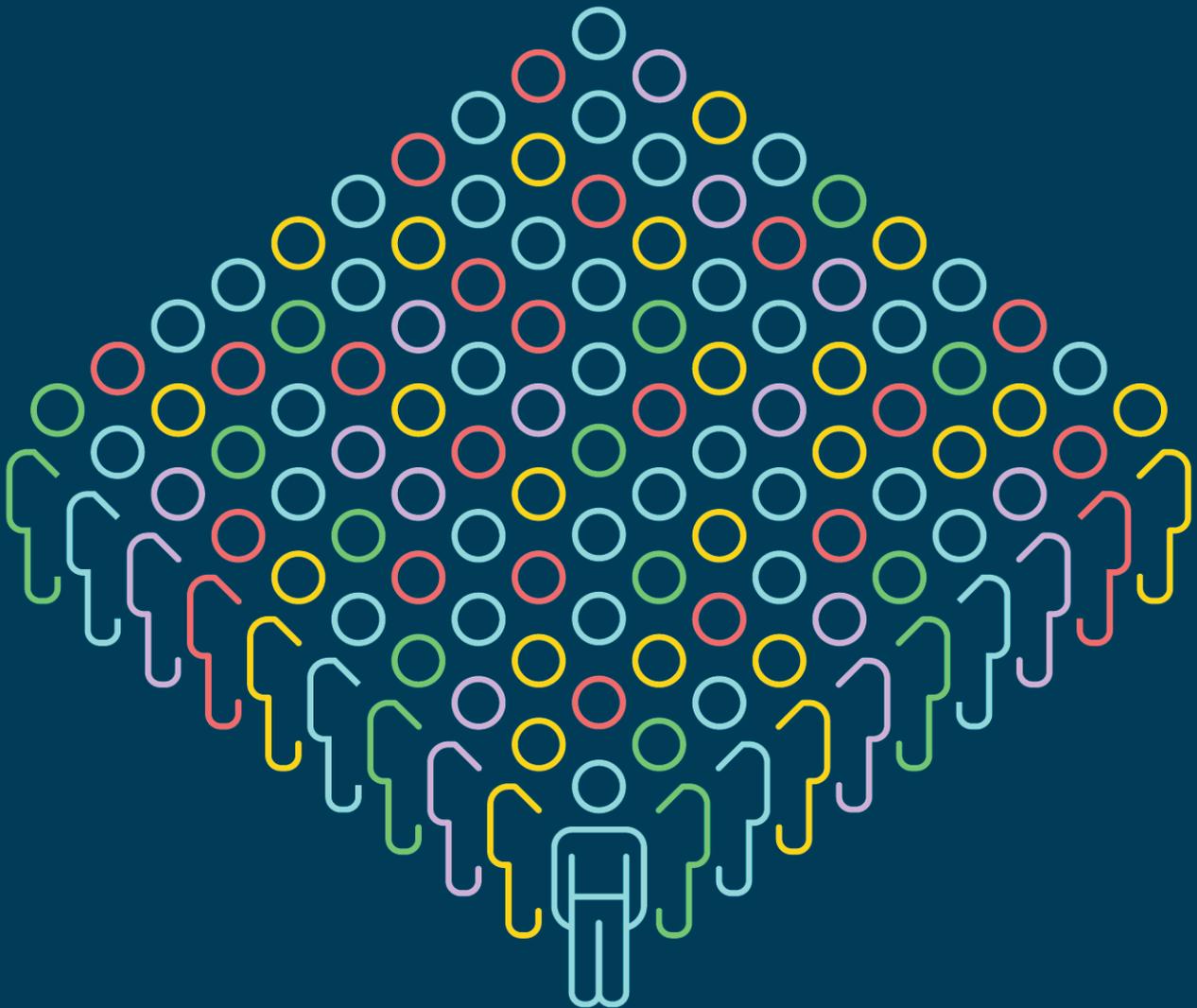




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Challenges of the Georgian Bureaucratic System In the Context of Public Administration Reform

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List of Acronyms

LEPL – Legal Entity of Public Law

NNLE – Non-entrepreneurial Noncommercial Legal Entity

Executive Summary

Overall, in recent years, Georgia has had success in optimizing its system of state bureaucracy in terms of state vehicle use, fuel consumption and number of public servants in central public institutions, however, significant challenges remain in terms of having a fair and balanced remuneration system, number of employees in state LEPLs and NNLEs and their duties, and rules for employing and remunerating supernumerary employees. Despite positive trends, the size of Georgia's state bureaucracy and the resources required to keep it running significantly exceed Georgia's economic capabilities and require further optimization.

According to data from the past 6 years, the relative share of bureaucratic expenses in Georgia, e.g. share of public servants in the total workforce and share of bureaucratic expenses in total state spending, often falls far behind that of developed countries. Moreover, since 2011, the share of bureaucratic expenses in the total state budget has decreased by 6% (and by 0.3% in relation to GFP), even though the nominal amount of bureaucratic expenses has increased by as much as GEL 800 million.

The share of public sector employment in the total workforce has also been slightly decreasing, albeit with notable exceptions that raise questions about the optimal size of the bureaucratic apparatus. The biggest challenge in this regard is the number of public servants in state and municipal LEPLs and NNLEs which is unreasonably high and keeps increasing. For instance, the number persons employed by municipal NNLEs has doubled since 2011 to 51,828 employees in 2015. Georgian legislation does not explicitly define the criteria for setting up such entities, which leads to duplication of authority.

Extensive practice of employing supernumerary employees by public institutions is another challenge. It is common for public institutions to exceed the legal limit on the number of such employees they can employ.

Wasteful spending due to lack of regulation and monitoring is also a significant problem. This problem manifests mostly in relation to the remuneration system, which is unbalanced and non-transparent, and riddled with the practice of issuing unreasonably high bonuses or salary supplements. Wasteful spending also applies to the purchase of luxury vehicles, and inadequately high representation and travel expenses in case of specific public institutions.

Over the past few years, the Georgian government has committed to optimizing administrative expenses by developing a new Law on Labor Remuneration and optimizing the state vehicle use. Unfortunately, the fulfillment of these commitments has been delayed considerably. For example, the draft law on labor remuneration was submitted to the Parliament one year after the deadline. Even though the new system of labor remuneration proposed through the draft law is important, it still has shortcomings in terms of its scope, unbalanced coefficient categories and the rule of granting bonuses and supplements to state political officials.

In 2016, two years after the launch of the state vehicle optimization process, a specially created commission had reviewed and approved optimization plans from only 5 Ministries. Even though restrictions imposed by the government on state vehicles in 2014 significantly reduced the number of high-cost vehicles being purchased by public institutions, the practice of free of charge transfer of

vehicles from private to public entities remains outside of legal regulation and holds risk of wasteful spending and misuse of authority.

Introduction of a new mechanism for controlling fuel use, i.e. use of special chips to track the allocated limits, was an important step forward in terms of reducing bureaucratic expenses. However, the mechanism for monitoring unauthorized use of state vehicles, i.e. for personal purposes, remains weak. The British model of having a common state car park is a good example of a rational and efficient system, and would reduce the unauthorized use of state vehicles if introduced in Georgia.

A comparison of work visit, representation and telecommunication expenses reveals that only the latter has been decreasing since 2011. This is most likely due to the fact that this area is more regulated than the other two, of which work visit expenses have remained unchanged, while representation expenses have been increasing every year, pointing to lack of regulation.

Introduction

Bureaucracy is a form of state administration where public servants manage state affairs in accordance with a predefined regulatory frameworks and procedures. Since this bureaucratic apparatus is being funded by the state, it is critically important for the system to be efficient and flexible.

The ideal size of a bureaucratic apparatus is the minimum number of employees in the public sector that is sufficient for the effective implementation of political, economic or other strategic goals of the state.

According to the National Statistics Office of Georgia, as of 2016, the Georgian public sector employs 262.2 thousand people, which is 14.9% of the total workforce.¹ Even though this share is often far behind that of the developed European states, the size of the state bureaucracy and the resources required for its maintenance in Georgia have been frequently subjected to public criticism.

In 2014, a public administration reform was launched in Georgia, one of the goals of which was to increase the efficiency of human resources and public finance management in the public service. At the initial stage of reform, the Government of Georgia developed a Public Administration Reform Roadmap and Policy Planning System Reform Strategy.

In 2017, a new Law on Public Service entered into force in Georgia and established new approaches in the public service. The adoption of this law was one of the central components of the public service reform. Even though the previous law, which was in effect since 1998, had undergone many fragmentary changes over the years, there were no systematic changes that would be result oriented and based on specific objectives.

The necessity for adopting a new law arose precisely from the need to have systematic and consistent change. The ultimate goal of the new law is to create a professional, merit-based public service. It introduced principles of continuity and integrity of the public service, which aim to create safe employment conditions for public servants and ensure its freedom from political influence.

¹ Distribution of employed by institutional sector, National Statistics Office of Georgia, 2016, http://geostat.ge/index.php?action=page&p_id=146&lang=eng

Even though it is still too early to speak about the results brought by the new law, assessing the shortcomings and challenges of the public service at such an early stage is important nonetheless, since this will allow us to measure the success of the overall reform in the future.

Methodology

The policy document reviews the challenges of the bureaucratic system in Georgia in the context of public administration reform. The document also offers an analysis of current legislation in Georgia and ongoing changes that are part of the reform.

The document studies the trends and practices related to the development of the public sector's bureaucratic system and its administrative costs in 2011-2016. Such a study was made possible by sending freedom of information requests to public institutions.

More specifically, IDFI requested public information from 250 public institutions, including the Parliament, President's Administration, Government, Ministries and their subordinated agencies, regional authorities (city / municipal administrations, city / municipal councils, governor administrations), and various independent legal entities of public law and regulatory commissions.

In addition, the standard of proactive disclosure of public information that was introduced in 2013 allowed IDFI to obtain relevant information directly from the websites of specific public institutions.

After processing the requested public information and monitoring of websites, IDFI was able to conduct a comparative analysis of for the years of 2011-2016 with respect to each major area of research: employment in the public sector, remuneration, work visit expenses, representation expenses, vehicle use, and telecommunication expenses.

Finally, the document also includes a side by side comparison of public service systems of Georgia and the United Kingdom.

Public Service Reform

Rules of public service recruitment in Georgia are regulated by the Law on Public Service², which entered into force in July 2017. Transitional period was determined for the law from July 1 to December 31, 2017. The law was elaborated based on the Concept of Public Service Reform adopted in 2014.³ Before that, the Law on Public Service adopted in 1997 was applicable in Georgia.⁴ In 2016, IDFI published an analysis of the reform and new legislation.⁵ The document reviews legislative amendments and assesses changes offered by the reform.

A number of challenges in the public service created the need of reforms in the area. No fundamental amendments had been made to the Law on Public Service in Georgia since its adoption. Some of the fragmental changes made to the law were directed on short term results only and failed to tackle problems such as outflow of public servants, corruption (including nepotism), politicization and non-

² [Law](#) of Georgia on Public Service, 2015

³ Decree #627 of the Government of Georgia on the Adoption of Public Service Reform [Concept](#) and Other Related Actions, 2014

⁴ [Law](#) of Georgia on Public Service, 1997

⁵ [Analysis](#) of Public Service Reform in Georgia, IDFI, 2016

effectiveness of public service. Addressing these problems as well as creating a public service that would be based on the principles of stability, professionalism and meritocracy were declared to be the main goals of the public service reform. After elaborating the Concept of Public Service Report, the Government Administration developed a Public Administration Reform Roadmap, which determined the government policy in the medium term.

The declared goals of the new Law on Public Service were development of an effective and efficient public service, which would guarantee stable, unified public service in Georgia based on career promotion, merit, integrity, political neutrality, impartiality and accountability.

