

SOCIAL PROTECTION AND SOCIAL INCLUSION IN GEORGIA

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List of acronyms and abbreviations

BBP	Basic Benefit Package
CIS	Commonwealth of Independent States
DRC	Danish Refugee Council
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EHEA	European High Education Area
EMIS	Education Management Information System
ENP AP	Action Plan of the European Neighborhood Policy
ERA	European Research Area
ERC	Education Resource Centers
ETF	Eurasia Partnership Foundation
FDI	Foreign Domestic Investment
GAV	Gross Added Value
GDP	Gross Domestic Product
GEL	Georgian Lari
GTZ	Gesellschaft für Technische Zusammenarbeit
HBS	Household Budget Survey
HeSPA	Health and Social Programs Agency
IDP	Internally Displaced Person
ILO	International Labor Organization
IMF	International Monetary Fund
ISSA	Institute of Social Studies and Analysis
LEPLS	Legal Entities of Public Law
LSMS	Living Standards Measurement Survey
LTD	Limited Company
MAP	Medical Assistance Programme
MDG	Millennium Development Goal
MoES	Ministry of Education and Science
MoLHSA	Ministry of Labour, Health and Social Affairs
MS	Member State
NAEC	National Assessment Center
NCDCPH	National Centre for Disease Control and Public Health
NGO	Non-Governmental organizations
NPA	National Professional Agency
OECD	Organization for Economic Co-operation and Development
OSI	Open Society Institute
PAE	Per adult equivalent
PAYG	Pay as You Go
PFM	Public Finance Management
PHC	Primary Healthcare
PIRLS	Progress in International Reading Literacy Study
PMT	Proxy means Testing
PPP	Purchasing Power Parity
PvtHE	Private expenditure on health
PMMG	Public Movement 'Multinational Georgia'
SMIC	State Medical Insurance Company
SBS	Sector Budget Support
SSA	Social Service Agency
SUSIF	State United Social Insurance Fund
SDC	Swiss Agency for Development and Cooperation Danish Refugee Council (DRC)
TA	Technical Assistance
THE	Total Health Expenditure
TPDC	Teacher Professional Development Center
TSA	Targeted Social Assistance
UNDP	United Nations Development Program
UNE	Unified National Examinations
UNECE	United Nations Economic Commission for Europe
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USD	United States dollar
USSR	Union of Soviet Socialist Republics
VET	Vocational Education and Training
WHO	World Health Organisation
WB	World Bank

Executive Summary

This report presents the development trends in such sectors as demography, economy, education, social protection, healthcare, etc. It also analyzes the reasons and risk factors for poverty among the population and the isolation of particular social groups from the general economic and social development process. The report attempts to provide an up-to-date and relevant information and comprehensive analysis on current social protection systems.

Georgia's transition from centrally planned to market economy has been accompanied by social and political upheavals making the process of development unpredictable. Political unrest, ethnic conflicts and irresponsible governance after breakdown of USSR threw the country into chaos and anarchy.

Unlike most post-communist countries, rebuilding the economy and introducing a social protection system started from very low level and despite rapid progress has not yet achieved the pre-crisis level. This can explain the stringent and priority oriented economic and social policy mainly aimed at solving most painful poverty problems. At present the ideology of the Georgian government is to reduce poverty by creating a more favorable environment to business to insure rapid economic growth and redistribute funds to parts of population unable to benefit from economic opportunities. The strategy is not always equally successfully implemented in all areas of social and economic policy but main direction is perceptible.

Macroeconomic overview

Since 1991, after the disintegration of the Soviet Union, the economic systems in all post-Soviet countries began to change. However, the transition period was particularly complicated in Georgia due to territorial conflicts and armed civil confrontation at the beginning of 1990s. Also, despite the ambiguities of official statistics, all evidence indicates that after 1989 Georgia experienced a disastrous drop in industrial output, real income, consumption, capital investment, and virtually every other economic indicator. By 1994, GDP had fallen by 72 percent from the level it stood at in 1990. Since 1994, as a result of economic and political stabilization, a stage of slow economic development started in Georgia. In the period of economic recovery which took place between 1995 and 2003, Georgia did not achieve strong and sustained growth. Growth was often dependent on single large investment projects. As a result, many people moved to low-productivity jobs in the agricultural, rural, and informal sectors. The institutions of governance became increasingly weak, corruption was huge, and the selective reform efforts which were initiated were not being sustained. Since 2004 the government has been implementing radical liberal reforms. This has led to economic development unparalleled in the recent history of Georgia.

In 2005-2006 Georgia suffered from unfavorable Russian economic policies. The gas price for Georgia was increased by Russia and in 2006 Russia put an embargo on Georgian wine, mineral waters, and agricultural products for all of which Russia had hitherto constituted the major share of the export market. Russia also suspended air, rail, road, sea and postal links with Georgia, and limited issuing entry visas to Georgian citizens. Despite all this, Georgia managed to record a GDP growth of 9.0 percent in 2006.

The August war of 2008 and the global financial crisis certainly impacted the economic and social development rates of Georgia. With the support of the international community, the government of Georgia overcame the critical phase of the global financial crisis relatively smoothly. Volume of assistance decreases in 2011 and the government faces the necessity to take significant steps. For maintaining the speed of economic growth reached in 2010, it is necessary to reduce the state budget

deficit and tax pressure; to carry out a strict monetary policy against the high inflation rate reported in 2010. The government also needs to do more to support local entrepreneurs.

Another important challenge is to develop an export sector, especially in agriculture food processing and industry.

The reforms implemented since 2004 were intended to reduce poverty by means of rapid economic development in Georgia. The Georgian government believed that this goal could be best achieved in an economic environment as free as possible from direct state intervention. A radical reduction of corruption, the improvement of tax collection and a decline in tax rates enabled the government to increase the state budget six times its previous amount.

At the current stage, Georgia's choice of methods and tools for solving social problems is linked to political values. Keeping the rate of economic development high for a long time is of vital importance for maintaining a stable social situation and independence of the country, especially as ten percent of its population is internally displaced. The first stage of free-market oriented reforms enabled the country to make a rapid change.

Labor market

Labor market outcomes in Georgia are unsatisfactory. Urban unemployment is high and of long duration, while rural employment yields low productivity and the share of employment in agriculture continues to be higher than 50%. Many workers are employed in the informal sector, often a last resort providing only subsistence income. However, at the same time, employers complain that they cannot find workers with the required skills and thus cannot increase employment. For employers "skills mismatch" is a major problem, which hampers the operation and growth of their firms. Structural mismatches and especially the skills mismatch come from intensive enterprise restructuring and job reallocation that are currently under way in Georgia.

However, the labor market is still adaptable. The loss of jobs is high but so is the job creation rate. This points to intensive enterprise restructuring and an ensuing reallocation of jobs and labor. The newly created jobs tend to be more productive than the old ones that are disappearing so enterprise restructuring brings about productivity gains and makes Georgian firms more competitive.

In 2010, export reached heist point and accounted to 1583.4 Mln USD (1,176.4 Euro) and compared to 2005 raised by more than 80%.

In order to foster job creation and to reduce unemployment Georgia needs to address both the demand and supply side constraints to employment growth. On the demand side, it needs to further improve its business environment, to support the growth of the modern sector of the economy. This requires strengthening the institutions of a market economy (security of property rights, contract enforcement, and competition), reducing policy uncertainty and instability. On the supply side, Georgia needs to reform its educational and training systems so as to enhance its capacity to respond to fast changing labor market needs. This involves improving access to education, its quality, and content.

A new labor code adopted in 2006 overturned complicated regulations and led to a dramatic liberalization of the labor market to comply with International Labor Organization standards. Restrictions on the duration of the term of employment contracts and overtime work have been largely abolished, leaving it to the employer and employee to agree on these and other terms, while complex and onerous severance procedures have been streamlined into a simple procedure whereby the law requires one month's severance pay and little else. There is no minimum wage legislation. Individual and collective contracts are now treated similarly, and collective bargaining is allowed by any group comprising two or more individuals (rather than only by formally established trade unions). As a result of these changes, by 2008 Georgia was ranked by the World Bank as the fifth-easiest country in which to employ workers.

Despite of considerable improvements in opening economy, attracting FDI, removing barriers to hiring and firing reallocating jobs to more effective sectors of economy overall formal employment remains an unresolved problem. Many people still face exclusion from the organized labor market for various reasons (low skills, lack of information, age discrimination, etc) and this is one of the main reasons of poverty. There has been an unprecedented growth in the informal employment sector (particularly self-employment, especially in rural areas), income from which has become a major alternative to regular, stable salaried employment. Informal employment is unstable, mostly consists of subsistence-level activities and is characterized by low productivity. Informal employment is unstable, mostly consists of subsistence-level activities and is characterized by low productivity. This sort of employment does not help to significantly decrease poverty.

Education

The education policy aims at equalization of opportunities of access to high quality education. Improvement of material and technical bases of the public education system is one of its components. Simultaneously with the state-funded and organized rehabilitation of public schools in poor condition, structural reforms were implemented in the education system. These reforms were initiated in 2004-2005. The radical reforms of the Georgian higher education system which were launched in 2004 have brought some results in terms of legislative initiatives and, most importantly, led to approximation with the European educational system (Bologna Process). The Law on Higher Education, adopted in December 2004, and the Law on General Education, adopted in April 2005, serve as the legal basis for educational reform. Both documents aim at the establishment of European standards of education in Georgia, in addition offering new models of financing, management and quality control. Probably most successful reform action has been introduction of the united national examinations for entrance to university in order to eliminate the extreme corruption which previously prevailed in the entrance exam system. The new system led to massive elimination of this corruption in its very first year. The right to make daily managerial decisions was delegated to a board of supervisors which was formed at every public school. This was one of the measures taken to make public schools autonomous. The most significant reform, which led to a fundamental change in people's education choices, was the change in how schools were funded by the state. Instead of direct funding of state schools and higher education institutions, all pupils were given vouchers. Funding with vouchers enabled parents to make a free choice among educational institutions. In consequence, nearly eight percent of children now study at private schools while in 2005 this indicator was close to zero percent. In 2010 the Ministry of Education and Science has launched a major program, the Teachers' Accreditation Program, which will serve as the basis for the development of teaching standards and teachers' evaluation in upcoming years.

In Georgia, enrolment rates for secondary school students are relatively high, but are showing signs of decline, particularly among rural and minority youth and youth from poor families. Secondary school enrolment rates decreased from 77 percent in 1993 to 71 percent in 2007, while the rate for upper secondary education declined sharply to 54 percent. Differences in enrolment rates do not differ much between richer and poorer between ages 7 and 15. At age 18, enrolment rates among children in the richest quintile are more than twice as high as those for children in the poorest quintile. Attainment rates among minorities (particularly Azeri) are substantially lower than among native Georgians.

Migration and remittances

It is natural that during economic collapse of nineties Georgians started to massively emigrate at first predominantly to Russia and after to Europe and the United States. The main reasons for emigration, as in the majority of developing countries, were economic. The emigrants' support of their families is often crucial and therefore remittances are considered as an antipoverty mechanism by the home country.

However, as the economic conditions are gradually improving the share of remittances play a relatively modest role in the total family income. The share of remittances in the household monetary incomes declined from 8 percent in 2003 to 3.6 percent in 2007.

The number of emigrants from Georgia is at over one million 22.9 per cent of the total population. The flow of emigrants from urban areas tends to be directed towards Western Europe and the United States and from rural areas towards Russian Federation.

Demographic trends

Demographic composition of Georgia changed substantially. Due to economic migration about one million Georgians left the country during last two decades. According to the census in 2002 the population of Georgia amounted to 4,371,500 persons (excluding the breakaway regions of Abkhazia and S. Ossetia). According to the UN forecast the population of Georgia will decrease by nearly 1 million by 2050. The population aged over 60 years made up 18 percent of the total population in 2001-2008. Due to economic migration the population of capital city is increasing as migrants from rural areas flow in. Tbilisi had one quarter of the share of the total population with 1,136,000 inhabitants in 2008.

The ethnic composition of Georgia's population also changed substantially during last decades, the share of ethnic Georgians increased from 68.8 percent of total population in 1979 to 83.8 percent in 2002. After Georgians the second largest ethnic group is Azeri (6.5 percent) followed by Armenians (5.7 percent). The ethnic Armenian population decreased from 8.1 percent of the total population in 1989 to 5.7 in 2002. Azeri and Armenians are followed by Russians (1.5 percent), Ossetians (0.9 percent), and others.

