ministry of Finance reports that the Department of Statistics publishes only percentage change in its price index, while absolute values are needed for macroeconomic forecasting.

Independence

Coordination of, and cooperation between, the "producers" of data requires an appropriate institutional infrastructure. At minimum it requires a leading agency with sufficient power to coordinate the statistical activities of other agencies and sufficient independence to produce impartial data. However, a glance at the structure of Georgia's system of national statistics suggests that neither of these preconditions is in place. The three principal sources of statistical data are differentially positioned in terms of their political and administrative power. The Ministry of Finance occupies an extreme position as one of the key Cabinet ministries. The current Prime Minister's previous extended role as Minister of Finance can be interpreted as both a strength and a source of vulnerability to political influence.

Arguably, the most independent institution in terms of national statistics is the National Bank. Its structural position is defined in the constitution, which guarantees its independence from political influence. The National Bank is accountable to the Parliament of Georgia; its board, comprised of seven members, is nominated by the president and approved by the parliament. The board nominates a candidate for National Bank President from among its members; this individual is subsequently appointed by the President of Georgia (Constitution of Georgia, Article 96).

The Department of Statistics, which is responsible for coordinating all statistical activities in Georgia, is structurally a part of the Ministry of Economic Development. Its chief is nominated by the Minister and approved by the Prime Minister. Department leaders claim that the regulatory framework for national statistics is rather outdated – approximately two-thirds of the articles currently in force are effectively redundant. The reason for this is the significant government restructuring that took place after the Rose Revolution. The structural position of the Department was altered as part of this process, but the regulatory framework remained largely the same, i.e. failed to reflect larger structural changes. One result of this structural weakness has been the frequent replacement of the Department Chair.

Evaluation of the structural positions of agencies responsible for national statistics does not simply suggest, however, that the National Bank is the most impartial and the Department of Statistics is the most prone to political influence. Indeed, a constitutional guarantee of independence does not necessarily translate into real impartiality. Nor does answerability to political appointees guarantee political impartiality. Nevertheless, it should be underscored that the structural position of the Department of Statistics makes it nearly impossible for the agency to lead in the government's generation and dissemination of statistical data. Further, the absence of a legislative guarantee of independence makes the system of national statistics rather vulnerable to political influence. This last point is both acknowledged by Georgia's political leadership and reflected in its ENP Action Plan.



Resources

Maintaining current statistics has not been a priority for the political leadership of Georgia. While statistical data is being used for policymaking by the Prime Minister and other leaders as never before, the resources allocated for the gathering of statistics are rather scarce. The divisions responsible for statistics at the Ministry of Finance and the National Bank are modestly staffed: the National Bank's Division of Macroeconomics and Statistics employs fifteen people, whereas the Division of Financial Statistics and Macroeconomics at the Ministry of Finance employs just five.

Department of Statistics resources are more comprehensive. Department headquarters employs 95 permanent staff members. Overall, approximately 1,000 people work for the Department, including regional permanent staff and contract-only employees that conduct fieldwork during national and other surveys. To make the most efficient use of these still limited resources the Department has undertaken a series of institutional reforms. The main objectives of the reforms are centralisation and division of responsibility: seven regional statistical offices have been established to replace low-capacity statistical divisions in each district. The Statistical Department of the Ajarian Autonomous Republic remains under the jurisdiction of the Ajarian Ministry of Economy, but as the system of national statistics is increasingly centralised, this too will become a regional office subordinated to the headquarters in Tbilisi. The central and regional offices will have clearly defined functions and responsibilities. For instance, the central office will be responsible for developing a national network of field personnel for surveys and other kinds of field research. Headquarters will also be responsible for designing a training programme for personnel. However, trainings will be administered locally by the regional branches, which will accordingly build their capacity for data gathering, analysis, and dissemination.

Ongoing and Planned Changes

Capacity for planning

The Department intends to improve its planning capacity. A strategic document has been developed to define the long-term objectives of statistical gathering in Georgia. The Department has also prepared a proposal outlining plans for a global assessment of the national statistics system, to be followed by development of a national statistics strategy. The proposal has been submitted to the World Bank. In the future, the Department plans to design and implement annual work plans in accordance with this national strategy.

Effective implementation of the national strategy requires an adequate technical capacity. Thus ongoing Department reforms also include a technical component. Beginning in the summer of 2007 with support from TACIS, a Virtual Private Network will facilitate intercommunication between all central and regional offices. The statistical software used will be consistent throughout the entire system. Data will universally available to all the offices after it is entered in the system. Department leaders report that the new system will make it possible to implement the 2010 national survey according to the highest international standards.