Merit based public service encompasses impartiality in the process of promotion and recruitment of public servants, which would be based on just and transparent evaluation of the skills and work of a public servant, aimed at selecting the best suitable candidate.⁶

Other principles of public service are discussed in chapter 2 of the Law on Public Service: legality, loyalty, equality before law, economic efficiency and effectiveness, equal access to public service for citizens of Georgia, accountability, political neutrality, career promotion, transparency and openness as well as social and legal security of public servants.⁷

Public Service System

Important changes were made by the new Law on Public Service. Chapter 5 of the old law determined 5 types of public servants: **state-political officials, officials, members of a support staff and part-time employees**.⁸ The law also provided definition of each type of public servant. An official was a person appointed or elected to an established positions; a member of the support staff was a technical worker recruited at an institution based on an employment agreement; whereas a part-time worker was an employee appointed or recruited on the basis of an employment agreement for a specific period of time in order to fulfill temporary tasks.⁹

These concepts were assessed by the Concept of Public Service Reform as ambiguous and incomprehensive. The law did not give clear definition of the types of public service and failed to regulate their tasks.¹⁰

The new Law on Public Service determines new types of state and public service:

- **State service** encompasses service at legislative, executive and judicial branches, as well as at state supervision, control and defense authorities.
- **Public service** includes employment at public service, service at legal entities of public law (except for service in cultural, educational, scientific, research, sports and religious and membership-based legal entities under public law and in legal entities under public law defined by this Law and the Law of Georgia on Legal Entities under Public Law), as well as working at the Administration of the President, advisory bodies of the President, the Prime Minister and the Government, at the National Bank of Georgia, State Audit Office, High Council of Justice, Public Defender, Business Ombudsman,

⁶ [law](#) of Georgia on Public Service, 2015, Chapter II

⁷ Ibid.

⁸ Ibid, Article 5

⁹ Ibid, Article 6-8

¹⁰ Decree #627 of the Government of Georgia on the Adoption of Public Service Reform [Concept](#) and Other Related Actions, 2014, the scope of the Law on Public Service, b) Existing Challenges, pg.6

Personal Data Protection Inspector, Central Election Commission, Supreme Election Commissions of the Autonomous Republics of Abkhazia and Adjara and at Regional Governor Administrations.

Based on the new law, a public servant is elected or appointed in public service. The types of public servants are: **a qualified public officer/public officer/officer, a person recruited on the basis of an agreement under public law or a person recruited on the basis of an employment agreement.**

‘Qualified public officer’ is a new concept introduced by the law. This enabled drawing a distinction between qualified public servants and those recruited based on an employment agreement. Qualified public servant is appointed for an unspecified term, whereas a person recruited on the basis of an agreement fulfills non-permanent tasks and a person recruited on the basis of an agreement under public law is directly connected with a state-political official, supports his/her work as is appointed for the same term as the state-political official. Agreement based recruitment (employment agreements or agreements under public law) substituted work of support and part-time employees in public service. Contractual relations of employment will be regulated by the Organic Law of Georgia – Labor Code.¹¹

The new law does not include the position of acting public official. According to the old law, acting public official held the position until the end of a vacancy competition. Acting public officials could be appointed with the maximum term of one year on the position of high-ranking public official and with the maximum term of three years on all other positions.¹²

Based on the new law, employees of legal entities of public law are also considered to be public servants. Nevertheless, during the transitional period, regulations of the old law will be applicable to them. The old law did not consider employees at legal entities of public law as public servants and only the regulation of competition and recruitments were applicable to them.

The new law contains definition of each type of public servant:

- **Officer** is a person, who is appointed in public service for an unspecified term and exercises public functions.
- **Person recruited on the basis of an agreement under public law** provides support to a state-political official by giving industry/sector-specific advice, rendering intellectual and technical assistance and/or performing organizational and managerial functions.
- **Person recruited on the basis of an employment agreement** performs support or non-permanent tasks at a public institution.
- **State-political officials** are: the President of Georgia, Members of Parliament of Georgia, the Prime Minister and other members of the Government of Georgia and their deputies, members of the Supreme Representative Bodies and Government of the Autonomous Republics of Abkhazia and Adjara, and their deputies.
- **Political officials** are: Regional Governor and his/her deputy, an official of a Municipal Council, Municipal Administration (head of administration/mayor, and their deputies).¹³

In addition the new law determines four rankings of officers, where the first rank is equivalent to the highest management level, while the forth - to the junior level. The second and the third ranks are

¹¹ Ibid, Definition of a Public Officer, pg.7

¹² [Law](#) of Georgia on Public Service, 1997, Article 30

¹³ [Law](#) of Georgia on Public Service, 2015, Article 3

distributed among middle management and senior specialist levels. Officer positions are assigned to the hierarchical ranks based on factors such as: responsibility, the level of complexity of duties, required qualification and work experience.¹⁴

An officer may be assigned an officer's class according to evaluation results. The total number of officer classes is 12, where the first is the lowest, while the 12th the highest class. Officers who have been assigned an officer's class shall be paid a salary supplement as determined by this Law.¹⁵

Comparison of Public Service Models of Georgia and the United Kingdom

Public Service System	
Georgia	United Kingdom
In Georgia, public service is implemented by state and public servants. Public servants are divided into servants and persons employed on the basis of labor and administrative contracts. Public officials are divided into 4 ranks, according to the career ladder, from first rank (the highest) to the fourth. A public official may also be awarded a rank, based on which he/she gets supplements. In total, there are 12 classes, where first class is the lowest.	Similarly to Georgia, public service in UK is implemented by state and public servants. In UK, the ranks are tied to the salary/remuneration schemes. The authority to determine these schemes is the discretion of state entities. While elaborating the ranks, state entities take into account their needs, state policy and state budgetary restraints. For temporary tasks, employees are hired based of fixed-term contracts.
Employment in Public Service	
Georgia	United Kingdom
The Civil Service Bureau is the principal entity for coordinating public service activities. Citizens over 18 are eligible to serve as servants. Certificates/diplomas are required for those persons who are not active or ex-public servants, persons with higher education or those who were not successful in passing the national exams.	In UK, the principal coordinating body for employment in public service is the independent civil/state service commission, which at the same time has the right to examine cases of violation of the public service code. The ministries themselves regulate/deal with employment in public service. There is no age census on employment in public service in the UK. There are citizenship based restrictions; however their scope is rather broad.
Competition	
Georgia	United Kingdom
There are open and closed vacancy competitions. With open competition, servants are employed on the lowest category. For the rest of the categories, there is a closed competition, in order to ensure the	The British legislation does recognize closed competition. Only an open and merit-based competition is announced. Through verifying the competency of candidates, the best are employed. The candidate must be evaluated in

¹⁴ Ibid, Article 25

¹⁵ Decree #219 of the Government of Georgia on the Rules and Procedures of Assigning Officer Class to Qualified Public Officers, 2017, Article 2(5)

continuity of public service. The call for competition is announced via the website managed by the CSB. Job description, necessary criteria and qualifications, personal qualities and proof of professional experience are tailored for the vacant position.

The competition commission evaluates the candidates. Representative of the bureau has the right to attend the commission sessions/gatherings in any public institution. The commission comprises representative of the public entity, where the vacancy competition is announced, representative of the labor union (in case of its existence in the area) and an invited independent expert. The candidate is evaluated based on a written or/and oral test, as well as a personal interview.

The evaluation of the commission must be based objective, impartial and consistent criteria. The candidate is assessed according to his/her work experience, professional knowledge and the quality of executed work in accordance with the job description of the announced vacancy. The results of the evaluations are reflected in the commission protocol. Based on the results, the best candidate is nominated for the position. Then, the nominated candidate is appointed by the head of the public entity. Probation period for the employee is mandatory. The probation period lasts 12 months.

an unbiased and objective fashion. There must be a public vacancy announcement, including via television. Selection criteria and procedures should be publicly available to any potential candidate.

There is no unified selection process for all positions. The public entities are responsible for planning and managing the selection process appropriately, so as to comply with all the requirements of this process. The selection process should enable the commission to assess the candidate's qualifications in coherence with the required skills and experience for the vacant position. The commission consists of 2 or more members, chaired by public servant or public service commissioner, in case candidates are chosen for high ranks.

The commission must ensure unbiased evaluation of the candidate throughout the process, according to the published selection criteria, making sure that the best candidate is chosen. The public institution is obliged to provide information to all potential candidates equally, including the description of the position and the rank, selection criteria, selection process and remuneration. Often, candidate selection includes an interview; however, it is not mandatory.

If a candidate has previously engaged in political activities, the commission must judge on his/her capacity to remain impartial while performing duties. The commission itself should determine the most proportional and adequate means to test such a notion, taking the level of the position into consideration.

The commission has the obligation to state conflict of interest vis-à-vis the candidate. Public institutions have the right to determine selection process, selection criteria for specific positions, including – age, education, skills/capacity, professional achievements, relevancy, potential, state of health and aptitude to fulfill duties demanded by the vacant position. There is no obligation for a probation period; the decision is up to the institution to make, nevertheless, the probation period cannot exceed 2 years.

Remuneration	
Georgia	United Kingdom
<p>Rules of remuneration of public servants are determined by the <i>Law of Georgia on Remuneration in Public Institutions</i>. However, it has not been adopted yet. Along with the salary, a supplement is foreseen based on class, overtime work, performance of additional functions, including – working on late hours, holidays or under sever/harsh conditions. The supplement must be reasonable and correlated with the salary. Additionally, after evaluation of employees results, the servant may receive a bonus (monetary or as a gift).</p>	<p>In the UK, the ranking system and remuneration are interrelated. However, public institutions decide on the specific system themselves. The remuneration system should be attuned to the needs, state policies and mechanisms of expenditure control. Evaluation of ranks and remuneration systems take place once every 3 years. Public institutions provide non-monetary rewards to their employees, for a well-performed job, their contribution to team work or outstanding input. Supplements are also foreseen in the British code, however, it is in correlation with the severity of the work performed and not the fixed salary of the servant.</p> <p>For higher ranks, minimum and maximum remuneration thresholds are determined. Recommendations on such remunerations are made by the - Review Body on Senior Salaries.</p>
Dismissal	
Georgia	United Kingdom
<p>In Georgia, there are several grounds for dismissal: 2 successive negative results for annual assessment, consumption of narcotic substances, on voluntary basis, reduction in the number of positions as a result of the reorganization, liquidation and/or merger of the public institution with another public institution, state of health and/or long-term incapacity for work, violation of the Law of Georgia on Conflicts of Interest and Corruption in Public Institutions</p> <p>A public servant may be dismissed due to the reduction in the number of posts as a result of the reorganization, liquidation and/or merger of the public institution with another public institution, provided that mobility of the servant is impossible. Mobility implies transfer to an equal position and if no such position is available, to a lower position. If mobility is not possible, the public servant shall be transferred to the reserve list and shall be paid appropriate compensation in the amount worth of 3 months of salary. The maximum time the public servant can be</p>	<p>Despite the fact that public institutions do not have the legal obligation to notify their employees on the dismissal, in practice, they still use the time-frames of the public service management code. Additionally, despite the existence of the grounds for dismissal, the public servant gets a compensation, which depends on the years served by the servant. The grounds for dismissal can be age, incapacity for work, disciplinary misconduct, failure to pass the probation period, state of health, staff reduction, and felony. In certain cases, public servants have the right to appeal against such decision in the public service appellate council.</p> <p>Once the public servant is dismissed, state secrecy act applies to him/her and confidentiality is requested and different rules of employment in the private sector apply to them. The mandatory retirement age is not determined in public institutions, except for cases, when there is a substantiated, work related reason, which also requires legal recommendation.</p>