Social assistance

The social assistance policy is based on targeted assistance. The main principle of social policy is to provide state resources for the poorest persons as identified by an evaluation system. Simultaneously the state aims to improve targeting through the use of various tools. Monetary assistance and the development of a medical insurance scheme are being developed as the basis for social integration and access to medical services and public health care.

A unified database of vulnerable families has been created in order to ensure social assistance reaches the poorest strata of society. This database contains information about families living in poverty who have requested social assistance from the government. They are given a score reflecting their socio-economic situation of their families. The database allows social assistance programs to direct their assistance toward specific targeted groups. Centralizing of data helps in getting the best general overview of situation. It decreases expenditures incurred in getting information and administering systems and provides better accessibility to the information in the implementation process of social programs performed by the state and donor organizations.

In order to better reach the targeted vulnerable groups local governments in regions and autonomous areas implement small-scale social programs in addition to the large-scale programs financed by the central budget.

As has been mentioned, Georgia's social assistance policy is mainly intended to avert the shock which is caused by extreme poverty. Taking into consideration that poverty level calculated in relation to the subsistence minimum does not reveal the poorest strata of the society (because of methodological drawbacks), the experts have considered that 2.5USD per day threshold accurately represents the poorest quintile of the population. Poverty level in relation to 2.5USD per day threshold has been decreased in 2007-09, that allows social policy experts to assess social assistance programme as properly targeted in order to alleviate extreme poverty. However, the effect of such assistance is not adequately assessed and evaluated. Therefore the efficacy of this aid is limited - it remains hard for some beneficiary families to

escape poverty and also many families remain without any assistance. To overcome these obstacles requires an improvement in the methodology used to reach out vulnerable people, as well as to increase benefits and provide a needs based payments.

On the other hand, the amount of social benefit should not encourage them to stay inactive. Social benefits should not be equal to or more than potential earned income as this would lead to decreased motivation to work.

Georgian policy toward the elderly is based on universal social assistance. There is no intention to establish a pension system administrated by the public sector and based on obligatory contributions. Interested parties are discussing the possibility of developing a subsidized private pension system. They are also considering the possibility of directing a part of income tax to private individual pension accounts instead of state budget along with maintaining the current decreased rate of income tax (20% including the former social tax). Proponents of this idea believe that this approach will free the state from the responsibility for providing the old-age pension.

Recently the state policy toward vulnerable groups (internally displaced persons, disabled persons, children deprived of parental care) has also undergone significant changes. For Georgia, internally displaced persons constitute the most significant vulnerable group. The privatization of the accommodation initially given on a temporary basis to displaced persons started few years ago and continuous until now. In some cases internally displaced people are given financial compensation instead. Support of donor organizations was also used to fund these actions.

Some large-scale programmes address the needs of some other vulnerable groups: there are programmes dealing with prevention of child abandonment, deinstitutionalization of children in orphanages, establishment of day-care centres, psychological consultations for single mothers, supplying rehabilitative and supportive equipment to disabled people, providing them with rehabilitation programs etc. To be more specific: by implementing the deinstitutionalization program, the number of children at institutions has been reduced about 10 times. Most children got back to their biological families, or public funds are allocated for them to be raised at foster families. Rules for assigning the PWD status were changed, and now it is assigned by the civil medical institutions. Assistance to able-bodied PWDs has been relinquished.

Social cohesion policy is always a part of a wider net of policies which include access to sustainable employment, housing, health care and education, the goals of which are to decrease poverty level and the risk of vulnerability. Only such complex activities can neutralise the risk factors which accompany the targeting of social assistance, such as decrease of social solidarity, administration difficulties, expense etc.

Poverty and Social Exclusion

Within the population of Georgia poverty dynamics have changed from time to time along with economic changes in the country. However measuring poverty and monitoring changes in poverty are difficult because of technical and methodological issues encountered in this process. The National Statistics Office of Georgia and other organizations such as the World Bank, IMF, UNICEF etc. use different poverty calculation methods.

Most of the methodologies used for measuring poverty indicators in Georgia reflect the decrease of poverty level by approximately 3-4 percent during the last 5-6 years. In 2009 poverty level measured by various methodologies (including the indicator of the material deprivation) is altering between 13-23 percent. The poverty indicators calculated in relation to the official subsistence minimum are difficult to reconcile with the poverty data calculated by means of the other methodologies. (These other methodologies are relative poverty indicators in relation to 40 and 60 percent of the median consumption, absolute poverty indicator in relation to 2.5 USD per day threshold, poverty level calculated on the basis

of LSMS, etc.). The poverty level in relation to the official subsistence minimum was 41.4 percent in 2005. The poverty level was increasing in 2007 by 5 percent, similarly decreasing and reaching 41.2 percent in 2009. The inexplicable dynamic of the poverty level in relation to the subsistence minimum, unjustified high level of poverty and the methodological shortcomings of calculating family expenses and subsistence minimum constrain most of experts not to take these data into consideration and indicate to the poverty alleviation in Georgia over last years.

The main goal of the social protection system is to assist disabled persons and those living in permanent poverty to manage social problems. The social protection system should create a dramatic decline in poverty among the extreme poor, provide subsistence minimum for this group and protect the population from the most significant risk factor for poverty which in Georgia is falling into poverty because of excessive medical expenses. The recent economic growth had a positive effect and played a significant role in decreasing the poverty risk. Since 2005, poverty has gradually reduced in Georgia. The depth and severity of poverty have also decreased. This was due to the improvement of economic development indicators, the granting of targeted social assistance, the increase in the state pension and improved salary indicators. (Though, as it was mentioned above, due to methodological disadvantages, the dynamic of poverty level in relation to the official subsistence minimum does not reflect this tendency, which, on the contrary, is evident in relation to 2.5USD per day threshold and other benchmarks).

In Georgia, as in other countries there are groups, which, for different reasons, do not have equal access to economic and social goods and services. Social exclusion is multidimensional. It might have economic, cultural and political dimensions. The present report analyses the interrelatedness of social exclusion and poverty. The type of economic development has led to increasing inequalities in access to social infrastructure (health care, education and cultural institutions) which is reflected in the inequality of social status between citizens and loss of access to basic services that a large number of poor people in the population cannot afford.

Social exclusion might be simultaneously the result of poverty and its cause as well. On the one hand, the source of a person's exclusion might be being part of a poverty risk group (for example, disable people, IDPs, eco-emigrants or street children). On the other hand those who are members of ethnic and other minority groups are more marginalized and run a greater risk of poverty. In such cases exclusion is mainly caused not only by economic deprivation but by other factors too. Their lack of integration into the mainstream culture of the country (for example, lack of knowledge of a state language, being 'locked' in minority-cultural values) is distinguished among these.

Whether social exclusion is more economic or cultural is difficult to say: the excluded individual gives up their active social life, he or she becomes alienated and loses the feeling of being a citizen.

The social inclusion of marginal groups remains one of Georgia's unresolved problems. This problem is dealt with by different organizations/stakeholders. However, their activities are fragmented and lack a common strategy due to a lack of financial, institutional and human resources. It is therefore difficult to achieve concrete results in this field at the present time.

It is important to put into practice different kinds of activities targeting specific excluded groups, which include a) fighting against unemployment and reducing the share of informal employment; b) following a liberal policy to encourage ethnic minorities to study the state language, and in some cases (for example, for the Gipsy people) establishing their legal status as Georgian citizens; c) deinstitutionalization of orphanages, reintegration of those children who are in institutions, provision of inclusive education for them; d) improvement of institutional guardianship system for IDPs and street children; e) assisting disabled people with involvement in public life – improvement of physical infrastructure to allow them to become involved, etc.

Thus, there are many reasons why the policy for decreasing social exclusion should not be connected with only anti-poverty agenda, but should also become a part of a wider anti-discriminatory policy.

Pensions

Pensions are the largest redistribution social program in the country. About 19% of population receives the old-age, disability or survivor pensions. Since 2004 onwards all social programs including pensions have been financed from the general budget revenues: pensions in Georgia are an ordinary social assistance scheme just for several strictly defined categories.

The major role of any pension system is to protect against poverty in the old age and to help to maintain living standards after retirement, but it is very doubtful whether pension system in Georgia fulfills any of these roles. First, there is no link between contributions and benefits, so individual pension amount cannot be differentiated. Second, as means-testing is not applied about half of pension expenditure goes to the better-off part of population, and consequently the system can be regarded as inefficient in reducing poverty.

Georgian policy toward the elderly is based on universal social assistance. Between 2004 and 2009 the nominal amount of universal assistance increased six-fold (in fixed prices it increased four-fold). This assistance is not targeted but it has nonetheless assisted a considerable number of elderly in overcoming extreme poverty.

On one hand, in order to increase the pension's antipoverty role it would be rational to slow down the increase in pension expenditure and redirect saved resources to a targeted social assistance scheme or to introduce means-testing and stricter pension eligibility criteria. On the other hand, income maintenance function of the system could be enhanced by a stronger link between contributions and benefits.

In parallel with flat rate pensions in Georgia the government is funding the social assistance, which is based on targeted identification of economically disadvantaged part of population. The declared principle of social policy is to provide state resources for the poorest as identified by an evaluation system. Monetary assistance and medical insurance scheme are being developed as the basis for social protection and improved access to medical services.

Health and Long term care

Public health is one of the main fields of social protection provision. Social protection in Georgia includes governmental responsibility for healthcare.

In the last 7 years public funding of the sector increased fivefold in nominal terms. Nevertheless, problems and institutional deficiencies associated with legacy of the centrally-planned healthcare system do not allow an efficient utilization of increased expenditure. Main obstacle in providing efficient health services to the population is publicly-owned health service provision with its poor management and deteriorated infrastructure.

In 2007 a voucher-based model of funding was introduced in Georgia. According to the scheme, a voucher-holder had the right to make a free choice among private insurance companies. The hospital privatization project aiming at attracting private investments in infrastructure development was launched in 2007, but then quickly frozen in the wake of the crisis of 2008. Instead, the government decided to offer the infrastructure development in the country regions to the insurance companies. According to the contract the companies are supposed to build by 2012 new hospitals in all the regions of the country.

In four years since the launch of the new system its coverage increased from the initial 1-2% to about 30% of the population. Unlike with education funding, where vouchers are distributed universally, the healthcare vouchers have been provided mostly to the poor part of the population, but the middle and

well-off also benefited. Share of private insurance sharply increased during the same period. There is a big competition among the companies in the segment of private corporate insurance.

In the longer-term the government intends to shift the responsibility for providing services to the private sector and at the same time to equalize access to services by subsidizing the poor. Targeting the poorest households has achieved a considerable shift in the proportion of public expenditure allocated to those most in need (in 2006, 12.3% of the state health budget was allocated to services for the poorest households, in 2010, allocations increased to 50%). At the same time the change in funding model led to a switch from direct state funding to user funding of healthcare facilities, including out-of-pocket payments.

Quality of healthcare is expected to be improved through the creation of new privately owned and managed infrastructure.

Chapter 1: Economic, Financial and Demographic Background

1.1. Introduction

After the collapse of the Soviet Union in 1991, Georgia was plunged into a deep recession. As a result by 1994 GDP had fallen by 72 percent from the level it stood at in 1990. This situation was not replaced by strong and sustained growth until 2003. The initial stage of the transition from a planned to a market economy which started in the early 1990s brought changes to the basic institutions of the economy and loss of output. It decentralized economic decision-making processes, liberalized prices and wages, and exposed businesses to competition. These major changes in the rules of the game, along with the disintegration of traditional economic links and other major obstacles like civil war and ethnic conflicts, resulted in a substantial fall in economic output in the early phases of the transition until 1994. In the period of economic recovery which took place between 1995 to 2003, Georgia did not achieve strong and sustained growth. Growth was often dependent on single large investment projects. As a result, many people moved to low-productivity jobs in the agricultural, rural, and informal sectors. The institutions of governance became increasingly weak, corruption was huge, and the selective reform efforts which were initiated were not being sustained. These conditions created a basis for the Rose Revolution of 2003, which swept to power a new government promising to introduce stability and economic reform.