Internationalisation of national statistics

The main objective of any statistical system is to produce statistics that are not only reliable, but comparable with data from other countries. This objective is realised through the "internationalisation" of national statistics, i.e. the use of internationally recognised standards and practices for data collection, analysis, and dissemination. The importance of compliance with



international standards is acknowledged by both local and external experts; international agencies have correspondingly been forthcoming with support for internationalisation of the Georgian system. The current methodology for gathering and disseminating statistical data is based on standards developed by the statistical divisions of the United Nations and the International Monetary Fund (IMF). Currently the Department of Statistics calculates the consumer price index using a methodology developed with IMF assistance. Its methodology for GDP calculation was developed with support from the Statistics Division of the UN Economic Commission for Europe. The Ministry of Finance and the National Bank also rely on IMF statistical guides to produce statistical data on monetary issues, government finances, external debts, and other issues.¹

In order to comply with international standards and increase the transparency of official statistics, Georgia took an important step forward by joining the General Data Dissemination System (GDDS) – an IMF initiative designed to improve the quality of data in member countries – in December of 2006. The initiative assists member countries in the public dissemination of comprehensive, timely and reliable statistical data. Member countries are required to post information on their current statistical gathering and dissemination practices and to post their plans for improvement on the IMF website. They are also required to update the information and ensure that it is consistent with any adopted changes. At minimum, each country must update its information annually.

Currently comprehensive information on statistical gathering and distribution in Georgia is posted to the IMF's website. The information includes real sector, fiscal sector, financial sector, external sector and socio-economic issues. Specific plans for Department of Statistics, Ministry of Finance and National Bank improvements are also detailed on the site.² This is a powerful tool for monitoring the agencies' commitment to stated goals.

Planned legislative reforms

As mentioned above, the vulnerability of national statistics to political influence also needs to be addressed. The Georgian government has assigned the Department of Statistics the task of drafting new legislation to address its structural position, role, and functions in hopes that its increased independence will facilitate increased interagency coordination and result in more reliable statistical data. A package of draft laws was prepared with the help of the UN Economic Commission for Europe and forwarded to the ministries for comments and suggestions. Following this initial review the draft laws and amendments to the existing legislation will be considered by the Cabinet and submitted to Parliament for debate and eventual adoption.

The draft legislation calls for innovative structural changes to the system of national statistics. It proposes establishment of a National Statistical Service (NSS) independent from the Ministry of Economic Development and directly subordinate to the Prime Minister. The General Director of the Statistical Service will be appointed for five years to ensure that his/her term of service does not coincide with the electoral cycle. The draft law prohibits dismissal of the General Director for political reasons. The Statistical Service will include a dedicated oversight body – the National Council for Statistics – designed to serve several functions: (1) to monitor NSS activities; (2) to coordinate the activities of agencies that gather and publish statistics; and (3) to eliminate the problem of political influence in the generation of statistical data. The Council will be comprised of fifteen members, including representatives of the National Bank, those ministries most dependent on statistical data, the

¹ The following IMF guides are used to assist in data collection, analysis, and dissemination: *Balance of Payments Manual* (1993); *Monetary and Financial Statistics Manual* (2000); *Government Finance Statistics Manual* (2001); *External Debt Statistics* (2003).

² Access this site at: <http://dsbb.imf.org/Applications/web/gdds/gddscountrycategorylist/?strcode=GEO>.



scientific community, business and the media.³ Council members will be appointed by the Prime Minister for five year terms; they will independently elect the Council Chair from among their membership.

The new legislation also increases the coordinative function of the National Statistical Service: every state agency that operates its own statistical office must follow guidelines for data collection, survey documentation, confidentiality, dissemination and data storage established by the NSS. Moreover, state agencies will appoint statistical office personnel based on criteria established by the NSS General Director.

The planned legislative changes constitute an important step forward toward greater independence of the Department of Statistics. However, some independent analysts argue that a bigger challenge is to limit the control of political appointees directly responsible for producing economic results (including the Prime Minister) over the leading statistical agency. These individuals support the independence of the new statistical agency but suggest that it be subordinated to the President for a short transitional period, in light of Georgia's problematic institutional legacy.

Conclusion: Statistics for Transparency

The current state of affairs of Georgia's system of national statistics requires urgent action from the political leadership. More resources must be dedicated to the generation and dissemination of data in all the agencies involved. Implementation of planned institutional reforms in the nearest future will help to ensure that the leading role of the present Department of Statistics is legally ensured. The planned reforms will yield positive results for all interested parties: the government will receive reliable data for public policymaking; businesses and potential investors will have greater confidence in the data produced by an independent body and the investment climate in Georgia will therefore change for the better; last but not least, civil society will have the opportunity to more accurately evaluate the government's stated commitments against the story that the statistics tell.

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³ The ministries to be represented on the Council include the Ministry of Finance, the Ministry of Economic Development, the Ministry of Education and Science, and the Ministry of Labour, Health and Social Protection.