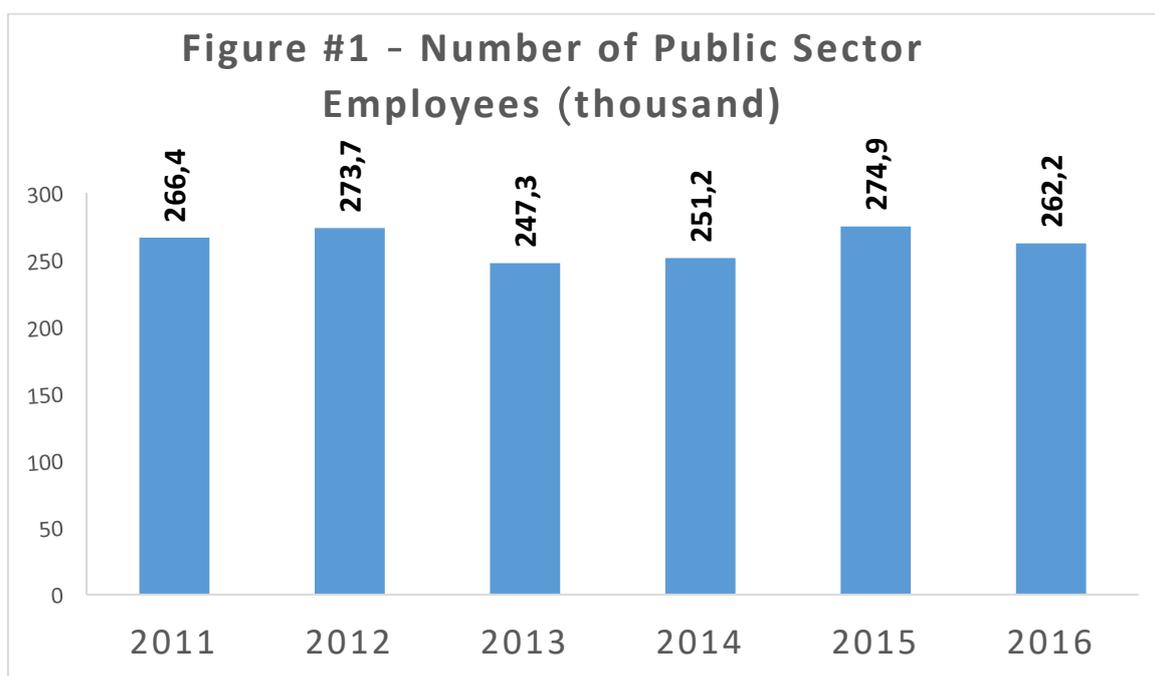
listed in the reserve is 2 years, during which, he/she can apply to closed competitions.	
Travel	
Georgia	United Kingdom
While performing their duties (except commuting from home to work) public servants use institutions' or personal cars (in case of high ranking public servants). This rule does not apply to business trips, which is regulated by an appropriate scheme in public institution, where travel expenses vary according to countries. While purchasing cars, public institutions take into account certain thresholds. Such thresholds are monetary and, in case of common use cars, quantity related. Thresholds do not take into account other standards, such as pollution, most economic means of transportation, etc.	The most important aspect to consider in terms of work related travel is to use the most economically sound means. The rules include travel via train, air, taxi and public transport, in which case the public servants use the travel cards (Oyster Card). Taxi can be used in case appropriate public transport is not available, public servant is travelling to a neighborhood unknown to him/her, public transport is slow or it is important to save time. Travel from home to work is allowed in exceptional cases, for high ranking officials/servants, in order to ensure their safe travel, give them possibility to concentrate on work and use the day efficiently.
State Vehicles	
Georgia	United Kingdom
State cars are the property of public institutions. Their parameters are determined according to law. Public officials have personal vehicles, including the Prime Minister, Ministers, their deputies, heads of departments, etc. Other than personal vehicles, public institutions are authorized to own common use cars. Their number is determined in the following manner: for public institutions up to 100 permanent employees – 1 vehicle for every 20 employees, and for every other 50 employees 1 additional vehicle. Employees use common use vehicles for work related travel.	Vehicle services are provided by the Government Car Service, which is a part of the transport department. The service has around 90 cars, which comprises low carbon emission cars of British production/origin. The service records the use of the cars by individual public official and publishes the information online – identity of public official, number of years and frequency of use.

Bureaucratic Apparatus of the Georgian Public Sector

In order to analyze the state bureaucratic apparatus in its entirety, we must look at parts of the public sector that remain unregulated in addition to what falls inside the scope of the Law on Public Service. Even though the law regulates employment in the public service, an important part of state funded public sector employees remain outside its coverage. One such group are employees of state Legal Entities of Public Law (LEPLs) and Non-entrepreneurial (Non-commercial) Legal Entities (NNLEs) that are not considered public servants and are employed in entities with authority that is duplicated in relation to their supervision public institution.

According to the National Statistics Office of Georgia, the total number of employees in the public sector varied between 245 and 275 thousand persons in 2011-2016. Over the past 6 years, 2015 had the highest number at 274.9 thousand, while 2013 had the lowest at 247.3 thousand (see Figure #1). During the same period, public sector employees constituted between 14.4% and 16% of the total workforce in Georgia (including the self-employed category). The methodology used to calculate employment rates defines an employed person not only as someone working for the private or public sector and receives remuneration in the form of a salary, but also self-employed persons that work for family businesses or farms. This self-employed category holds the largest share in the country's workforce. Much more important to look at is the ratio between public and private sector employees, which has been steadily declining from 2011, where public sector employees constituted 42.2% of contracted employment, to 2016, where this share declined to 35.2%. However, the fact that the total number of public sector employees has remained unchanged suggests that the downward trend is due to increase of contracted employment in the private sector (see Figure #2).¹⁶

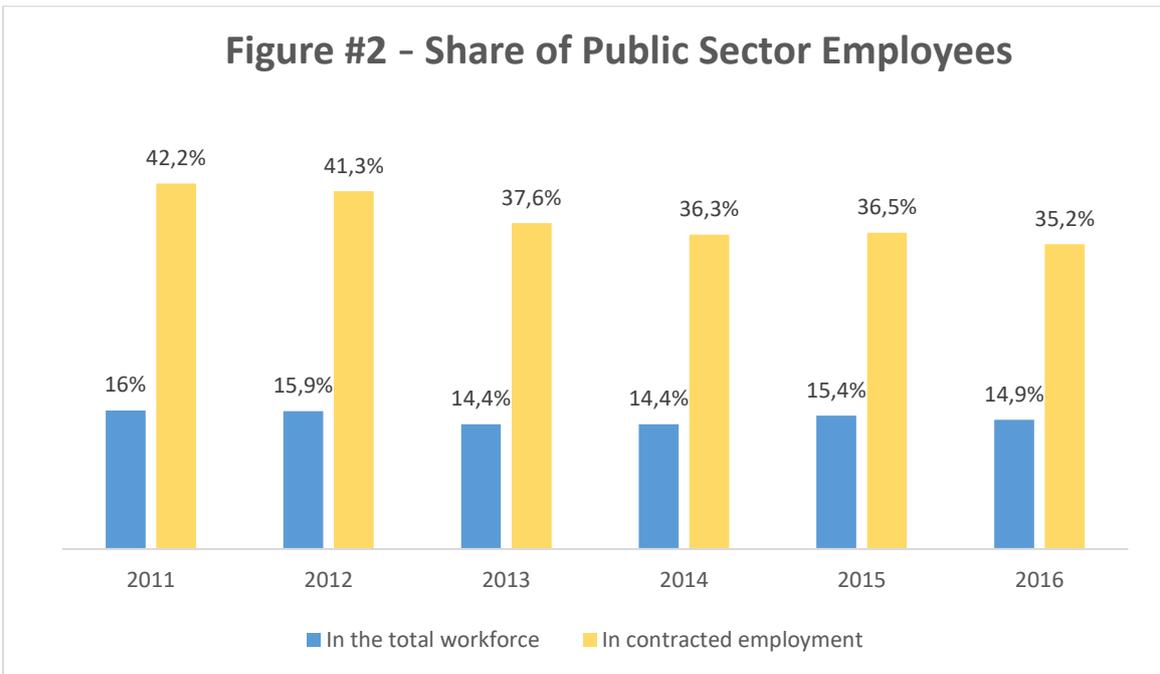
According to a 2015 report by the Organization for Economic Co-operation and Development (OECD), the share of public sector employees in the total workforce varies considerably by country. The highest shares are in the Scandinavian countries: Denmark – 34.9%, and Norway – 34.6%, while the lowest are in Japan – 7.9%, and South Korea – 7.9%. The average share for OECD member states is 21.3%, which is 6% greater than it is in Georgia.¹⁷ However, major changes occur when we adjust the shares by excluding the self-employed category, which increases the average share of public sector employees in the total contracted workforce to 25% for the developed economies and as much as to 35% for Georgia.



Source: National Statistics Office of Georgia - http://geostat.ge/index.php?action=page&p_id=146&lang=eng

¹⁶ Distribution of employees by institutional sector, Geostat, 2016

¹⁷ <http://bit.ly/2kzFxWj>

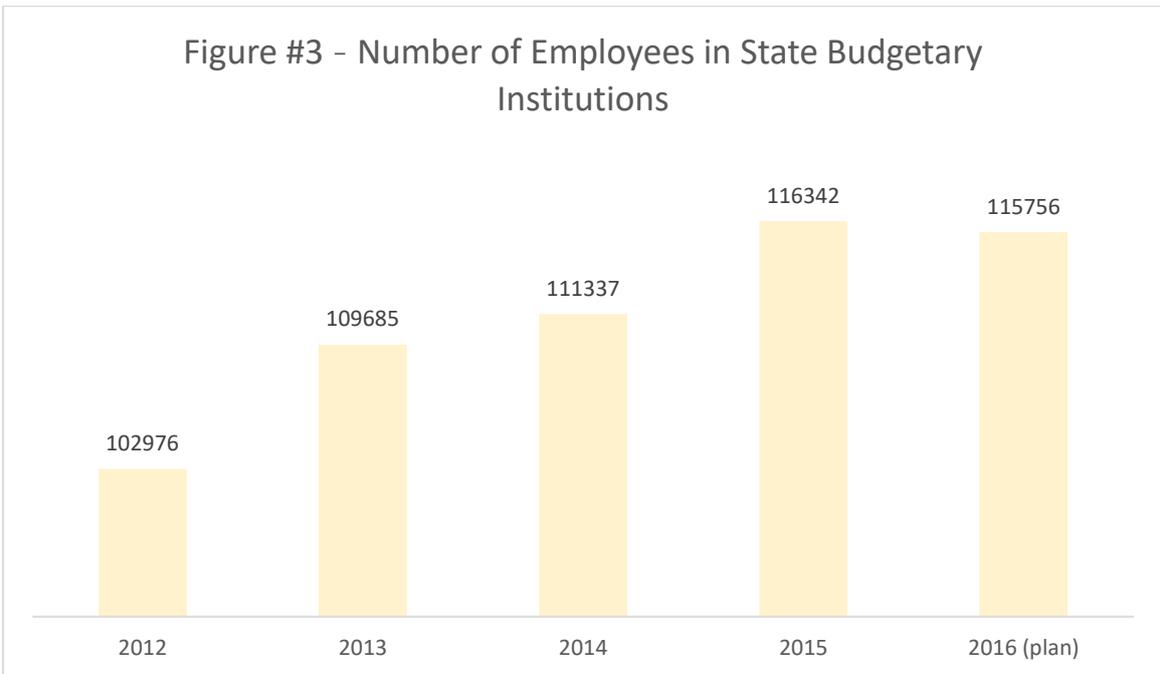


Source: National Statistics Office of Georgia - http://geostat.ge/index.php?action=page&p_id=146&lang=eng

The National Statistics Office of Georgia generates employment data (for the private and public sectors alike) through an integrated household survey, which has a higher margin of error than information disclosed by public institutions themselves.