The radical institutional and structural reform agenda which the new government has enacted since 2003 has benefited economic development. It has targeted widespread corruption, and created economic incentives for a large segment of the economy to go formal via substantially reduced tax rates on the one hand and enhanced tax administration on the other. This and other reforms have improved household income (average household income increased by 118 percent from 2003 to 2009) but have not yet impacted employment, with the rate of unemployment increasing from 11.2 percent in 2003 to 16.9 percent in 2009. As for the inflation it grew from 4.8 percent in 2003 to its highest level (11 percent) in 2007 and after the crisis fell to 3 percent in 2009. Mid 2008 saw the start of a crisis period for Georgia as it was hit by the global economic collapse and the August 2008 armed conflict with Russia. Since then Georgia has struggled to maintain its previous rapid economic growth, to deal with up to 26,000 people permanently displaced by the conflict (IDPs), and to cope with rising unemployment.

1.2. Economic Background

In the early 1990s the economy of Georgia (as in other countries of the former USSR and the socialist camp) was characterized by phenomena characteristic of a profound crisis due to destruction of infrastructure, unavailability of inputs, and the failure of attempted economic reorganization. In 1992 the estimated GDP was at 4.0 billion Euros, or approximately 750 Euros per person. The impact of the extremely unfavorable domestic and foreign political, economic, and social factors exerted a destructive influence on the economy. In the first instance, this was expressed in a sharp decline of production and by high rates of inflation. This period also marked an extreme curtailment in investment activity. The process of obsolescence of fixed capital accelerated. A sharp contraction in the share of savings in the national income limited the possibilities for a rapid revival of the country's economy. It should be emphasized that the economic decline in the countries of the former USSR nowhere assumed such a scale as it did in Georgia: in 1994 the real volume of the gross domestic product (GDP) had fallen by 72 percent from the level in 1990, the gross output of industry had declined by 84 percent, the production of agriculture by 46 percent, and investment in fixed capital by 95 percent. Political stabilization in the country since 1995 created an opportunity to begin a full-scale economic reform.

The reforms initiated in 1994–1995 were not, however, sustained. Over the period 1996–2003, the state became increasingly incapable of resisting pressure from vested interests, with serious adverse consequences on the provision of basic public services. GDP growth through 2002 was positive, and Georgia's economic performance is slowly improving, with GDP growth of 3 percent in 1999, 2 percent in 2000, 4.5 percent in 2001, 5.3 percent in 2002, and 11.3 percent in 2003. In the period 2004–2009 Georgia implemented macro-economic reforms that allowed the country to: a) register consistent high economic growth rates (average real GDP grew 9.6 percent (from 2003 to 2008 – before crisis) and 6.6 percent (from 2003 to 2009); b) to become a high performer in terms of Foreign Direct Investment (FDI) (net FDI in 2008 amounted €1.2 billion, compared to €483 million in 2004); however the FDI inflow, which drove growth pre-2008, plummeted in 2009–2010 due to the war, the privatization of most major assets and the global economic crisis; c) to significantly increase budget revenues (particularly the share of tax revenues (70 percent of total revenue in 2004 and 82 percent in 2009) (the state budget stood at €700 million in 2003 and in 2008 – €2.8 billion); and d) to reduce corruption. However a large and growing trade deficit (28 percent of GDP in 2007) and high inflation rates (peaking in March 2008 at 12.25 percent) have accompanied the positive economic developments¹. Also, Georgia's economic reforms had an insignificant impact on job creation; the unemployment rate actually increased from 12.4 percent in 2004 to 16.9 percent in 2009. Employment in agriculture remained approximately constant (accounting for 54.3 percent of total employment in 2005 and 53.4 percent in 2007). The unemployment rate for youth (aged 15–24) ranged from 33 to 36.6 percent between 2005 and 2009. Official statistics claim a 17 percent jobless rate in 2009, but polls show that 71 percent of respondents consider themselves unemployed, even if they are labeled as self-employed – essentially a euphemism for acute underemployment². Despite GDP growth since 2004, many Georgians feel their living standards have not improved³.

Georgia maintains no currency controls, allows foreign investment in all but a few sectors deemed strategically important, and has implemented a privatization program, including land privatization. Georgia was the second country of the former Soviet Union to join the World Trade Organization, a move which provided additional opportunities for development. Trade turnover grew from €800 million in 2002 to €2.7 billion in 2009.

In 2005–2006 Georgia suffered from unfavorable Russian economic policies. The gas price for Georgia was increased by Russia and in 2006 Russia put an embargo on Georgian wine, mineral waters, and agricultural products for all of which Russia had hitherto constituted the major share of the export market. Russia also suspended air, rail, road, sea and postal links with Georgia, and limited issuing entry visas to Georgian citizens. Despite all this, Georgia managed to record GDP growth of 9.0 percent in 2006.

Georgia's economy has undergone significant structural change over the last decade. Before the transition, the shares of agriculture, industry, and services in GDP were more or less evenly split, with shares of 32 percent, 33 percent, and 35 percent, respectively. Since then, the share of agriculture has declined significantly and stood at 8.3 percent of GDP in 2009. The share of industry also fell during the initial years of transition (1990–1994) as in other transition economies, but it then stabilized and subsequently picked up. Its share is now estimated at 24.9 percent of GDP. Before the transition the services sector, particularly market-oriented services, was underdeveloped. Since the transition, with the rapid development of trade, transport and financial services, the services sector now accounts for 62.1 percent of GDP.

Financial intermediation was a fast-growing sector whose development was associated with increased banking sector activity (total bank loans increased from €1 billion in April 2006 to €2.5 billion in 2010).

¹ETF, Black Sea Labour Market Reviews, Georgia, 2009

² For official figures, see the national statistics office, op. cit.; “Public attitudes toward elections in Georgia”, op. cit.

³ “CRRC Data on economic well-being in the Caucasus”, Tbilisi, 2009. http://investor.ge/issues/2009_6/14.htm.

Total bank deposits increased from €700 million in April 2006 to €1.5 billion in 2010), largely determined by sharp increases in FDI (the cumulative net FDI was 9.4 percent of in 2003 and in 2009 – 57.4 percent), portfolio investments and deposits and consequent increases in bank credits to the economy. In 2007 mining and quarrying reached a peak in growth, and public administration also emerged with a growth in GDP. Agriculture has been stagnant for years. Compared with the same period in 2006, the real growth in certain sectors – hotels and restaurants, construction and financial intermediation – exceeded 20 percent in 2007; a figure significantly higher than overall GDP growth.⁴ However the construction sector growth dropped with 11 percent in 2008 and 1.1 percent in 2009. The sector of hotels and restaurants increased by 4.5 percent in 2008 and dropped 4.4 percent in 2009. As for financial intermediation, this sector slightly increased by average 2.9 from 2007 to 2009. Following the growth, the share of employment in the service sector is still rather low (table 19).

Georgia saw its good macro-economic performance affected in the aftermath of the military conflict of August 2008. Combined with the effects of the global crisis and a number of particularities of macro-economic policy, the overall economic and financial situation shows signs of economic decline. In the third review under the Stand-By Arrangement (August 2009), the IMF and the authorities revised the GDP growth rate projections for 2009 from -2 percent down to -4 percent, reflecting the weaker economic and external financing prospects.

Following the initial growth of the economy, the nominal GDP per capita exceeded €2400 in 2008. The Georgian economy is diversified with following major contributors to nominal GDP in 2008: 14.9 percent - Public administration; Trade – 13.9 percent; transport & communications - 10 percent.

According to UNECE Statistical Division Database in 2008, Georgian (US\$4,505) GDP per capita prices and PPPs (purchasing parity terms) in 2005 was higher than that of Moldova (US\$2,768), lower than that of Armenia (US\$5,345) and of Ukraine (US\$6,750), Azerbaijan (US\$ 8,091) and the other European countries of the Europe and Central Asia (ECA) region.

1.3. Fiscal Policy

Prior to 2004, Georgia's public finances were in a weak condition. The low share of revenue-to-GDP was constraining public expenditures essential for sustained growth, and contributing to an accumulation of significant expenditure arrears. Public debt was also high. Since then, Georgia's public finances have improved in terms of both results and management. While improved fiscal results have been obtained elsewhere in the region, what distinguishes Georgia's performance is that it has been achieved mainly through higher revenue mobilization improved revenue collection. Georgian authorities have used the fiscal space so created to step up the provision of public goods and invest in infrastructure development. Large privatization receipts have eased financing pressures during this period. Public debt is falling due to debt relief secured and a prudent borrowing strategy. The key issue facing Georgian authorities is whether additional spending essential for growth over the medium term can be accommodated without contributing to inflationary pressures. The economic downturn which started in 2008 was created by the dual negative impact of the global economic crisis and the August 2008 armed conflict with Russia. The crisis had its impact on budget revenues: the total revenue in 2008 was €2,512 billion. (30.7 percent of GDP), which decreased to an estimated € 259 billion (29.3 percent of GDP) in 2009.

The Georgian Government increased expenditure in almost all areas after the Rose Revolution, not just because of increased tax income, but also because of income resulting from privatizations. As a result, total central government spending rose from GEL 897 million (400 million Euros) in 2003 to GEL 5.3 billion (2.4 billion Euros) in 2010. It is worth noting a couple of changes in the priorities of government spending between 2003 and 2010. In 2003 social spending was the largest line item in the budget. Social

⁴ ETF, Black Sea Labour Market Reviews, Georgia, 2009

spending dramatically increased in 2004 and was still the largest item in 2005. In 2006, while absolute spending on social security rose, defense became a slightly bigger item in the budget, absorbing 18 percent of total spending, with social security at 16 percent. Educational spending has gone up from about 2.1 to about 2.8 percent of GDP (not including school rebuilding) and health spending has increased from 1.3 to 1.8 percent of GDP. In the 2010 budget health spending went up by about 7 percent in real terms, while education spending went down by about 5 percent compared with 2007. Compared to 1998–2002 when general government revenues (excluding grants) were 15 percent of GDP, in 2006–2010 revenues averaged 27.3 percent of GDP, which is higher than in Armenia (up to 16 percent) and Tajikistan (19 percent).

Due to the change of budget classification⁵ it is not very relevant to compare the budgetary expenditures of previous years to those of 2008–2009. However we can illustrate that the state has spent on average 3.8 percent of GDP on social security and welfare services (2003–2010). In 2003 the expenditures on social security and welfare accounted for nearly 7.4 percent of nominal GDP and in 2010 8 percent.

One of the first major reforms in 2005 reduced the number of taxes from 22 to eight (following the introduction of a new tax code); on January 1, 2008 the number was further reduced to six. The tax rates were also reduced at the same time, as can be seen from the table below. A progressive income tax of 22 percent was replaced by a flat 12 percent tax, and value-added tax was reduced by 2 percentage points to 18 percent. Social tax underwent major changes as it was reduced from 33 percent to 20 percent initially, and later was incorporated into an income tax that totaled 25 percent, and was then reduced to 20 percent. Accordingly, under the reforms, social tax was abolished and the budgetary system of Georgia does not define any tax income to be allocated to special social programs or funds. Recently, the tax rate on profit was cut from 20 percent to 15 percent. Import tariff rates experienced a serious transformation in support of trade facilitation, particularly with regard to the import of investment goods and new technologies. As a result of tax decreases and improvement of tax administration the revenues from taxes increased from €110 million in 2003 to €2.2 billion in 2008. Nontax revenues grew by 52 percent between 2006 and 2003, mainly due to higher collections from license and permit fees, state duties, fines, and penalties. In 2010, the government presented a draft of the new tax code, which will be enforced from January 1 2011. The new tax code introduces the following main new concepts: micro business and small business. The term "micro business" has been adapted to Georgian legislation in compliance with European standards; the goal of the development of the micro business sector is to overcome poverty, unemployment and business legalization problems. Micro businesses will be exempted from all taxes. "Small businesses", will include businesses with an annual turnover of no more than GEL 200,000. Income of such businesses will be taxed at either 3 percent or 5 percent. 3percent taxation will apply if "a small business" provides standard accounting documentation for at least 60 percent of their turnover (not counting staff salaries). 3 percent taxation will also apply to those "small businesses," which operate in "special trade zones", for example in outdoor markets, according to the draft code. A large part of the draft concerns the enhancement and protection of the rights of taxpayers. Significantly, a business ombudsman will be introduced which will protect the legal interests of businesses throughout the territory of Georgia. A Supreme Audit Board of the Audit will be established, and its major principle will be "honesty". This means that in case of any dispute the content of the violation of the law will be considered and once it is proved that the activities of the businessman are not directed to the coverage of the taxes; he /she will not be taxed. This will decrease companies' risk of going bankrupt.