According to state budget indicators, the number of employees in budgetary public institutions has been increasing each year between 2012 and 2015 (see Figure #3), and decreased slightly (by 586) to 115,756 positions in the 2016 state budget plan. However, the budget data cannot serve as a measure of the size of the public sector, since it does not cover local self-governments, state-owned enterprises, non-entrepreneurial (non-commercial) legal entities (NNLEs), and a number of legal entities of public law (LEPLs).

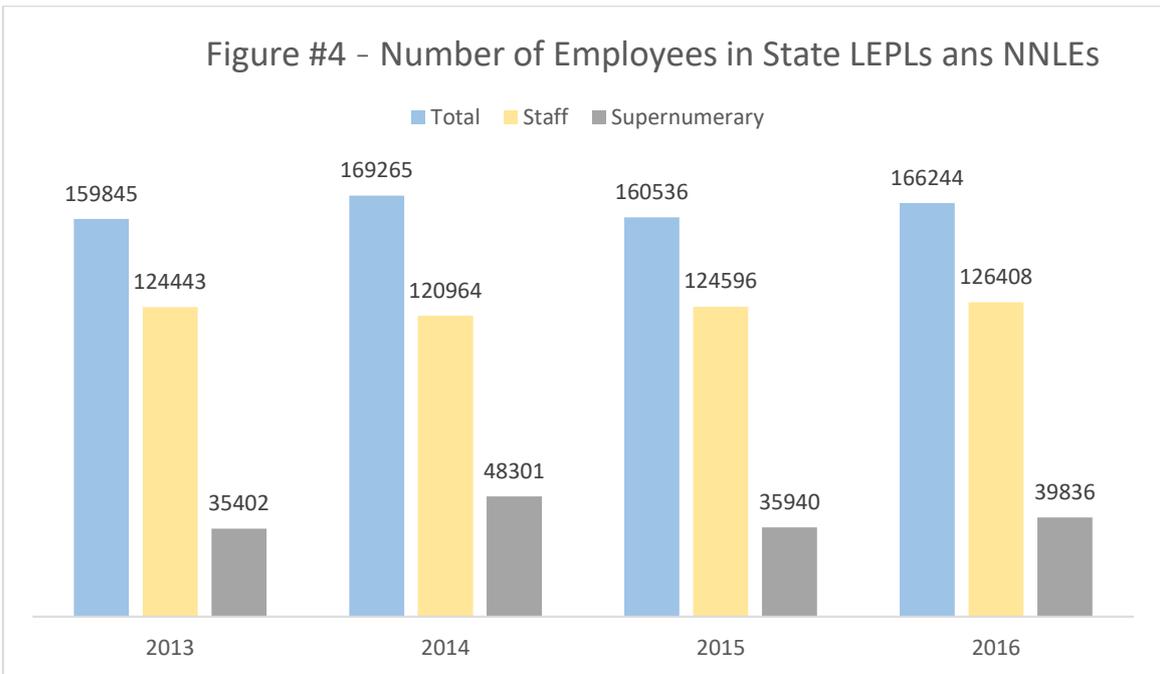
Employment related budget data is also inconsistent, due to changes in the methodology or the internal structure of budgetary institutions. For example, the number of employees within the Ministries of Culture increased significantly in 2015 when the methodology was changed to include employees of theaters, museums and other similar organizations subordinate to the Ministry. The same happened in case of the Ministry of Internal Affairs, the difference being that new agencies were transferred under its supervision.



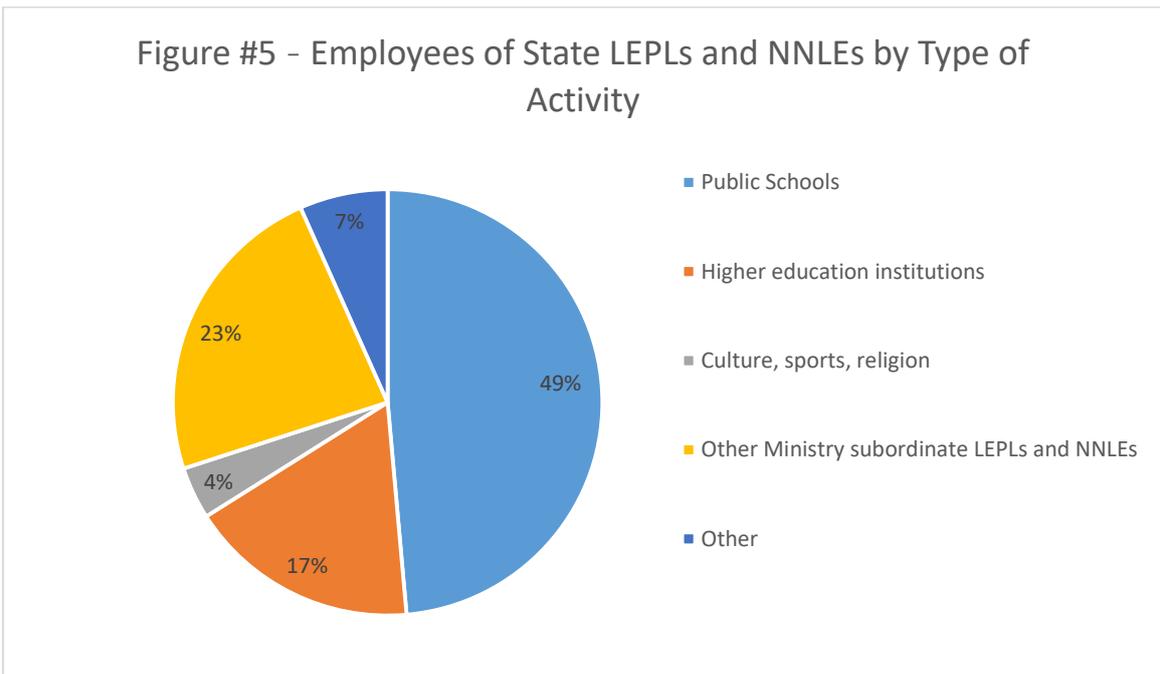
Source: Ministry of Finance of Georgia - http://mof.ge/images/File/biujetis_cvlileba/december-2016/TAVI_VI.pdf

The 2016 State Budget Execution Report provides financial and employment data on state LEPLs and NNLEs. According to this report, in 2016, the total number of employees working for such entities amounted to 166,244 persons, of which 126,408 are staff members and 39,836 are supernumerary (see Figure #4). This data is available since 2013, and 2014 saw the highest number of employees in state LEPLs and NNLEs – 169,265.

State LEPLs and NNLEs include organizations, such as public schools, theatres and museums. According to the Ministry of Finance data, 49% (80,386 persons) of employees in state LEPLs and NNLEs work in public schools, 17% in state universities and other educational institutions, 4% in state museums, theaters and other cultural, sports and religious organizations (see Figure #5) . The remaining 30% are distributed among other LEPLs and NNLEs that are subordinated to various ministries, the government, or are independent organization, such as the Georgian Public Broadcaster, which has 122 staff members and 1,205 supernumerary employees.



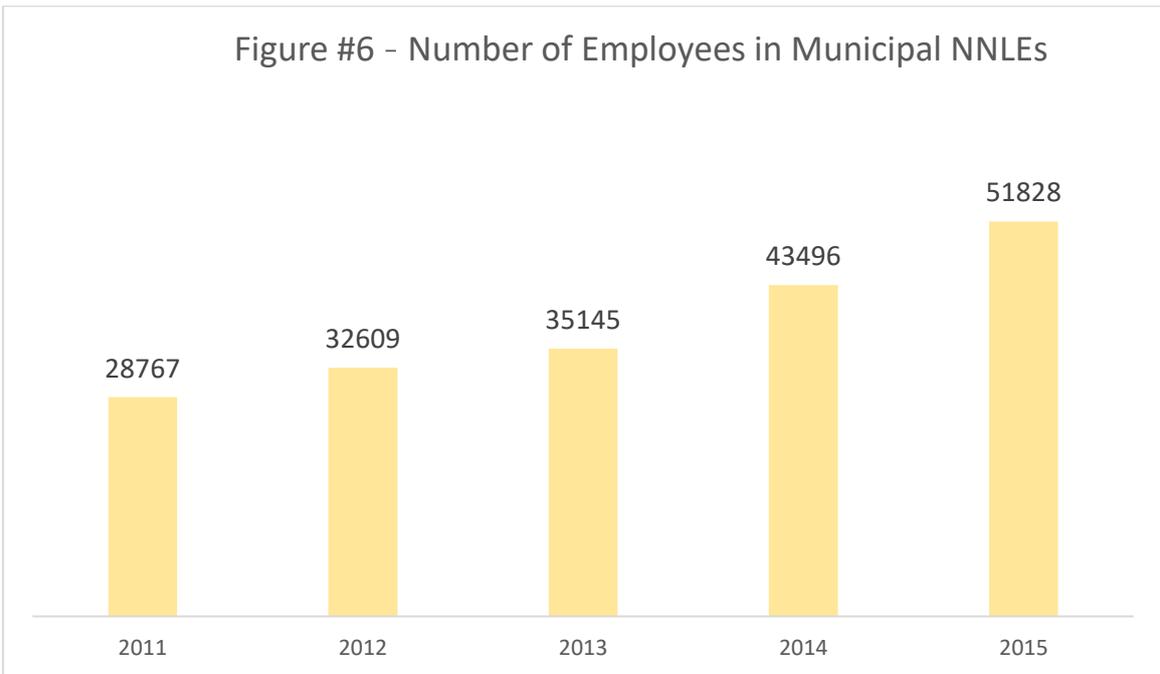
Source: Ministry of Finance of Georgia - http://mof.ge/images/File/biuj2016_12tve/TAVI_VII_e.pdf



Source: Ministry of Finance of Georgia - http://mof.ge/images/File/biuj2016_12tve/TAVI_VII_e.pdf

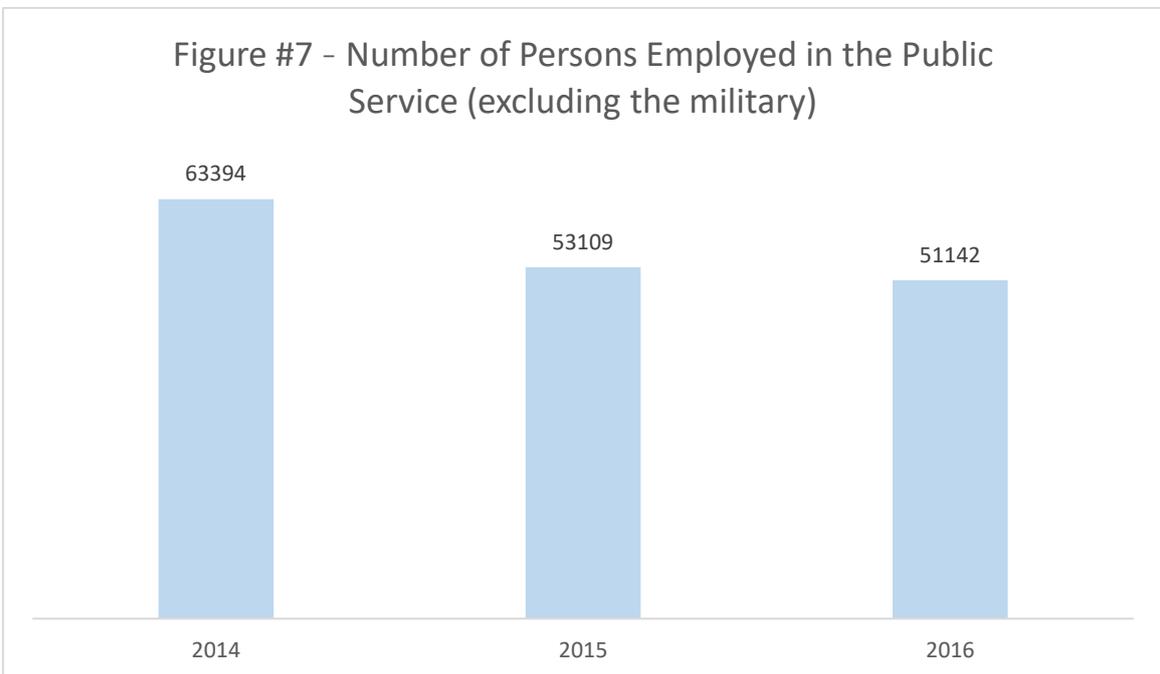
Data included in the budget execution reports does not cover municipal LEPLs and NNLEs, which constitutes a significant portion of the public sector. According to the State Audit Office, the number of people employed in municipal NNLEs is unreasonably high, has been rapidly increasing each year in 2011-2015 and has almost doubled during this period from 28,767 in 2011 to 51,828 in 2015 (see Figure #6).¹⁸

¹⁸ Audit Report of the Municipal Budget Expenditures and Execution in 2012-2015, State Audit Office, 2016.



Source: State Audit Office - <https://budgetmonitor.ge/ka/pdf/index/adgilobrivi-2014-2015.pdf/1>

Another public institution that keeps statistics on public sector employment is the Civil Service Bureau, even though it started doing so only since 2014.¹⁹ According to the Civil Service Bureau, the number of employees in the public service (excluding the military) has significantly declined over the past 3 years from 63,394 persons in 2014 to 51,142 in 2016 (see Figure #7).



Source: Civil Service Bureau - <http://www.csb.gov.ge/ge/publications>

The Civil Service Bureau keeps track of employment data based on the latest legal definitions of what constitutes public service defined by the Law on Public Service. This makes the data inconsistent due to frequent legislative amendments and structural changes in specific public institutions. The Civil Service

¹⁹ Letter N 2703 from the Civil Service Bureau, April 7, 2017

Bureau classifies its 2015-2016 employment data by the type of public institution. In 2016, the number of employees decreased in all types of public institutions except LEPLs, where this number increased by a little more than 3000. Incidentally, this is almost exactly the amount by which the number of employees decreased in Ministries and State Ministers' Offices in the same period (see Figure #8). This is presumably due to the separation of the State Security Service from the Ministry of Internal Affairs towards the end of 2015, after which the former was placed in the LEPL category.

Figure #8 - Number of Employees by Type of Public Institution

Type of public institution	2015	2016
Administrations of the Government and President	447	332
Parliament	745	574
Public Institutions of the Autonomous Republics of Adjara and Abkhazia	1,802	1,297
Regional Governor Administrations	272	266
Ministries and State Ministers' Offices	29,519	26,256
Local Government Bodies	12,684	11,913
Courts	1,886	1,659
Legal Entities of Public Law	5,754	8,945

Source: Civil Service Bureau - <http://www.csb.gov.ge/ge/publications>

According to Georgian law, the share of supernumerary employees must not exceed 2% of any budgetary organization's staff. Exceptions can be made upon agreement with the Government of Georgia. According to a report by the State Audit Office, cases when the 2% limit is exceeded with the permission of the government are common. For example, in 2016, 71 LEPLs exceeded this limit with the government's permission.

Even though supernumerary employees are supposed to be used for completing temporary tasks, the legislation does not regulate the duration of their employment. As a result, in practice, supernumerary employees are kept at their positions for long periods of time, where they perform non-temporary tasks, making them indistinguishable from regular staff members.

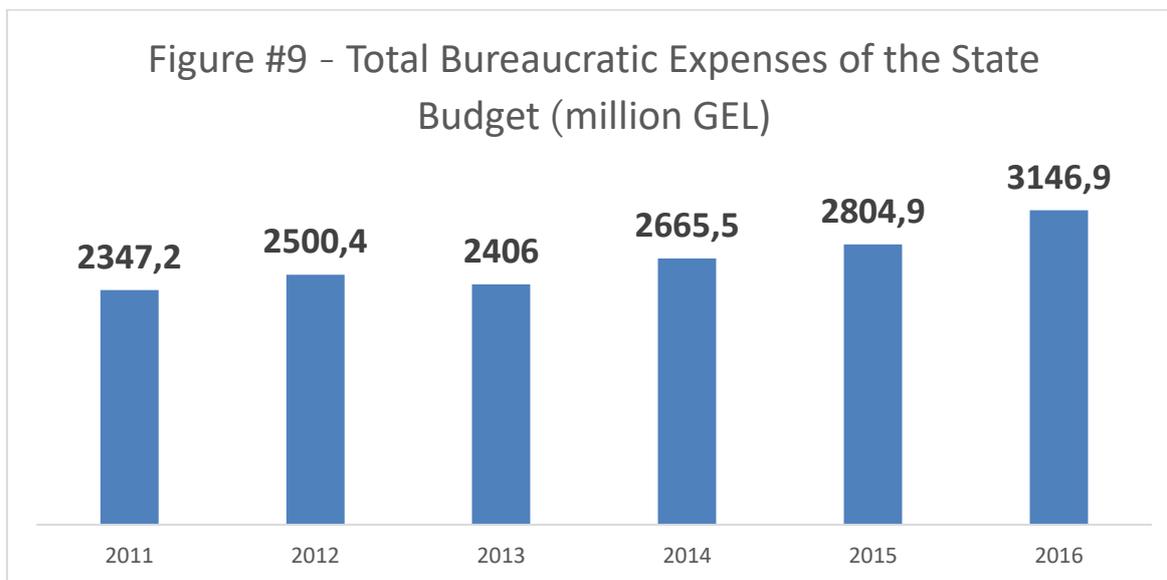
The analysis of 2011-2016 data on public sector employment shows that there is no common trend and that different types of public institutions vary considerably in this regard. Even though the share of public sector employment in the total workforce has been somewhat decreasing, the existence of notable exceptions raises questions about the optimal size of the bureaucratic apparatus.

Bureaucratic Expenses

Considering Georgia's economic hardships, it is especially important to have an efficient state bureaucracy, which excludes unreasonable expenses.

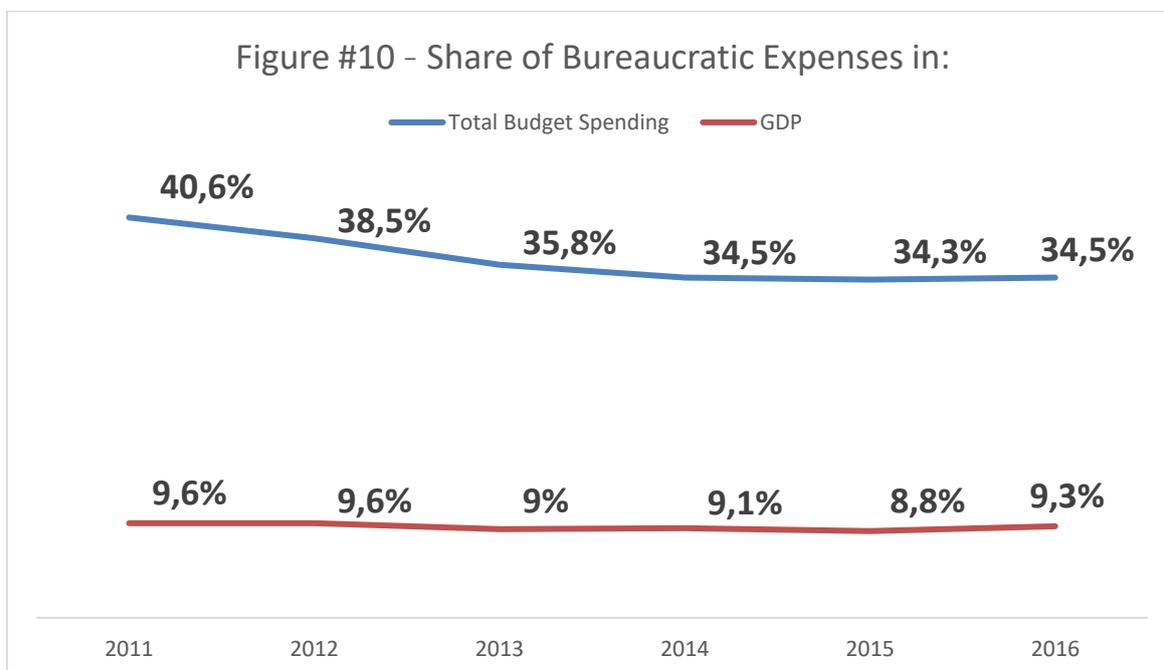
Bureaucratic expenses include remuneration of public sector employees, work visits, representation, state vehicle maintenance, fuel consumption, telecommunication and other expenses. The overall volume of bureaucratic expenditures is most accurately described by Georgia's consolidated budget, which includes unified data of the state and local government budgets (municipalities, autonomous republics).

According to the consolidated budget, bureaucratic expenses are increasing significantly each year. In the period between 2011 and 2016, such expenses have increased by GEL 800 million and reached GEL 3.1 billion.



Source: Ministry of Finance - Consolidated Budget - <http://mof.ge/en/4567>

Despite the nominal increase in bureaucratic expenses, their share in the overall expenses of the consolidated budget or the country's GDP has been decreasing. The former decreased from 40.6% in 2011 to 34.5% in 2016, while the latter decreased from 9.6% in 2011 to 9.3% in 2016. This decrease took place despite the fact that labor remuneration for a number of state LEPLs and NNLEs, which was previously categorized as state subsidies, was properly reclassified as labor remuneration since 2015.



Source: Ministry of Finance - Consolidated Budget - <http://mof.ge/en/4567>

Labor Remuneration

Labor remuneration is the largest of state bureaucratic expenses. For this reason, it is especially important to have a system that, on the one hand, guarantees adequate and fair labor remuneration to public servants, while, on the other hand, minimizes wasteful spending.

Having adequate labor remuneration in the public sector is an integral part of the anti-corruption policy. It also ensures that the private sector remains competitive and is able to attract qualified candidates. According to Geostat data, average labor remuneration for public servants was GEL 1295.3 in the first quarter of 2017, which is fourth highest after finance, construction, and transport and communications. This suggests that public service remains competitive on the overall job market.

Finance	1907.5
Construction	1498.5
Transport and communication	1332.4
Public service	1295.3
Mining	1226.8
Real estate, lease	1196.2
Production and distribution of electricity, natural gas and water	1115.6
Fishing, fisheries	955.2
Healthcare and social assistance	934.4
Trade: repair of automobiles, household goods and personal belongings	853.5
Manufacturing	826.1
Utility, social and personal service	781.9
Hotels and restaurants	740.7
Agriculture, hunting and forestry	657.9
Education	563.9

Source: National Statistics Office - http://geostat.ge/index.php?action=page&p_id=149&lang=eng

The main challenge facing the Georgia in this regard is lack of a fair and transparent labor remuneration policy, which requires elaboration of a uniform approach and detailed regulations.

According to the new Law on Public Service, adopted in 2015, labor remuneration shall be regulated by a new Law on Remuneration in the Public Service. This law remains to be adopted, with the old regulations remaining in force until this happens. According to the Civil Service Reform Concept adopted by the Government of Georgia on November 19, 2014,²⁰ the existing system of remuneration in public institutions is perceived as being unjust and biased and requires significant regulation.