Due to the global economic crisis and Russia-Georgia war of 2008, budget revenue shortfalls compared to pre-crisis projections were €305 million for 2008 and €590 million for 2009. Additional shortfalls are expected in privatization receipts. In response the government continues to strengthen tax and customs

⁵ From January 1, 2008 state budget institutions apply new budget classification (GFSM-2001)

administration, implement stimulus programs (in infrastructure, finance and construction sectors), attract more investments, decrease administrative expenses and take other steps for decreasing the negative impact of recent developments. However, substantial challenges remain due to dependence on foreign funds and imports and the high current account deficit. Foreign debt, which increased from 21 percent of GDP in 2008, to 31.4 percent in 2009 and 38 percent in 2010, is projected to rise to 43.2 percent in 2011 and slow down the raise in 2012 and 2013⁶.

1.4. Informal Sector

Over the 2000-2004 period, employers were subject to a contribution rate of 28 percent (27 percent for the main social security fund, 1 percent for the unemployment insurance fund), while employees were subject to a contribution rate of 1 percent towards the main social security fund. From 2005 onwards, employee contributions were abolished, while employers' total contribution rate was reduced to 20 percent. In other words, the total drop in the gross-to-net earnings wedge fell from 29 percent to 20 percent.

In 2000, the volume of informal and shadow production was estimated as being 1.8 times bigger than the volume of the officially produced goods (Interim PRSP). Georgia Poverty assessment (1997) estimates the informal economy at 28% of GDP⁷. The informal sector was very heterogeneous, including the self-employed, unpaid family workers as well as those with double employment. Most workers in the informal sector were formal wage employees receiving their wages and additionally involved in non-reported income-generating activities, often at their formal employment workplaces. The contradiction between the new economic reality and the regulatory and labor income taxation framework inherited from the past are at the root of the increasing informalization of the Georgian labor force. On the one hand, it leads to weakening of the fiscal position of the state. On the other hand, the flexibility of the informal labor relations system has played a key role in tempering the negative impact of economic and political turmoil on living standards of the population. The labor market has shown outstanding flexibility during a period of severe political and economic turmoil, mainly through the informalization of employment. Informalization has dampened the impact of the crisis and served to protect the poor. However, most of the informal sector jobs remained in low-productivity agriculture or trading, with little earnings stability and little potential for long-term earnings growth.

2004 was an exceptional year with very strong growth in paid contributions. Comparatively, the rise was much more modest in 2005, and lower than base growth. However from 2005 the lower total statutory rate was in effect, leading to a fall of almost a third in the expected revenues. Considering these two effects together, it would give the impression that compliance was roughly the same in 2005 as in 2004. In other words, similarly to personal income tax, large gains in terms of compliance were made in 2004, followed by stagnation in 2005. It is tempting to apply the same explanation for this pattern in the two areas. The anti-corruption drive (possibly boosted by a more state-friendly public attitude in the wake of the Rose Revolution) was a key factor. However, the reduction in contribution rates has not led to clear improvements in terms of compliance. The data for 2006 shows that the compliance rate has gone down, which is a negative development and partly at odds with the developments in the area of personal income tax, as one would expect compliance in personal income tax payment and social security contributions to be closely related. This matter was not changed from 2006 to 2009.

⁶ Ministry of Finance of Georgia; www.mof.ge

⁷ Poverty Reduction and Economic Growth Program of Georgia. Intermediary Document, Government's Statement, Tbilisi, November 2000

There is no official data available on current state of informal sector in Georgia. Despite OECD Handbook on Measuring the Non-Observed Economy was introduced in department of statistics, also UNDP implemented the project “Informal economy of Georgia: building capacity of the Department of Statistics for the accurate assessment” (2006-2007), no surveys or reports over informal sector are produced by Geostat.

UNDP surveys revealed that the contribution of non-observed activities in the out-put of the construction sector was 32%, repair services 94%; and 87% in the case of bars and restaurants. The previous estimates of non-observed activities in the same industries were recorded at 49%, 91% and 76% respectively⁸. In other words, the results show that the levels of non-observed outputting two out of the three sectors are higher than previously estimated, while the estimates for the construction sector are lower than previously estimated. The results suggest that further efforts are required to ensure the exhaustiveness and accuracy of national accounts. This in turn will result in more accurate estimates of output, GDP and other key economic aggregates.

1.5. Labor Market

1.5.1. Labor Market Overview

The Georgian labor market has undergone major changes during the last 20 years of economic changes and reorganization, registering both periods of growth and severe declines. In mid-1993 the majority of Georgians still depended on state enterprises for their salaries, but in most cases some form of additional private income was necessary to live above the poverty level. Private jobs paid substantially more than state jobs, and the discrepancy grew larger in 1993. For example, in 1993 a secretary in a private company earned the equivalent of €15 per month while a state university professor made the equivalent of €2 per month.

Employment rates decreased from 63.6 percent in 1997 to 52.9 percent in 2009 with fluctuating values registering a low in 2008 (52.3 percent) and a peak in 2001 (58.8 percent) as part of intermediary values. For the activity the trend was similar although with lower differences between the reported years: 68.6 percent in 1997 against 63.9 percent in 2009 with a low of 62.2 percent in 2006⁹. In total 46.6 of jobs created are in non-agricultural sectors.

Economic growth in Georgia between 2003 and 2008 does not appear to be reflected in employment rate growth. The trend of decreasing employment and activity rates may indicate either that economic growth has not as yet had a positive impact on employment or that its impact wasn't strong enough to reverse the decreasing trends underlined.

The Georgian economy registered an average annual growth rate of more than 9 percent between 2003 and 2008. However, as is often the case in countries in transition, many labor market indicators have worsened in Georgia. The absolute number of employed declined from the pre-reform level (1.839 million) to 1.656 million in 2009, by 158,800 people. A significant part of this decline may be explained by the downsizing of the public administration sector following public sector reform.

⁸ Report on the Non-Observed Economy in Georgia, UNDP, Tbilisi, 2008 (http://www.undp.org.ge/files/24_821_597519_NonObservedEconomy2008ENG.pdf);

⁹ ETF (2010), Georgia Labour Market Review, Black Sea Labour Market Reviews Project, see www.etf.europa.eu

The number of working-age population dropped below the 2 million threshold in 2007 and accounted 1.991 million in 2009. The 5.3 percent decrease in the active population on the labor market during the most recent 3 years may be basically explained by the 75,100 decrease in population in the rural areas. The active population in the urban areas decreased at a relatively slower rate (-3.8 percent), which saw its share in the total active population rise to 42.2 percent. It is noteworthy that the rate of decrease in the active population exceeds the rate of decrease in the working-age population.

1.5.2. Employment Structure

The employment rate increased from 57.3 percent in 1998 to 58.6 percent in 2003 and dropped to 52.9 percent in 2009. Two-thirds (1.059 million) of total employed persons (1.656 million) are self-employed. The private sector accounts for three-quarters of total employment. Most of the privatization process in Georgia, similar to other Commonwealth of Independent States (CIS) countries, took place in the 1990s. The share of the private sector in employment has been around 75 percent.

Agriculture is the dominant sector of employment in Georgia. The sector has historically been the major contributor to total employment, and continues to account for 54 percent of total employment. While the share of agricultural employment did not change during 2003–2009, the absolute number of employed in this sector declined by 95,000 people. Besides, FDI in this sector is one of the lowest in average and accounted some €5 million in 2008. Public administration, education, and health sectors combined contribute about 14 percent to total employment. They lost about 37,000 jobs during 2003–2009.

Manufacturing accounts for about 5 percent of the total, and lost 12,000 jobs since 2003. Construction gained 31,000 jobs during 2003–2009, and accounts for 4 percent of total employment. The agriculture sector suffered from a drop in absolute productivity, low investments, decreasing share in GDP (16 percent in 2004 and 9 percent in 2009), lack of skills and knowledge of farmers, old technologies and seeds.

Employment in the construction sector more than doubled in 2007 compared to 2002, and increased by a third since 2006, supported by significant FDI flow (in average 10% of total FDI 2003-2008) before 2008 crisis. Financial intermediation also visibly expanded: by 12.9 percent in 2009 relative to 2002. Employment also grew in the sectors of hotels and restaurants, real estate, private households and extraterritorial and international organizations. The majority of sectors have seen declining or fluctuating employment in the 2002-2009 period. Agriculture lost almost 8.3 percent of jobs, particularly in 2006 to 2009. Manufacturing lost 3100 jobs between 2002 and 2009, in line of average FDI flow of 18 percent of total FDI (2003-2008). Trade and repair registered a decrease of over 49 100 jobs in 2002–09 (-21.6 percent). Jobs in public administration decreased, by a total of 44,200 in two cycles: first in 2002-2004 by approx, 22,000 jobs; and after 2004 following the reform of civil service, by another 22,000. This represents a 41 percent reduction in employment in this sector. Electricity, gas and water supply underwent privatization and reforms, and employment in the sector dropped by over 32 percent in 2002–09. Total employment rate declined by 3.9 percent in 2002–2009.

Nine-out-of-ten of those employed in the country are hired employees, non-paid workers and self-employed persons in agriculture. Different trends are visible in rural and urban areas. The main types of employment in urban areas are hired employment (69.7 percent) and self-employment in agriculture (19.4 percent) whilst the main types of employment in rural areas are non-paid employment (family workers) (43.1 percent) and self-employment in agriculture (36.0 percent). The distribution of employment in all regions, except for Tbilisi and Ajara where the share of hired employees is high and self-employment in agriculture is low, is homogenous.

Comparing the trends in composition of GDP in terms of Gross Added Value (GVA) from each field of economic activity we may see that although agriculture's share stood at 27.3 percent in 1998 and fell to 10.2 percent by 2009, employment rates showed the opposite trend, where agriculture's share in total

employment grew from 48.5 percent in 1998 to 54.6 percent by 2009. (The share of agriculture in the total employment rate in the 27 EU member states is 5 percent). Economic reforms have not yet resulted in sustainable employment growth. This may be explained by hidden unemployment which may be high in the agricultural sector as well the number of people working in the informal economy connected with the agricultural sector. With regards to other important economic areas such as industry (including energy and constructions) the share in GVA in 1998 was 22.7 percent, decreasing to 21.2 percent in 2009.

For the last large sector, the services sector, the share in GVA in 1998 was 50.4 percent, increasing to 71.1 percent in 2009 and registering fluctuating values in the intermediary period. Employment rates registered an opposing trend starting from a share of 41.3 percent in 1998 and decreasing to 35.1 percent of total employment in 2009. This may be consistent with the contribution of FDI to the development of the Georgian economy supporting the increasing of labor productivity¹⁰.

As for rural and urban distribution, rural areas account for almost two-thirds (64 percent in 2009)¹¹ of total employment in Georgia. In terms of the distribution across administrative regions, Imereti and the city of Tbilisi each account for about one-fifth of total employment. The employment profile across the main geographical areas did not change in any significant way during 2003–2009. In terms of hiring and self-employment, the urban areas account for 70 percent of total hired persons and 40 percent of self-employment while rural employment is dominated by self-employment (the majority of which is subsistence level).

The elderly population accounts for a substantial share of total employment. While the prime working-age population (26 to 60) contributed 70 percent to total employment in 2009, the population aged 60 and over also accounts for a noticeable share: 22 percent. In 2007 and 2008 the prime working-age population accounted for the same percentage of total employment, while the share of the elderly population in total employment increased from 20 percent in 2007 to 22 percent in 2009. The share of youth (15-24) in total employment accounted for 21.1 percent in 2007, then increased to 22.7 percent in 2008 and decreased to 21.6 percent in 2009.

The bulk of employment is accounted for by people with secondary general education, who account for 42 percent of the total employment in Georgia. The next-largest group is people with university-level education, which accounts for 26 percent of the total employment. People with vocational and secondary special education follow closely with 22 percent of total employment. Those with below secondary general education make up only 10 percent of total employment.

1.5.3. Inactivity

In terms of inactivity the average inactivity rate for males (1998-2008) is 25.5 percent, while for female this number stood at 43.9 percent. The male inactivity rate for male decreased from 27.8 percent in 2006 to 26.7 percent in 2007, 26.6 percent in 2008 and 25.4 percent in 2009. The female inactivity rate decreased from 46.6 percent to 45 percent in 2007, increased to 46.5 percent in 2008 and decreased to 45.7 percent in 2009. The significant difference between male and female inactivity rates is mainly caused by the perception that females should run the household and males should earn money. It is assumed that increasing number of families are using babysitter services in cities, however the research data are not available. As for the age comparison (in 2009), the highest inactivity rates are for the following age groups: 15-19 – 85.5 percent, 20-24 – 44.3 percent, 65+ – 59.7 percent. The average inactivity of age group 25-60 was 19.7 percent in 2007; this increased to 21.3 percent in 2008 and decreased to 20.1 percent in 2009. No official data are available on discouraged workers.