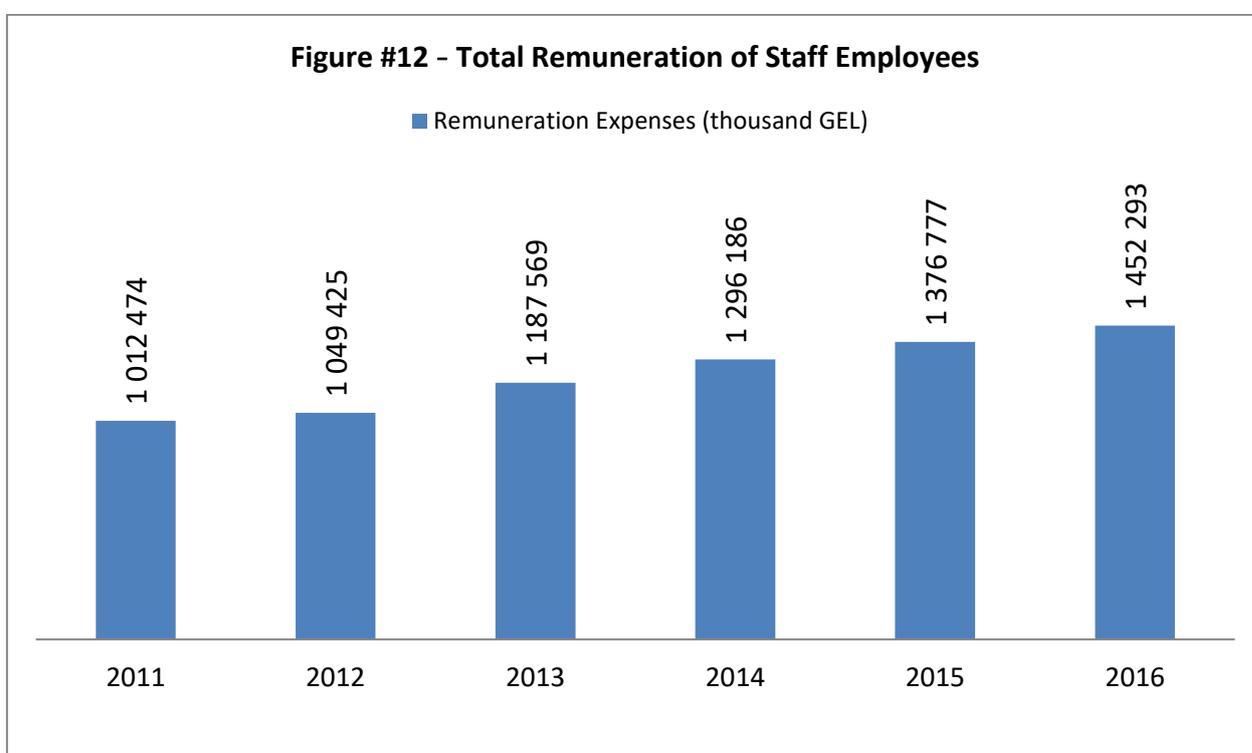
Under acting legislation, remuneration of a public servant includes salary, bonus and salary supplement. Salary is a fixed amount paid to a public servant based on their position. Salaries of the President, Member of Parliament, Minister, Judge and other public officials defined by the Constitution are determined through legislation, while salaries of all other public servants are determined by the head of the public institution.

²⁰ <http://csb.gov.ge/uploads/matsne-2582972.pdf>

While there are no major differences in salaries of public servants of equal rank in public institutions such as the Parliament, Government Administration, President’s Administration, Ministries, Local Governments, their overall remuneration does differ due unregulated use of bonuses and salary supplements. The former problem is present to a much higher extent in state LEPLs and Regulatory Commissions, which is influenced by the amount of revenue made by these institutions. For example, the monthly salary of a member of a Regulatory Commission is almost three times higher than that of the Prime Minister.

Bonuses and salary supplement are considered to be additional compensation, the periodicity and amount of which is not regulated by the current legislation. The legislation also fails to draw a clear line between these two types of remuneration, making it possible for public institutions to either one of them in any specific circumstance.

Such lack of regulation has resulted in a GEL 440 million increase in remuneration expenses in the period of 2011-2016.



Source: State Audit Office - <https://sao.ge/files/auditi/moxseneba-2016-biujetis-shesrulebis-cliuri-angarishis-shesaxe.pdf>

Even though there is no clear difference between the legal definitions of the bonus and salary supplement, the former was used as the dominant form of additional compensation prior to 2014. Public officials in Ministries and their subordinate agencies received monthly bonuses that were issued without substantiation and in amounts that often exceeded their monthly salary. Following public discontent regarding cases of public officials receiving especially high monthly bonuses, for example in case of the Department of Corrections which in December of 2013 issued bonuses to several officials that were 10 times higher than their monthly salaries,²¹ the government decided to introduce uniform

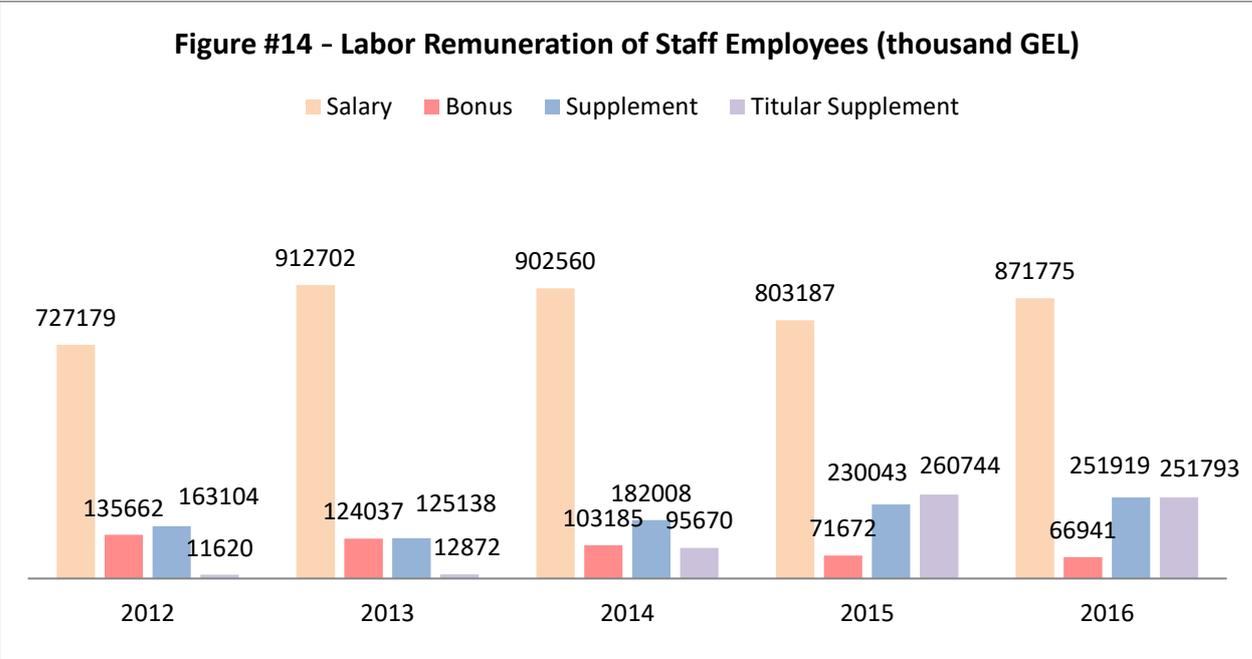
²¹ <http://www.ipress.ge/new/23030-sasielaghshrulebis-departamentshi-23-tanamshromelma-10-000dan-27-160-laramde-premia-miigho>

regulations. On July 15, 2014, a government order²² was signed that determined specific officials authorized to issue bonuses, introduced the substantiation requirement and restrictions on the frequency and amount of bonuses (see Figure #13).

Figure #13 - Regulations on Bonuses Introduced by the July 15, 2014 Government Order (N449)

- Bonuses shall be issued on the basis of performance evaluation and/or substantiation.
- Public officials are no longer able to issue bonuses to themselves.
- A one-time bonus awarded to a public servant shall not exceed their monthly salary.
- A bonus can be issued once a quarter.
- A bonus can also be issued on holidays three times a year.
- Exceptions can be made based on a motivated motion of a senior official.

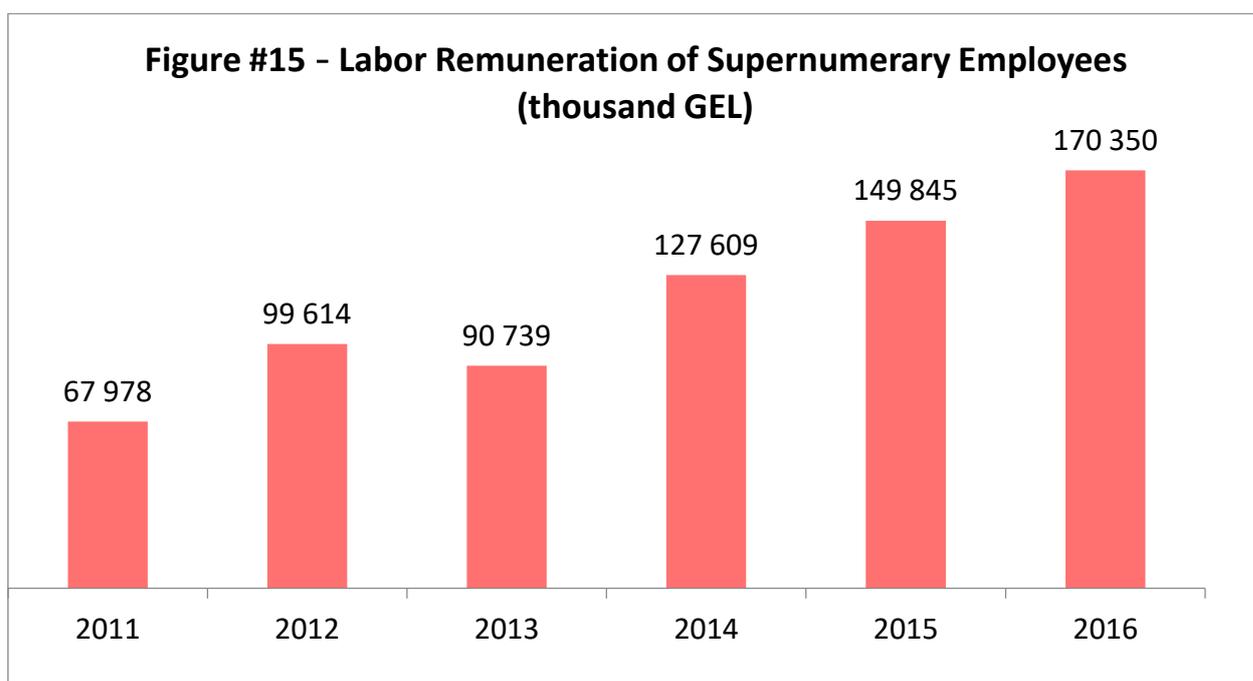
The new order reined in the use of bonuses by public institutions directly under the central government’s control. However, since it did not regulate salary supplements, many of these institutions substituted bonuses with supplements, which is clearly reflected in the budget data. As a result of this order, from 2013 to 2016, the total amount of issued bonuses decreased by GEL 57 million, while the amount of salary supplements increased by GEL 126 million.



Source: State Audit Office - <https://sao.ge/files/auditi/moxseneba-2016-biujetis-shesrulebis-cliuri-angarishis-shesaxe.pdf>

²² <https://matsne.gov.ge/ka/document/view/2726205>

Remuneration expenses on supernumerary employees have also seen a significant increase. This amount has more than doubled from GEL 68 million in 2011 to GEL 170 million in 2016.