¹⁰ Statistical information source: UNECE Statistical Division Database, compiled from national and international (CIS, EUROSTAT, IMF, OECD) official sources

¹¹ Ibid

1.5.4. Unemployment Structure

The unemployment rate increased from 11.5 percent in 2003 to 13.3 percent in 2005 and to 16.9 in 2009¹². This is higher than in Ukraine, where the unemployment rate is 9.6 percent (2009) and also Lithuania (15.6 percent in 2009), Estonia (15.5 percent in 2009) and lower than Latvia unemployment rate (19.7 – 2009). Consistent with the public administration reform and other economic developments, the absolute number of unemployed increased by about 16 percent during 2003–2005, or 43,400 people. However, during 2005–2007, the number of unemployed declined by 18,300 people — a sign of the economy recovering from the immediate “adjustment” impact of the reform. Nevertheless, the number of unemployed in 2009 still exceeds that of 2003. Official statistics claim a 17 per cent jobless rate in 2009, but polls show that 71 per cent of respondents consider themselves unemployed, even if they are labeled as self-employed essentially a euphemism for acute underemployment¹³.

The highest rate of unemployment (39.9 percent in 2009) is found among the 21-25 age group compared to the average rate of 16.9 percent¹⁴. Interestingly, the unemployment rate among those aged 15 to 20 is lower (30.3 percent), reflecting the fact that in this age group there are many students who have a temporary job. In other words, the fact that the highest unemployment rate is among those aged 21 to 25 (mostly students, who usually finish the bachelor’s degree study at 21-22 years). indicates difficulties in entering the labor market for those who have very limited or no work experience but who look for jobs appropriate to their educational background. The unemployment rate for youth (15-24 aged) averaged 36.6 percent (2009). Also, the unemployment ratio for youth is 7.2 percent (2009). Allowing for individual circumstances the risk of unemployment for those aged 21 to 25 is about 22 percent. The unemployment risk declines to about 17 percent for those aged 26 to 30, and to 11 percent for those aged 31 to 35. The risk of unemployment tapers off further as age increases.

Gender does not appear to be a crucial factor in defining the risk of unemployment. The unemployment rates among men and women were (in 2009) 18.1 percent and 15.4 percent, respectively. Allowing for individual circumstances, men and women face a similar unemployment risk. However, women are more likely to find themselves unemployed if they have no previous work experience or if they are long-term unemployed.

Unemployment rates are higher among the more educated. There is no available reliable statistics or research to describe the reasons, however this is mainly caused by the demand/supply dynamic in the labor market. Most of the jobs across various sectors require only minimum qualifications (e.g. agriculture sector), so those with low-level education search for jobs corresponding to their qualifications and are more likely to find employment compared to the more highly educated who, compete for fewer job opportunities. The unemployment rate in Georgia increases proportionally with the education level—from 6.8 percent for people with below-secondary education, to 12.6 percent for people with vocational education, to 19.2 percent for people with university degrees. Women with a university education face a somewhat smaller risk of unemployment compared to the same category of men. And women with vocational education face a somewhat higher risk of unemployment compared to men with similar education.

The rural population has an unemployment rate nearly four times lower (7.1 percent), than that of the urban population (28.9 percent). This could be explained by the coping strategy of the rural poor who work as self-employed and unpaid family workers in subsistence agriculture.

¹² Geostat

¹³ For official figures, see the national statistics office, op. cit.; “Public attitudes toward elections in Georgia”, op. cit.

¹⁴ Geostat

1.5.5. Wages¹⁵

The downward adjustment in the number of employed has been accompanied by a simultaneous increase in average monthly earnings. While the employment rate declined during 2003–2009, average real monthly earnings increased by an aggregate of 22 percent during 2003–2009 (or 5 percent per year); This increase, however, has been driven by a few sectors employing only a fraction of the employed, including public sector employment. Monthly salaries of those in public administration (5 percent of total employment) who retained their job status after the public sector downsizing have increased four times in real terms (from 2003 to 2009). Most of this increase happened during 2004–2006, when the public administration reform took place. In contrast, the average salary in agriculture increased by only 18 percent on aggregate during 2003–2009, which is miniscule given the very low base — earnings in agriculture are 47.7 percent of the national average earnings, and income from subsistence agriculture is only 18 percent of the national average. Georgia does not operate a system of minimum wages as an instrument for protecting employees.

It is difficult¹⁶ to assess why the wages in education are some of the lowest compared to those in other sectors. However, according to the recent speeches of state officials the salaries will be increased gradually for teachers and will be closely connected to the planned teachers' certification program.

Nationwide, average real monthly earnings increased significantly — from 2003 with about 22 percent to 2009. The largest increases in earnings LOC - Local Organizations Template-AYE were registered in the financial intermediation and construction sectors, which saw rises of 161 percent and 140 percent, respectively. A substantial increase in real earnings has also been witnessed by those employed in public administration, education, and health, as the wages of public employees have risen as part of the reform of public administration. However, wages of those employed in agriculture increased by only 18 percent between 2003 and 2009. In addition to low productivity, wages in agriculture were affected by adverse weather shocks (2004 drought) and by trade sanctions imposed by the Russian authorities (2006).

There is a substantial differential in earnings between the private and public sectors, but the sector gap narrowed between 2003 and 2005. However the gap increased between 2006 to and 2007. In 2003, average monthly earnings in the private sector were 50 percent higher than those in the public sector. However, as a result of the proportionally higher increase in wages in the public sector driven by public administration reform, the gap between average earnings in the private sector and in the public sector narrowed to 27 percent in 2006 and to 26 percent in 2009. As a reflection of the public sector catching up with the private sector in the level of earnings, the importance of the inequality between the two sectors in the explanation of overall inequality declined during 2003–2009. Inequality in earnings within the public sector seems to be comparable to that found in the private sector. In 2006 the ratios of the top to bottom deciles were 8 and 10 in the private and public sectors, respectively.

There is a noticeable gap in earnings between the urban and rural areas. Income earners in urban areas get paid on average 44 percent more than those in rural areas. This gap in earnings between the urban and rural areas remained unchanged between 2003 and 2009. The actual gap would be even higher if the fact that many people in rural areas depend on subsistence agriculture, and do not have any cash income were taken into consideration. Despite significant differences in the mean earnings between urban and rural areas, most of the overall inequality is still explained by the inequality within urban and rural areas.

There are significant differences in earnings across sectors of employment. The highest earnings are in the financial services sector (650 Euros), followed by public administration and mining (nearly 400 Euros in each). Workers employed in public administration and mining earn four times more as those employed

¹⁵ not including the incomes of self-employed;

¹⁶ Lack of reliable information sources

in agriculture. In terms of average monthly earnings these sectors are followed closely by the energy sector. Interestingly, there is a large gap between earnings in public administration and those in the health and education sectors: average monthly earnings in health and education are only about 35 percent of the earnings in public administration. Manufacturing is not as attractive in terms of pay as many other sectors, but it still pays about 42 percent more than agriculture.

The gender pay gap in Georgia is significant in both the private and public sectors. Analysis indicates that, allowing for individual circumstances, males earn on average 85 percent more than females. Nevertheless, this finding has to be interpreted with caution since the dependent variable in the model is monthly rather than hourly earnings. Because men tend to work longer hours, the identified gender pay gap would also capture the impact of this factor.

The educational premium in earnings is especially pronounced in the private sector, where people with university education earn on average 78 percent more compared to those with below secondary general education. In the public sector the premium on having a university education over below secondary general education is only 22 percent. Those with vocational and university education earn on average 50 percent more in the private sector. The premium of having vocational education over below secondary general education is 20 percent in the private sector, while it is negative 18 percent in the public sector. The estimated premium in the private sector for each additional year of schooling of around 9 percent is generally consistent with the premium for university education found in many other transitional countries (Yemtsov, Cnoblach, and Mete 2006).

Until 2006 labor relationships were regulated by a “code of labor laws”, which in reality was implemented and followed mainly in the public sector, whereas private employers preferred informal hiring practices in order to avoid minimal wage institution, income and social taxes and other social duties. The new labor code of 2006 along with tax reforms result in increased legal hiring, but at the same time it provides no protection or rights for workers. Also the category of “minimal wage” was abolished. At the moment as a result of pressure from ILO and the local non-governmental sector the issue of amending the labor code is on the government’s agenda, but has not moved beyond discussions and declarations. New amendments are supposed to guarantee minimal social rights for hired persons.

1.5.6. Active Labor Market Policies

The employment policy framework has been built up since 1991 with the law on employment, which introduced the definition of ‘unemployment’, regulations on registration of the unemployed, professional training, unemployment benefits, and assistance in job seeking. The legislation was accompanied by the Labor Code, which defines employers’ obligations in cases of firing and enterprise restructuring and liquidation. A state employment service was created, as was a state unified employment fund which financed the various measures. In 2001 reform of the employment policy led to the adoption of a new employment law, while the employment service was split from the employment fund, and financing of all state programs for assistance for the unemployed, employed and social protection was handed over to the Ministry of Labor, Health and Social Affairs (MOLHSA, set up in 1999 after the merger of three different ministries). Measures and funding to support the development of small businesses were a major innovation of this reform policy.

In 1991, three independent employment services were established: united state fund, state employment exchange, and vocational guidance and refreshment center. These services were aimed at registration of the unemployed, allocation of unemployment assistance to them, arrangement of training and assisting the unemployed with finding a job. It is worth mentioning that these services did not work effectively enough against the background of economic recession, the number of registered unemployed was much higher, than the number of received vacancies (mainly not requiring high efficiency). Therefore, only 5-10 percent of applicants were employed. In 1996, the Employment Department of Georgia was established..

In 2002, it was transformed into the State Employment Service, which was a legal entity under public law and was independent from governmental authorities. The service was aimed at implementation of state policy in the field of employment and carrying out of social protection activities. The State Employment Service had local representations in each urban centers and districts.

The activities of the State Employment Service included the following:

- Arrangement of intermediation for organization of labor for individuals;
- Arrangement of service for vocational guidance of individuals;
- Arrangement of public works;
- Collection of statistical data about the situation in the labor market and the creation of united database;
- Recording, registration and monitoring of the unemployed;
- Identification of beneficiaries of unemployment assistance;
- Contribution to individual professional training, refreshment and upgrading of professional skills;
- Participation in development and implementation of employment programs;

This service was quite ineffective because due to the economic situation the number of vacancies was very small and unemployment assistance was just 20 GEL¹⁷.

Before 2005, employment policy was implemented by the Georgian Employment Service, under the Ministry of Health, Labor and Social Affairs. Within the ministry, the Labor and Employment Policy Departments were responsible for the State Employment Services. However the effectiveness and efficiency of the system and policy were very low, due to the following reasons: poor institutional interaction, under-resourced regional employment services and lack of relevance to employer demand.

In 2005 the Georgian Agency for Social Assistance and Employment was established, but it focused more on social assistance rather than employment. In 2007 the agency was renamed and now implements the government's social assistance program – targeted social assistance (TSA). The employment policy department under the MOLHSA was abolished (2005) and currently there is only one member of staff permanently working on labor issues. Reportedly this minimal resource is maintained with the limited obligation to follow up on ILO conventions. In accordance with the overall liberal politics prevailing in Georgia, the MOLHSA has lost the mandate, focus and capacity to deal with 'labor'.

17 private job counseling organizations are operating in Georgia. The Ministry of Health, Labor and Social affairs is obligated to detail the registry of private employment agencies, which is not yet fully accomplished. Private employment agencies operate at a very weak level, accounting for not even one percent of employment. There are several internet portals that provide information on different announcements vacancies. There is no agency which provides actual support to unemployed persons. All above mentioned agencies and web-portals provide information about openings within different companies. There are several non-profit organizations, which provide some consultancy services and guidance for job seekers, but these activities are not permanent and continuing: no general information about the coverage of employment services provided.

There are still general talks at state level on reestablishing a public employment agency, but there is no any evidence of any actual planning (action plan, strategy concept, et)¹⁸.

In 2006-2007 the government implemented two employment programs. The on-the-job training targeted program aimed at on-the-job training of the temporary unemployed population. The beneficiaries of the

¹⁷ At 2002 exchange rate this equaled €9.6

¹⁸ European Training Foundation (ETF) (January 2010) - ENPI 08-14 Black Sea Labor Market Reviews

program had to meet the following demands: The potential beneficiary had to be fit for work, looking for a job and ready to perform this job. No requirements were set for the beneficiary's age. For the duration of the three-month training monthly benefit paid amounted to €75 for the 2006 program and €100 for the 2007 program. The number of beneficiaries totaled 42 000 in 2006 and 110 000 in 2007.

Both programs were organized as follows: job seekers registered and received a training job in an enterprise interested in the program; under the first program each beneficiary job seeker received a stipend of €225 for three months of on-the-job training; under the second program each beneficiary received €300. The host enterprise incurred no costs.

A trainee was expected to be offered a job after the three-month program. Some of the critical remarks on the effectiveness of these programs are summed up below:

- The relevance of the programs cannot be evaluated because of a lack of monitoring mechanisms. There are no tools to clearly identify the proportion of beneficiaries who actually worked and were trained, and the proportion of those who were offered a job at the end of each program. Also, the programs included a large number of people, making successful monitoring difficult.
- The programs did not include any form of mentoring, and therefore the quality of on-the-job training was not verified.
- The large budgets allocated to these programs could have been used to rehabilitate the network of training centers and their programs and incentives, or other better-targeted active labor market programs. The two programs are considered as a type of social assistance. Some Vocational Education Training centers received beneficiaries of the second program (a total of approximately 3 000 registered, but many dropped out).

The budget of the 2006 employment program constituted GEL 24 million (nearly €10.8 million). According to the statistical data of the program, 44.5 thousand applicants were employed. As for the 2007 employment program, it had a budget of GEL 44.6 million (nearly €19.5 million) and nearly 114 thousand persons received on-the-job training as part of it. In 2006 the share of the employment budget in GDP was 0.32 percent and in 2007 – 0.45 percent¹⁹.

Monitoring of project characteristics showed that as a result of the 2006 on-the-job training program, 20 percent of program participants were employed by the organizations which trained them. In 2007, nearly 10.2 percent²⁰ of program participants found long-term jobs. However, the extent to which the on-the-job courses contributed to upgrading the program participants' skills and their employment at the other enterprises, has not been researched.

Despite unemployment is recognized as one of the key social challenge of the country, since 2007 there is not implemented any national employment state program. Some municipalities and self-governing cities (including Tbilisi) are implementing several small-scale programs, mainly directed on either vocational courses or trainings in English and computers. These programs mainly aim to assist unemployed people to increase their opportunities to find a job. There is no available any data as in terms of total number and budgets of such programs, nor impact on employments.

1.6. Education

In the Soviet era, the Georgian population achieved one of the highest education levels in the Soviet Union. In 1989 some 15.1 percent of adults in Georgia had graduated from a university or completed some other form of higher education. About 57.4 percent had completed secondary school or obtained a specialized secondary education. Georgia also had an extensive network of 230 scientific and research

¹⁹ Source: Ministry of Economy and Sustainable Development; Ministry of finance;

²⁰ "Employment programs in Georgia", Young Economists' Association of Georgia, 2008

institutes employing more than 70,000 people in 1990. The Soviet system of free and compulsory schooling had eradicated illiteracy by the 1980s, and Georgia had the Soviet Union's highest ratio of residents with a higher or specialized secondary education. The early 1990s, however, saw the beginning of a deep crisis in the Georgian educational system. Financing of education decreased from seven percent of GDP in 1991 to one percent in 1994²¹; in 2008, it was 2.4 percent²². This reduced teacher and lecturer salaries and led to a wide deterioration of basic infrastructure. According to the Georgian Ministry of Education, by 1999, 70 percent of schools in cities and 84 percent of schools in rural areas needed significant repair or complete reconstruction. Approximately €150-200 million in investment was required to restore them²³.

In the early 1990s, Soviet education institutions were still in place in Georgia, although Soviet-style political propaganda and authoritarian teaching methods gradually disappeared. Most Georgian children attended general school (grades one to eleven), beginning at age six. In 1988 some 86,400 students were enrolled in Georgia's nineteen institutions of higher learning. Universities are located in Batumi, Kutaisi, Sukhumi, and Tbilisi. In the early 1990s, private education institutes began to appear. Higher education was provided almost exclusively in Georgian, although 25 percent of general classes were taught in a minority language. Abkhazian and Ossetian children were taught in their native language until fifth grade, when they began instruction in Georgian or Russian. Teaching in the Azeri and Armenian languages is provided in the regions mostly inhabited by Azeri and Armenian minorities.

Throughout most of the 1990s teaching and learning methods, as well as existing curricula, were outdated, favoring memorization and rote learning over the development of critical thinking. The ineffective planning and management of the educational sector and the lack of a clearly-defined state educational policy had additional negative impact on social development. Corruption was also rife. It was particularly prevalent in the university application process, where acceptance on merit was rare. Students won their places at university because of a family contact or a gratuity. A weak and corrupt educational system is also profoundly socially inefficient. A poorly trained workforce played a significant role in the stagnation of the Georgian economy in the 1990s. But perhaps worst of all, students were conditioned to expect corruption and to work with it before their careers had even begun.

Radical reforms of the Georgian education system, launched in 2004, have brought some results in terms of legislative initiatives and, most importantly, were reflected in integration with the European educational system. The Law on Higher Education, adopted in December 2004, and the Law on General Education, adopted in April 2005, serve as the legal basis for educational reform. Both documents aim at the establishment of European standards of education in Georgia, offering new models of financing²⁴, management and quality control. The focus of the reform has been to redesign the old education system through institutional change and infrastructure improvements.

Today Georgia's education system is structured as follows: preparatory education (2 years), compulsory education (9 years: 6 years for primary education and 3 years for lower-secondary education), upper secondary (3 years), and tertiary education (4 years - bachelor's degree, 2 years – master's degree and 3 years – first qualification). In addition, the system offers programs for initial vocational education after the completion of compulsory education, and higher professional education and training that can be obtained after completion of the full cycle of secondary education, and offers education for students with

²¹ Ibid

²² Ibid

²³ UNICEF (1999), The analysis of the situation of children's school education in Georgia in 1998 – 1999, Tbilisi, Georgia

²⁴ Examples: per capita funding of schools; the students result-based (in national examination tests) funding on high education level.

special needs. As a result of the reform, today each school is governed by a Board of Trustees empowered by a financial management authority. The administrative structure of the education system has also been adapted. Former Regional and District Departments of Education have been replaced by a network of 72 Education Resource Centers (ERCs) responsible for facilitating the work of schools through collecting data, organizing training, conducting research, and monitoring accounting. The financial reform of the education sector reflects the promise made by the government (since the Rose Revolution) to fight corruption.

Parallel to the legislation and other reforms, state financing of the education sector has been continually increasing since 2003. In 2007 consolidated state budget expenditures on education three times exceeded the 2003 amount and accounted for 2.8 percent of GDP²⁵. The same spending was only 2 percent in 2010²⁶. The expenditure of 2 percent of GDP is very low relative to the Europe and Central Asia (ECA) and the Organization for Economic Co-operation and Development (OECD) country average (at approximately 4.4 percent and 5.0 percent of GDP, respectively). Since 2000, Georgia has spent roughly 2.2 to 2.7 percent of its GDP on education. In 2004, expenditure on education showed a sharp increase (to 2.9 percent of GDP) as the government fully paid the accumulated arrears on teacher salaries; in 2010 2.7 percent of GDP was spent on education. According to data provided by the 2005 Education Management Information System (EMIS), Georgia's compulsory education system comprises approximately 620,000 students, 66,000 teachers, and 3,100 school buildings (approx. 2,600 schools). The student-teacher ratio is approximately 14.4 at the primary education level and 9.2 at the secondary education level (the ECA averages in 2005 were 16 and 12 percent for primary and secondary, respectively). Georgia has a very low student-teacher ratio by ECA standards. In order for the country's education system to achieve a teacher-student ratio aligned with the ECA (at 16 students to 1 teacher), about 28,000 teachers would be currently redundant. The difficult political economics of downsizing the teaching force is compounded by the fact that the current system provides strong incentives for teachers over retirement age to stay in the job. This phenomenon arises mainly because the average teacher pension in Georgia (currently at €35 per month) is lower than the average teacher salary (currently €10 per month) despite recent efforts to close this gap (pensions have almost doubled since 2006). Furthermore, labor market opportunities for older teachers outside the school system are still not very promising and teachers over retirement age (60 for women and 65 for men) are not forced into retirement, partly because of a general lack of qualified younger/entry-level teachers.

To deal with challenges in primary education, the Ministry of Education and Sciences of Georgia has established a public body - Teacher Professional Development Center (TPDC). In 2010 TPDC will launch one of the major program, the Teachers' Accreditation Program, which will serve as the basis for development of teaching standards and teacher s' evaluation in upcoming years. Despite the fact that Georgia spends on education half of what is spent on average within the region, indicators such as gross pre-primary and compulsory education enrollment rates do not differ from those regionally (compared to Latvia, Ukraine, Estonia, Romania, etc.).

1.6.1 General Education

The situation as regards the general management of the education sector has also significantly progressed towards implementation of European standards. According to the law of Georgia on General Education, the first 6 of 12 years of schooling provide for initial education, years 7-9 provide basic education and years 10-12 provide secondary education courses. As of 2009, there were 2,200 general education schools and over 70 000 teachers in Georgia.

²⁵ Source: Georgian-European Policy and Legal Advice Centre (February 2008), Georgian Economic Trends: Quarterly Review. Tbilisi, Georgia, p27.

²⁶ Ministry of Finance of Georgia; www.mof.ge

Starting from 2005 the schools were financed directly through the budget of the MoES rather than from local budgets. The government in January 2006 introduced a per capita funding formula nationwide at the general secondary education level. Under the new scheme, schools receive a direct transfer of funds from the Ministry of Education and Science (MoES) based on the number of students enrolled for a given year. The voucher covers current school expenditures, of which teacher salaries are the main component. The new vouchers worth of GEL 100-390 (€45-180) are allocated per each pupil. Apart from this financing system reform, schools have also been converted from local-government run organizations to autonomous Legal Entities of Public Law (LEPLS). Schools are governed by the recently elected (by teachers and parents) School Boards of Trustees, composed of elected teachers and parents, a student representative, and in some cases, a local-government representative. Within this framework, secondary schools enjoy considerable autonomy in managing their annual budgets and can therefore set their own priorities, within certain legislative constraints.

Curricula are developed by the National Curriculum and Assessment Center. All public and private schools are obliged to meet national curriculum goals and criteria, though 25 percent of the curriculum may be determined at the school's discretion. The state will, however, measure school achievement and will, if needed, participate in improving the quality of learning. Quality assurance and control are implemented by the Ministry of Education and Science, which has started evaluating compliance of the learning process and outcomes with the national curricula through a school accreditation process in 2009. The state will only recognize a certificate on secondary education that is issued by an accredited school.

Secondary education saw a slight increase as a proportion of the education budget in 2006-2007, moving from GEL 187 million (€90 million), or 45 percent in 2006, to 245 million (€120 million), or 50 percent of the total budget, in 2008. This figure does not include a number of additional programs. The National Program for School Building Rehabilitation will spend GEL 500 million (€280 million) on school rehabilitation by 2011. Also, the Deer Leap project²⁷ aims at complete computerization and provision of internet access in all secondary state schools of Georgia, bringing student/computer ratios to 20:1 and training 70 percent of teachers in how to use computers.

The quality of schools built during the Soviet times was generally poor. Emphasis on school maintenance was scarce during these times, and the collapse of education spending at the beginning of the transition resulted in large capital disinvestments. As a consequence, the current stock of school infrastructure is deteriorating quickly. Yet, about 92 percent of the overall budget for general education is spent on teacher salaries and utilities (mainly school heating, water, and electricity).