Source: State Audit Office - <https://sao.ge/files/auditi/moxseneba-2016-biujetis-shesrulebis-cliuri-angarishis-shesaxe.pdf>

In addition to the substitution of bonuses with salary supplements, the 2014 government order has several other important shortcomings:

Substantiation is limited to the amount and not the reason – even though the government order did introduce a substantiation requirement for issuing bonuses, the required information is strictly financial (amount of the bonus, percentage in relation to salary, other bonuses issued to the public servant during the year) and does not include the reasoning and specific circumstances based on which the bonus was awarded.

Quarterly bonuses as the new norm – the government order states that bonuses cannot be issued more often than once every quarter. Unfortunately, some institutions have adopted a practice of issuing obligatory quarterly bonuses, even to the point of referring to it as a ‘quarterly bonus’ in their legislative acts.

Bonuses still higher than salaries – despite the restriction imposed by the government order that a bonus may not be greater than a public servant’s monthly salary, this practice has not been eradicated. For example, Director of the Service Agency of the Ministry of Finance received 9 bonuses in 2016, of which 5 were greater than his monthly salary. Moreover, each month of 2016, the same director received salary supplements equal to his monthly salary.

Scheduled bonuses – the Law on Public Service allows a head of a public institution to use its economized funds to issue supplements to employees for overtime work or for completing a difficult task. However, many Ministries and their subordinate agencies issue single orders that include a list of positions to receive bonuses throughout the year for overtime work or for completing a difficult task. According to the State Audit Office, issuing supplements in advance for an entire year is more akin to a

regular salary and cannot be considered justified. The problem of the amount exceeding the monthly salary is present with supplements as well.

Lack of planning – A number of public institutions have significant problems with planning their salary budget, which, in turn, is largely due to ineffective planning of staff positions. The salary budget is planned in the beginning of each year according to the number of staff positions. However, a comparison of planned and actual indicators (salaries, bonuses and supplements) from a number of institutions revealed that actual expenses on salaries fall significantly behind the planned amount. The leftover funds are then used to issue bonuses and supplements.

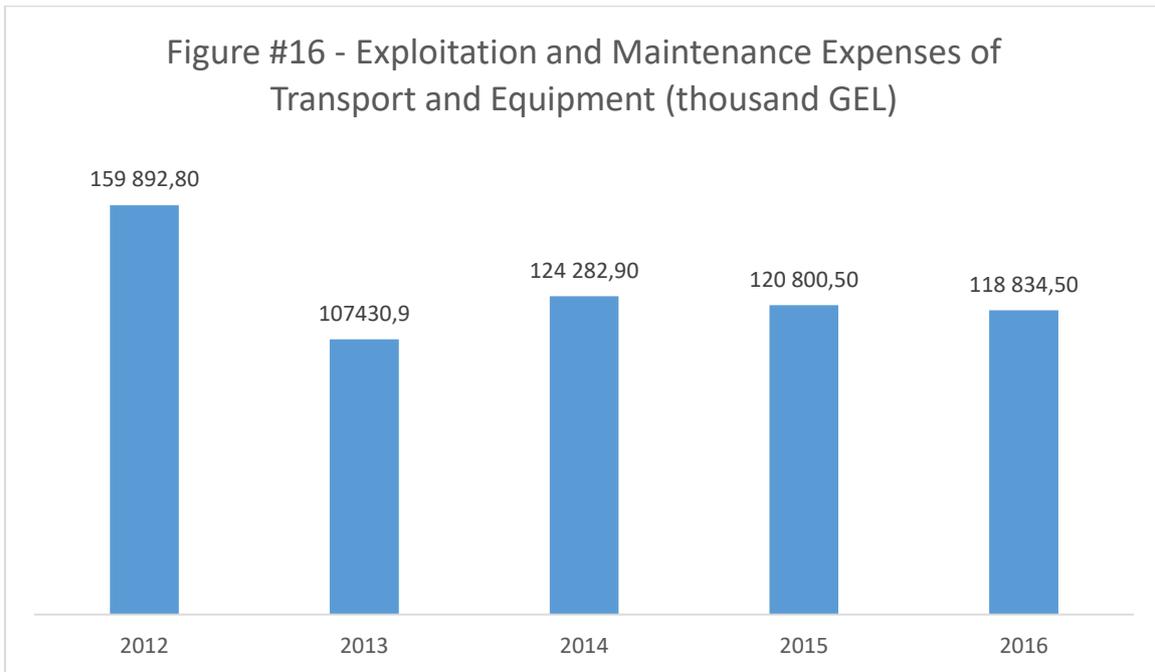
The above longstanding problems clearly point to the necessity of introducing better regulations on labor remuneration. The Government of Georgia committed to elaborating a new Law on Remuneration in 2015 as part of the public administration reform. The law was supposed to be submitted to the Parliament before September 1, 2016. The Civil Service Bureau presented a draft law on labor remuneration and held public discussions in July 2017. The draft law was submitted to the Parliament in September of the same year.

The proposed draft law will significantly improve the issues of remuneration, bonuses and salary supplements in public institutions. However, we believe that the proposed system will not reduce bureaucratic expenses, since it grants the heads of public institutions the authority to change position ranks and salary coefficients.

State Vehicle Use

Management and maintenance of state vehicles is another important component of the state bureaucracy. This area typically involves considerable expenses, and therefore requires high levels of optimization and a unified regulatory framework.

The state budget execution reports present state vehicle expenses as exploitation and maintenance of transport and equipment, which includes fuel, repairs and other related expenses. It turns out that expenses in this category have decreased by more than 40 million over the past 5 years, from GEL 159.9 million in 2012 to GEL 118.8 million in 2016.



Source: Ministry of Finance - http://mof.ge/images/File/biuj2016_12tve/TAVI_III_e.pdf

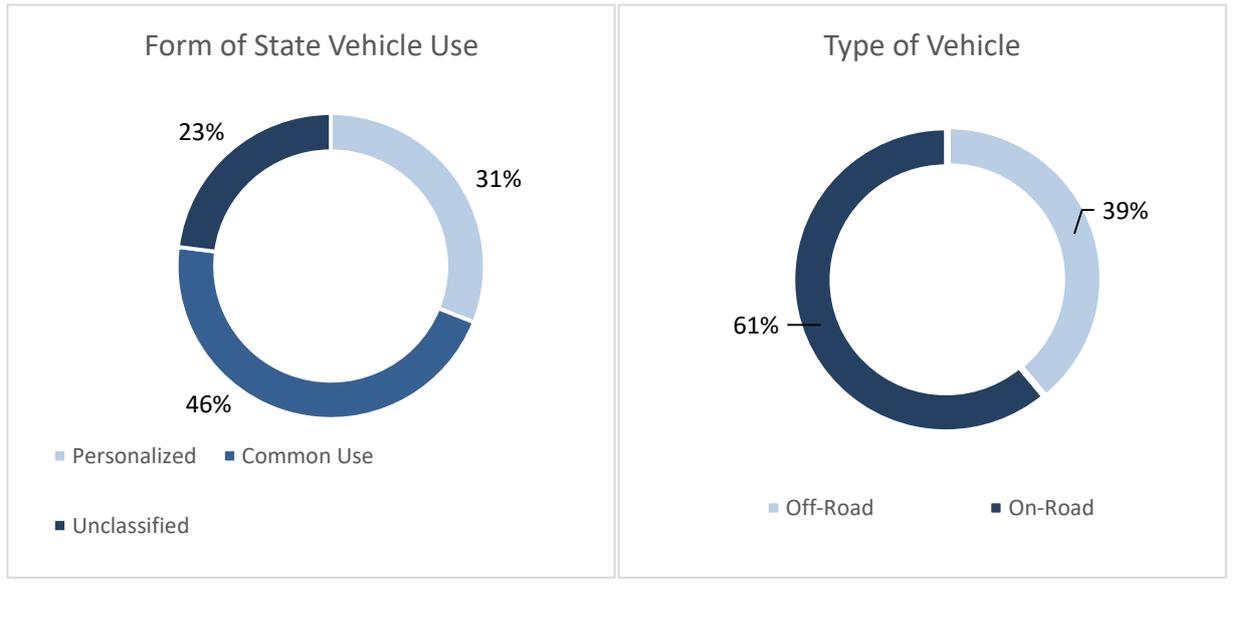
The Government of Georgia launched the process of optimization of state vehicles in 2014 by issuing an Order on February 6 on the Approval of the Rules for Distribution, Classification and Procurement or Substitution of State Vehicles.

The government order obligated public institutions to elaborate state vehicle optimization plans and submit them to a special commission for approval before April 1, 2014. The order enters into full force, including the new limits on the maximum number of vehicles public institutions may use, only after this stage is complete. However, the process has been delayed significantly. As of 2016, the commission has reviewed and approved optimization plans of only 5 Ministries.

According to the State Audit Office, towards the end of 2016, budgetary public institutions²³ owned a total of 2,463 vehicles, of which 1,488 were off-road type.

²³ 10 Ministries and budgetary organizations under their subordination; 3 Ministry Offices; Administrations of the Parliament and Government

Figure #17 – Ownership and Use of State Vehicles



Source: State Audit Office – <https://sao.ge/en/audit/report-on-budget-execution/2016>

According to information obtained by IDFI through freedom of information requests, the number of state vehicles owned by all Ministries together (except the Ministry of Internal Affairs) reached 720 during the reporting period. The largest fleet is owned by the Ministry of Probation – 267, followed by the Ministry of Agriculture at 87 and the Ministry of Defense at 48.

The most expensive model owned by Ministries is Toyota LC 200, an off-road vehicle with a price tag of GEL 120 to 130 thousand that is usually reserved for Ministers and were procured or received from private entities in 2011-2012.

Even though the 2014 government order did introduce significant restrictions on the purchase of expensive vehicles by Ministries, there are cases when this regulation has been violated. For example, on December 26, 2014, the Ministry of Regional Development and Infrastructure purchased a KIA Quoris for GEL 96,463, which was at least GEL 37,265 more than the maximum price allowed for the specific category of vehicle. IDFI has been unable to confirm that the Ministry had obtained approval from the state vehicle commission to grant an exception.

The government order does not regulate the free of charge transfer of vehicles from private entities to public institutions. As a result, Ministries often own vehicles obtained in this manner since 2014, the market value of which significantly exceeds the limits set by the order. An example of this can also be found in the Ministry of Regional Development and Infrastructure, which received a GEL 129,069 worth Toyota LC 200 free of charge on August 8, 2014. The vehicle is used personally by the Minister and its price exceeds the legal limit by GEL 48,000.

Other examples of free of charge transfer include the Head of the Administrative Department of the Ministry of IDPs receiving a Toyota Camry worth GEL 70,495 in 2015; the Ministry of Probation receiving a Toyota LC 200 worth GEL 129,430 and a Range Rover worth GEL 119,606. Finally, all of the 14 vehicles received by the Ministry of Agriculture since 2014 have been free of charge.

In the period of 2011-2016, fuel expenses on state vehicles peaked in 2012 and have been declining ever since. This is mainly due to the introduction of a new fuel management system, which uses chips to track fuel consumption. The change is clearly illustrated by the Tbilisi City Council example, where fuel limits were used 100% during the coupon system, 90% during the electronic card system and 74% using the chip system.²⁴

Work Visit, Representation and Telecommunication Expenses

Work visits of public servants are regulated by the Law on Public Service, while reimbursement and per diems are regulated by the April 25, 2017 Government Order.²⁵ The latter document determines per diems for work visits inside the country at GEL 15, while accommodation costs are reimbursed based on the prices of a middle class hotel.

Per diems for out of country work visits vary by country.²⁶ For example, during short-term work visits Georgian public servants are compensated USD 60 in the United States, EUR 56 in France, EUR 57 in Germany, and so on. Reimbursement of daily accommodation expenses varies by city, e.g. USD 235 in New York, and USD 180 in the rest of US.

Figure #18 – Per Diems and Accommodation Reimbursement for Public Servant Work Visits outside Georgia (full list available in Government Resolution #211)

Country	Currency	Per diem for a short term work visit	Accommodation
United States of America	USD	60	235 in New York, otherwise 180
France	EUR	56	134 in Paris, otherwise 97
Germany	EUR	57	153
Italy	EUR	45	102
United Kingdom	British Pound	27	135 in London, otherwise 100
Azerbaijan	USD	25	125 in Baku, otherwise 60
Armenia	USD	35	105 in Yerevan, otherwise 53
Turkey	EUR	33	65

The government order also sets additional per diems for high-ranking officials during their work visits abroad. Irrespective of the country, this amount is USD 300 for the President and USD 150 for the Prime Minister. Other high-ranking officials receive varying percentages of these amounts, e.g. Minister – 80%, Deputy Minister – 70% and so on. In special circumstance, the Prime Minister may approve a public official to receive higher per diems.

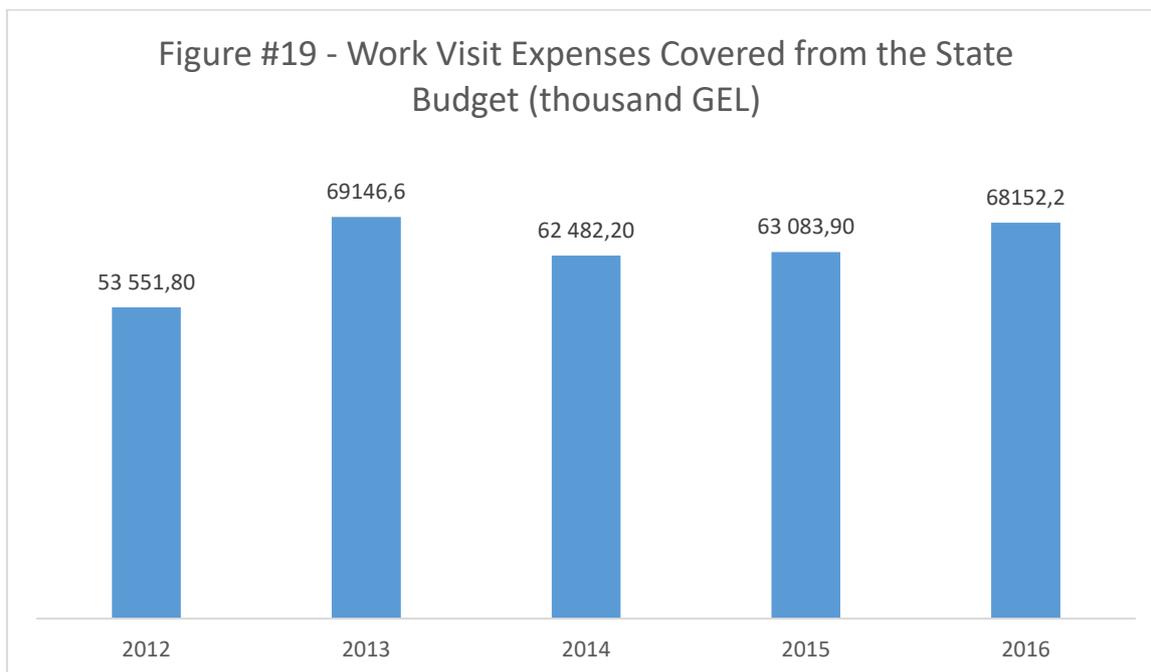
Air travel costs are reimbursed in full, however, no more than the cost of an economy class ticket. Exceptions may apply only to flights with duration of 5 or more hours, where, in special circumstances, business class ticket can also be reimbursed. This restriction does not apply to the President and the Prime Minister.

²⁴ Audit Report of the Financial and Economic Activity of Tbilisi City Council for 2012-2014, State Audit Office, p. 16, 2015

²⁵ Government Order N211 on Public Servant Work Visits, Expense Reimbursement and Compensation, Article 2

²⁶ Ibid. Article 3

According to the Ministry of Finance, in the period of 2010-2016, work visit expenses reached their peak in 2013 with GEL 69.1 million. This figure decreased to 62.5 million in 2014 and has been slowly rising in the past two years.



Source: Ministry of Finance - http://mof.ge/images/File/biuj2016_12tve/TAVI_III_e.pdf

According to the classification used by Georgia's state budget, representation expenses include receptions, dinner events, cultural sightseeing activities, procurement/manufacture of souvenirs, guest services, and other similar expenses. The general instructions on representation expenses are defined by an Order of the Minister of Finance. However, this order gives the heads of public institutions the authority to decide which expenses to include in this category.²⁷

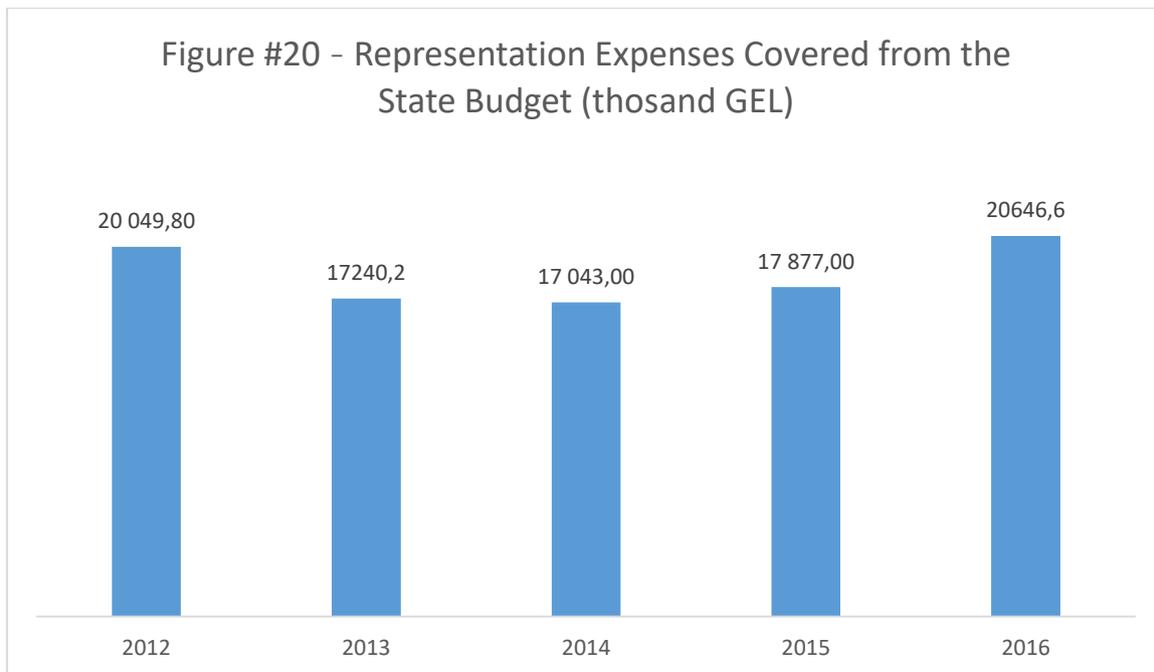
Georgian legislation does not provide a uniform rule for managing representation expenses that would regulate the form of receiving guests by their category, limits on the cost of gifts and other issues. Instead, decisions of representation expenses are made on a case by case basis by heads of public institutions.

Especially problematic are dinner receptions that sometimes end up costing surprising amounts due to lack of regulations, even as simple as keeping a record of the number of guests. For instance, in 2016 the Ministry of Finance had paid GEL 4,689 for a 25 person dinner reception (1 person – GEL 188), while the Investigative Department of the same Ministry paid only GEL 75 for each guest at the same restaurant.

The above problem points to a clear necessity of introducing common rules for managing representation expenses. Also important in this regard, is for each public institution to have stronger internal financial control that will prevent wasteful spending. The new State Strategy for Developing Internal Financial Control approved on March 21, 2017 by the Government of Georgia is an important step in this direction.

According to the Ministry of Finance, over the past 5 years, 2016 was the year with the highest amount spend on representation expenses – GEL 20.6 million; the lowest was spent in 2014 – GEL 17 million.

²⁷ Instruction on Making Payments by State Treasury Organizations, Article 5, Paragraph 5



Source: Ministry of Finance - http://mof.ge/images/File/biuj2016_12tve/TAVI_III_e.pdf

Telecommunication expenses include the cost of domestic and long distance telephone services, mobile phone expenditures, roaming costs, and special telephone line expenses. Unfortunately, complete information about these expenses is hard to come by, since the country's budget execution reports do not include a separate calculation on them.

Data that IDFI managed to obtain through freedom of information requests and analysis of proactively published information indicates a general decreasing trend in telecommunication expenses, which is partly due to decreasing prices, but also introduction of new control mechanisms. However, the data also points to possible wasteful spending in relation to the use of roaming services (telephone service used during work visits abroad). For example, in 2013 the President's Administration spent as much as GEL 513,418 on roaming service, which included GEL 50,177 being spent by the head of the Foreign Affairs Department, GEL 29,320 by the head of the Administration and GEL 20,295 by the deputy head.

Conclusion

The Georgian public service is undergoing a transition. Despite a number of important steps that were taken within the reform, its continuous monitoring and improvement remains essential. Considering the country's historic experience, it is especially important for the reform to create a public service where the possibility of nepotism, cronyism, corruption and bias are brought to a minimum; freedom from political influence must be guaranteed and a change of government must not influence the work of public servants. In addition, considering Georgia's economic hardships, its system of state bureaucracy must also be made efficient, which, on the one hand, will be able to pursue state goals and deliver services, while, on the other hand, will not become a barrier for economic development due to high maintenance cost.

We believe that the following recommendations will help the Georgian government to create a more efficient bureaucratic apparatus.

Recommendations

- The Georgian government must develop a separate strategy and action plan on the optimization of its bureaucratic apparatus.
- The legislation must define clear criteria for setting up state LEPLs and NNLEs, focusing on prevention of duplication of authority.
- Specific criteria must be introduced for when it is admissible to exceed the limit on the number of supernumerary employees, as well as their employment conditions and contract duration.
- The new Law on Labor Remuneration must be extended to apply to all budgetary institutions. A new provision must also be added to the law regulating the remuneration of the heads of state-owned enterprises.
- The practice of issuing bonuses and salary supplements to state servants (Ministers, MPs, Chief Prosecutor, etc.) must be restricted completely. The “special occasion” for granting supplements must also be explicitly defined by the law. Finally, supplements must not be issued to supernumerary employees.
- Optimization of use of state vehicles must be accelerated and a reasonable timeframe must be determined for reviewing and approving optimization plans presented by budgetary institutions.
- The terms and conditions for free of charge transfer of vehicles to public institutions must be regulated by a Government Decree.
- The use of state vehicles must be brought to a minimum. The Government of Georgia should consider establishing a centralized state vehicle service, which will manage all state vehicles.
- A new technological mechanism must be introduced for controlling the unauthorized use of state vehicles. The existing fuel consumption monitoring system must be extended to cover all public institutions, including local self-government.
- The Government of Georgia must develop common rules for managing representation expenses.
- Limits must be placed on the use of roaming services by public servants during out of country work visits.
- Internal audit departments must exercise stricter control of work visit, representation and other administrative expenses.
- The Civil Service Bureau must periodically analyze the enforcement process of the new Law on Public Service, study local practices arising as a result of this process, study best international practice, provide relevant recommendations and oversee their implementation.
- The Civil Service Bureau must be granted the authority to review complaints regarding violations of the Law on Public Service.