In Georgia, enrolment rates for secondary school students are relatively high, but are showing signs of decline, particularly among rural and minority youth and youth from poor families. Secondary school enrollment rates decreased from 77 percent in 1993 to 71 percent in 2007, while the rate for upper secondary education declined sharply to 54 percent²⁸. Differences in enrollment rates do not differ much between richer and poorer between ages 7 and 15 (normal ages to be in basic education). However, enrollment rates for individuals between ages 4 and 7 (normally the age to be at preschool) in the poorest quintiles are 20 to 30 percent lower than those for individuals in the richest quintile. This large difference may be explained by the fact that preschool (not being compulsory) is mainly paid out-of-pocket. At age 7, about 68 percent of all the children in the richest quintile are enrolled in school compared to only 53 percent in the poorest quintile, suggesting late enrollment in basic education, especially among the poor. Enrollment rates increase rapidly after age 7, reaching almost 100 percent at age 9 for poor and non-poor

²⁷ In the framework of the program Deer Leap, the Education and Science Infrastructure Development Agency of the Ministry of Education and Science, together with the donor organization Skhivi XXI, has launched a new project of providing schools with computers. A total of 2,720 computers were presented to Georgian public schools by the donor organization Skhivi XXI.

²⁸ World Bank, 2002, "Public Expenditure Review: Georgia," 25.

children. Between ages 15 and 17 (the ages that correspond to upper-secondary school), enrollment rates drop rapidly among the poor. At age 17, presumably after having finished upper-secondary education, enrollment rates drop rapidly both among rich and poor individuals. At age 18, enrollment rates among children in the richest quintile are more than twice as high (70 percent compared to 30 percent) as those for children in the poorest quintile.

Attainment rates among minorities (particularly Azeri) are substantially lower than among native Georgians. Drop-out rates after primary education are substantially larger for minority individuals compared to those for native Georgians, especially among the Azeri population. Estimates indicate that less than 2 percent of all Azeri and less than 8 percent of all Armenian individuals aged 16 to 29, most of whom reside in rural areas, attained some form of tertiary education compared to 20 to 27 percent among native Georgians.

1.6.2 Pre-school education

Preschool net enrollment rates in Georgia, while aligned with those in other Caucasus countries, are low by European standards. Prior to transition, participation in the preschool education sector in Georgia, similar to the prevailing situation in many other post-Soviet countries, was quite high. During the mid-1990s transition, public investments in preschool education suffered the most. As a result, the number of preschool institutions and children enrolled almost halved during 1989–1994. While there is limited information related to why parents prefer preschool home care compared to institutional care (whether this is because of low institutional quality or because home care is socially preferred), about 25 percent of all children in Georgia who are not enrolled in preschool education live in households that opt for home care. This is mainly explained parents' belief that they can take care of children better and also by poor access to kindergartens (predominantly in rural areas). Access to preschool education in preparation for school constitutes an important proxy for education quality. As such, the government needs to oversee (and perhaps finance) children's pre-school education regardless of parents preferences. International evidence (MIT 2006) suggests that high-quality early childhood education helps prepare young children to succeed in school and eventually in life.

Nevertheless, significant progress was achieved between 2004 and 2008 in improving preschool enrollment rates (25.3 percent in 1995 and 33.8 percent in 2004), especially among the poor. Although by this figure Georgia has better rate compared to Armenia and Azerbaijan, it is almost half lower than in Baltic States²⁹. Estimates indicate that important improvements in preschool enrollment rates were achieved in this period, especially among children from the poorest households, living in eastern Georgia, and from rural areas. Due to data limitations, we cannot assert whether such progress was the result of education policy or due to the fact that more women with children entered the labor force. However, there have been no important changes in preschool policy (or investments in new preschool facilities) since 2003 which could explain the progress achieved.

Primary completion rates: Data from the World Development Indicators dataset indicate a significant deterioration in primary completion rates since 2004. However, according to the World Bank (2008a), Georgia is on the list of ECA countries that will likely achieve Millennium Development Goal 2 (MDG 2) (universal primary education). Data published by the Ministry of Education and Science based on the Education Management Information Systems indicate that primary completion rates in 2005 were 98 percent (MoES 2007). To move toward achieving the MDGs, Georgia became an FTI (Fast Track Initiative) partner in July 2007 after endorsement of Georgia's 2007–2011 Education Sector Strategy and Action Plan. Gross enrollment rates at the lower-secondary-education level increased from 91 percent in 2003 to 95 percent in 2005, catching up with Armenia and Azerbaijan. At the upper-secondary level,

²⁹ Transmonee 2007 Features;

gross enrollment rates fell sharply from 75 percent in 1989 to 50 percent in 1994, and the trend has gradually reversed since 1995.

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1.6.3 Higher Education

Before the reforms started, corruption during the university admission process was one of the most widespread forms of corruption in Georgia. Since 2005, admission of students to higher educational institutions has been entirely based on the results of Unified National Examinations (UNE). The administration of these exams and the whole admission process was completely removed from the universities and was assigned to the National Examination Centre which was created especially for this purpose. The examination process is incredibly transparent. Since 2006, all applicants' exam sheets have been scanned and posted on the Centre's website. It is also extremely meritocratic. Both student placement and funding are allocated entirely on performance in this exam³⁰. The new system of financing universities is based on the same 'money follows the student' principle that exists in schools. For each student, a fixed fee is paid every year to the institution. State funds are allocated to cover all or part of the tuition for students who perform well in the UNE. In early 2005 institutional accreditation of higher education institutions was carried. About 113 out of 237 (48 percent) high education institutions were awarded accreditation.

The process of the establishment of a system of quality control is also noteworthy. According to the law on higher education the system of quality control allows for the evaluation of higher education institutions and programs including through student participation and publication of results of self-evaluation and external evaluation. Several universities have already introduced the quality control units which are responsible for ensure a high level of education through application of contemporary methods of evaluation. The quality control units in higher education institutions are required to establish and maintain intense professional relationships with respective services abroad to provide transparent criteria and establish contemporary methodologies in the field of quality control.

Enrollment rates in higher education have increased rapidly and steadily since 1994. Participation in higher education has increased significantly since the mid-1990s, reaching 40 percent in 2004. However, increases in enrollment in higher education since 1994 were not necessarily a good thing, since they were partly due to the proliferation of private higher-education institutions in Georgia, the majority of which seemed to have operated with very low quality standards. Through the accreditation process, the number of higher-education institutions decreased significantly after 2005. In 2009, 23 public and 48 private universities were operating in Georgia.

National assessments indicate important improvements in education since 2003. The first and only available national assessment was implemented by the National Assessment Center (NAEC) in 2003

³⁰ More information available at: www.naec.ge

(emphasizing reading skills of children 9 to 10 years old). Despite the not-too-encouraging results for Georgia in PIRLS 2006, compared to other countries in the sample, comparisons between 2006 PIRLS data and 2003 data from the national assessments suggest a tendency towards improvement: In 2003, only 35 percent of students in the National Assessment coped with the tasks that require finding relationships between different parts of the text and making straightforward inferences. This ranking increased to 50 percent in PIRLS 2006. In 2003, only 35 percent of students in the National Assessment mastered the tasks that require the process of retrieving implicitly stated information from a certain part of the text, interpreting and integrating ideas and information. This ranking increased to 45 percent in PIRLS 2006. It should be mentioned, that the PIRLS assessment has not been conducted since 2006.

1.6.4 Vocational Education

Vocational education in Georgia is currently undergoing a broad set of reforms. Enrollment rates in the vocational education sector (at 20 percent in the early 1990s) were always relatively low in Georgia compared to the other countries in the sub region prior to the transition years (at 40 percent in Armenia and Azerbaijan in the early 1990s). Contrary to what occurred in Armenia and Azerbaijan—where there has been a notorious decrease in secondary vocational enrollment after 1991—enrollment rates for secondary vocational education in Georgia have been rather stable (at 20 percent) since then, despite a mild increase during 1994–1998 and a mild decrease thereafter.

By 1994, enrollment rates in Georgia, Armenia, and Azerbaijan were very similar (oscillating between 19 and 21 percent). Some of the key challenges for the sector are outdated vocational education programs, lack of trained teachers, poor-quality textbooks, shortage of educational materials, and poor infrastructure, all of which are impediments to attracting more students into the vocational education system. Today, the Ministry of Education and Science (MoES) is in the process of optimizing the network of existing vocational schools and rehabilitating the best ones over the next two years. Significant challenges ahead lie in promoting the establishment of public-private partnerships in the sector.

A reform started in 2005 was driven in the short term by the need to offer secondary graduates a valid alternative to higher education. Vocational education and training (VET) appeared to be a relevant alternative to entering a higher education system whose capacity shrank with the accreditation process; or to entering the job market with poor or no skills for employment. A renewed and more attractive VET option, developed by the MoES as soon as the minimal legal groundwork was laid in 2005, was based on shorter courses and new curricula, viewed as the best solution to support rapid entry into employment. One of the first measures was the rationalization of the VET network and the consequent rehabilitation of 10 selected VET centers.

The Ministry of Education and Science administers the VET system, with the assistance of the key state agencies dealing with curriculum, accreditation and teacher development. The youth VET sector reform launched in 2005 has already undergone three phases: up to 2007 the MoES invested in VET infrastructure and prepared for the opening of the National Professional Agency (NPA) foreseen in the new VET legislation. In 2008 the NPA was de facto launched, but closed after one year of operation. In 2008 attention was shifted to a poorly prepared plan to privatize VET provision, and then in 2009 the ministry refocused on system development, to discussion and finalization of the VET strategy and strengthening of relations with donors.

The option to focus on the privatization of VET provision in 2008 raised numerous debates and uncertainties among key stakeholders. As this policy option was revised in 2009, privatization of VET centers is no longer the cornerstone of VET reform, although the government accepts bids from private investors for those buildings that are not used in training. Rehabilitated and active VET centers will remain in the public network. The new draft VET strategy, in its version of September 2009, sets clear

targets regarding investment in VET infrastructure and strengthening of a group of 25 VET centers that will also act as resource centers.

The Government of Georgia has a National Program for Vocational Education and Training Infrastructure Development: VET for Employment³¹. The main aim of the national program is to increase the role of the private sector in VET infrastructure which would promote satisfaction of labor market needs for professional human resources. The main objectives of the program are the following:

- Creating at least 25 VET centers in Georgia by attracting investments (government + business);
- Modernization of VET infrastructure with partnership of state and private sectors;
- Training competitive professional human resources in order to satisfy labor market needs.

The program has started, however it is still on initial stage (attracting the private investments). Apart from the state program, various donor organizations (like GTZ, UNDP, EU, USAID, and ETF) are supporting the VET system development in Georgia. For instance, The EU SPSP project support covers the period 2009–11, and is based on the budget support modality (€17 million + €2 million for technical assistance). The policy matrix of the EU SPSP is well coordinated with the national VET strategy and if successfully implemented, will contribute to substantial systematization of policies and instruments that are much needed in this sector, and to strengthening the credibility of competencies and qualifications in Georgian VET. Also, UNDP Georgia is providing support to the development of vocational education tailored to the needs of the Georgian labor market. In cooperation with the Ministry of Education and Science, UNDP arranged professional retraining programs in more than 30 professions, including agriculture, food processing and construction, in vocational education and training centers in five cities across Georgia.

1.7. Migration and Remittances

Georgia is primarily a country of origin for migrants with flows directed mainly towards the Russian Federation, United States, Greece, Germany, Turkey, Austria, and a number of other EU member states such as France and Spain. The 2002 Census shows that since the 1989 Census, Georgia lost almost 20 per cent of its population to emigration. On average 4700 persons left the country per year during 2000–2009. It has the second highest net migration proportion after Kazakhstan in the Commonwealth of Independent States (CIS). The UN Population Division and the World Bank estimate the number of emigrants from Georgia at over one million as of 2005 or 22.9 per cent of the total population of over 4.4 million. Younger people aged 20–30 represent almost half of possible migrants, even though the group aged 40–50 is also large (25 percent). The desire for better employment in foreign labor markets can be deduced from the fact that over half of potential migrants are currently employed (part-time and full time). Substantial proportions, amounting to 44 percent of migrants, are job seekers who are currently unemployed³². The two largest professional categories (not necessarily practicing their professions currently) are teachers (18 percent) and doctors or nurses (11 percent). Other represented groups include scientists, economists, engineers, architects and lawyers. Almost quarters of potential migrants have no job preference abroad and are ready to accept any work; almost a third would accept jobs in the category of domestic help and/or caregiver; and 11 percent would accept jobs in restaurants and hotels. Gender differentiation is evident; women make up the large majority of those who choose domestic help and/or caregiver jobs, while the majority of men accept any type of job.

The rising emigration to EU states such Greece, Germany, Spain, France and Austria, is explained by following factors: (1) ease of illegal migration (in the case of Greece) and (2) invitation and support of relatives (in the cases of Germany, France, Austria and Spain), who study, work or are married to local residents. Majority of emigration flows are directed towards the Russian Federation due to historical ties

³¹ Source: Ministry of Economic Development of Georgia; 2009

³² IOM mission to Georgia; 2008

of the common space of the Soviet Union and geographical and cultural proximity. A significant part of this migration to the Russian Federation is irregular in character with estimates ranging from 200,000 to as many as 1,000,000 of both legal and undocumented migrants from Georgia. With increased political tensions between the two countries and increased irregular character of migration flows, barriers to Georgian migration have emerged. In 2000, the Russian government introduced a visa regime for Georgian nationals while most of the other CIS countries continued to enjoy a visa-free movement towards the Russian Federation. In 2006, many Georgians living in Russia were expelled from the country on grounds of immigration law violation.

The flow of emigrants from Tbilisi, the capital of Georgia, and other urban areas tends to be directed towards Western Europe and the United States. Georgian nationals also continue to apply for asylum, mostly in Western Europe, with Germany, France, and Austria having the highest number of applicants in 2006.

Net migration in 2009 compared to 2008 increased by 34, 200 persons. 22.9 percent of total population was made up of emigrants in 2005. Presumably, that this number is constantly decreasing due to significant reforms in the spheres of business environment, healthcare, rule of law, etc which the government has implemented since 2003. No data is available on returnees.

Many Georgian families are heavily dependent on remittances³³. However, as reported by the World Bank: 'Remittances play a relatively modest role in the total composition of incomes. Moreover, the share of remittances in the household monetary incomes declined from 8 percent in 2003 to 3.6 percent in 2007'³⁴. In 2008 the total amount from the cash transfer systems received was €900 m³⁵. Despite the "frozen" relations between Georgia and Russia, transfers from Russia have the greatest share (63 percent) and account for €550 m. Among the main "cash-origin-countries" Russia is followed by Ukraine at €62 m and USA at €55 m.

According to a July 2007 EBRD survey³⁶, 9 percent of Georgian adults – approximately 317,000 people – received remittances on a regular basis during 2006. Also, the average Georgian remittance recipient receives money 8 times a year. Georgian remittance recipients spend approximately 85 percent of the money they receive on basic daily expenses such as food, housing, clothing, utilities and medicine. This means that a large share of remittances are spent on "first needs" of families, for improving living standards rather than on business activities.

As for irregular migration from Georgia, it is mainly economically motivated due to low income levels and low standards of living. With many people living in poverty and economically dependent on remittances from abroad, it is not surprising that many Georgians seek opportunities far from home. The main destinations of the irregular migration flows are the Russian Federation (with estimates of 400,000 to 1,000,000 undocumented Georgian migrants), Greece, Germany, and the United States. The main routes are through Belarus, Turkey, the Russian Federation, and Bulgaria. Eighty per cent of irregular migrants headed for Western Europe transit through Turkey as Georgian nationals do not need to obtain a Turkish visa³⁷.

³³ As the EBRD survey (July 2007) indicates: approximately 1 million Georgians benefit from remittances.

³⁴ "Georgia Poverty Assessment" - World Bank, 2008

³⁵ Source: National Bank of Georgia; www.bng.ge; statistics

³⁶ "Georgia National Public Opinion Survey on Remittances" Survey; EBRD; July, 2007

³⁷ International Centre for Migration Policy and Development (ICMPD) (2006) 2005 Yearbook on Illegal Migration, Human Smuggling and Trafficking in Central and Eastern

1.8. Demographic Trends

According to the Soviet Union's 1989 census, the total population of Georgia was 5.3 million. The estimated population in 1993 was 5.6 million. Between 1979 and 1989, the population grew by 8.5 percent, with growth rates of 16.7 percent among the urban population and 0.3 percent in rural areas. In 1993 the overall growth rate was 0.8 percent. About 55.8 percent of the population was classified as urban; Tbilisi, the capital and largest city, had more than 1.2 million inhabitants, or approximately 23 percent of the national total. The capital's population grew by 18.1 percent between 1979 and 1989, mainly because of migration from rural areas. Kutaisi, the second largest city, had a population of about 235,000.

In 1991 Georgia's birth rate was seventeen per 1,000 populations, its death rate nine per 1,000. In 1990 the infant mortality rate was 196 per 10,000 live births. Average family size in 1989 was 4.1, with larger families predominantly located in rural areas. In the 1980s and early 1990s, the Georgian population was aging slowly; the cohort under age nineteen shrank slightly and the cohort over sixty increased slightly as percentages of the entire population during that period. The Georgian and Abkhazian populations were the subjects of substantial international study by anthropologists and gerontologists because of the relatively high number of centenarians among them.

According to the census in 2002 the population of Georgia amounted to 4,371,500 persons (excluding the breakaway regions of Abkhazia and S. Ossetia). During the 2002-2008 period slight increases and decreases in the population were observed and in 2008 the population was 4,385,400. According to the UN forecast the population of Georgia will decrease by nearly 1 million by 2050³⁸. The population aged over 60 years made up 18 percent of the total population in 2001-2008. Due to economic migration the population of Tbilisi population is increasing as migrants from rural areas flow in. Tbilisi had one quarter of the share of the total population with 1,136,000 inhabitants in 2008.

As for the ethnic composition of Georgia, the share of ethnic Georgians increased from 68.8 percent of total population in 1979 to 83.8 percent in 2002. After Georgians the second largest group are Azeri (6.5 percent) followed by Armenians (5.7 percent). The ethnic Armenian population decreased from 8.1 percent of the total population in 1989 to 5.7 in 2002. This could be explained by frequent changes of the surnames of Armenians to Georgian surnames, so the ethnic representation is more or less lost. Azeri and Armenians are followed by Russians (1.5 percent), Ossetians (0.9 percent), Kurd (0.5 percent) and others. No data are available regarding the number of Roma population in Georgia. It is considered that the Roma population exceeds several thousand in Georgia, but it is difficult to state even an approximate number.

As for the comparison of population including and excluding the Abkhazian Autonomous Republic (AAR) and so called "S. Ossetia"³⁹, the following estimation could be made: in 2008 the total population of Georgia would have been 4,365,700 excluding AAR and "S. Ossetia", instead of 4,385,400 for the entire Georgia. The 2002 census was not conducted in uncontrolled regions of Abkhazian Autonomous Republic and South Ossetia. Also, the 2008 population estimates do not include the information of Tskhinvali city and Java municipality. The population amounts in Abkhazia and uncontrolled municipalities of "S. Ossetia" are based on assessments (not the census) and are assumed to be constant between 2002 and 2008⁴⁰.

According to official statistics⁴¹ the fertility rate (birth per woman) in Georgia was 1.67 in 2008. The average births for 2004-2008 was 49 946 persons, 11.4 per 1000 inhabitants. The mortality number

³⁸ World Population Prospects: The revision 2008 Population Database

³⁹ "S. Ossetian" territories are part of the region – Shida Kartli;

⁴⁰ Geostat; http://www.geostat.ge/?action=page&p_id=472&lang=geo

⁴¹ Geostat

averaged 43,600 persons for 2004-2008, 10 per 1000 inhabitants. The natural increase was average 6300 persons (in 2004-2008) and 1.4 per 1000 inhabitants. The infant mortality rate has decreased from 25.4 in 1980 to 17.0 in 2008, mainly due to improved healthcare quality over these years.

The marriage rate (per 1000 population) decreased from 10.0 in 1980 to 7.2 in 2008. Accordingly, the divorce rate decreased from 1.3 in 1980 to 0.7 in 2008. The average length of marriage before divorce was 12 years in 2008. In the period 1980-2008 the male age at first marriage was on average 28.8 and the female age was 25.3. Life expectancy in 1991 was 75 years for females and 67 years for males. In 2008 this was 79 for females and only 69.3 for males. This figure follows the global tendency of males' lower life expectancy as compared to females⁴².

As for the population forecast, according to the World Bank⁴³, Georgia's Population will decrease by some 17 percent by 2025. Georgia will lose 0.8 million of its population by 2025. Georgia is considered an "already old" country by World Bank estimation⁴⁴.

1.9. Territorial Disparities

Approximately 15 percent of GDP is produced in rural areas whereas more than half of the employed population lives in rural areas. The agricultural sector has become stagnant over the last years and with the real agricultural GDP having decreased by one percent during 2003-2007. The abovementioned trend is mainly caused by the substitution of local produce with that of imported agricultural products, severe droughts in 2004 and 2006 and also by the closing of Russian markets for Georgian agricultural products.

All regions, except for Tbilisi, Ajara and Mtskheta-Tianeti, are characterized by a more or less similar sectoral distribution of employment structure in which agriculture accounts for 65 percent of total employment followed by the construction and public administration sectors as the second and third largest employers. The mining industry, electricity generation and transmission, air and water production and distribution, and the hotel and restaurant sectors account for approximately similar shares. The geographic factor represents a significant determinant of unemployment. Unemployment is five times higher in urban areas than in rural areas at 27.8 percent and 6.7 percent, respectively. The low risk of unemployment in rural areas is due to the intensive inclusion of the population in agricultural self-employment and non-paid employment. The lowest level of unemployment is observed in Samtskhe-Javakheti, Guria and Samegrelo.

As for financing, the leading role in the financing of regional development is attributed to the subsidies allocated from the state budget. In last years the amount of financial subsidies for regions has been growing because of channeling of the part of income tax revenues (which 2008 should be transferred to local budgets) to the state budget. As a result the own revenues of local budgets have decreased. The direct state investments are supplied to regions from the ministries, departments, reserve funds of the President of Georgia and Georgian Government, from the fund for implementation of projects in regions as well as the sources of financing received from abroad (loans, grants), including the municipal development fund, Millennium Challenge for Georgia Program. The dependence of local budgets from the central budget has increased because of the channeling of total income tax revenues to the central budget. The local budgets are formed mainly with the transfers received from the central authorities. The share of the only local tax – the property tax and local charges in the revenues of local budgets is very small. Also, no overall vision for sustainable development of self-governing entities has hitherto been

⁴² United Nations (2005-2010)

⁴³ The Demographic Transition in Eastern Europe and the Former Soviet Union; World Bank 2007

⁴⁴ Staff assessments based on demographic trends and indicators described in The Demographic Transition in Eastern Europe and the Former Soviet Union; World Bank 2007

formed in municipalities and, accordingly, the majority of municipalities have no short-, medium- or long-term socio-economic development plans.

1.10. National Minorities

Georgia is a multi-ethnic country. According to the census, minorities make up 16.2 percent of the population of Georgia (data of 2002 census of National Statistics Office of Georgia). Ethnic minorities reside in densely populated communities in Kvemo Kartli and Samtskhe -Javakheti (55 percent of ethnic minorities reside in these regions). They are distributed less densely in the rest of the Georgian territory. As for Roma people, according to the Census 2002 only 472 Roma and 864 Moldovans were counted in Georgia. However it is assumed, that the number of Roma living in Georgia exceeds the official data. The reason of the insufficient data is the lack of identity cards and lack of permanent residence places of Roma in Georgia.

After the collapse of the Soviet Union, ethnic minorities had difficulties integrating with the social and political life of independent Georgia, as they did not know the Georgian language, which became one of the state languages (together with the Abkhazian language). Only 31 percent of ethnic minorities speak Georgian fluently. They live mainly in Tbilisi and in regions with mixed population. As for mono-minority-ethnic regions, the level of knowledge of Georgian language is very low there. Recently, the Georgian government implemented reforms concerning the official state language (requirement of inclusion of Georgian language and literature⁴⁵ in national entrance exams of higher education institutions, obligatory test in Georgian language for the employees of state structure, etc.). In regions which are densely populated by ethnic minorities, these reforms were interpreted as a state effort to assimilate the minorities rather than an effort to integrate them into society. Therefore, the reforms were somewhat unpopular in these regions.

The Russian language has lost much of its importance as a means of communication between different national and ethnic groups in Georgia - a new generation (of ethnic Georgians) have poorer and poorer knowledge of the Russian language. Therefore ethnic minorities, who do not speak Georgian, have become socially excluded from the ethnic Georgian parts of society. The exclusion is observed in different forms. Certain fields appear to be inaccessible for ethnic minorities' individuals: higher education is simply not an option for most young people from ethnic minorities⁴⁶. Moreover, it is almost impossible for them to be employed by state structures.

Use of different economic indicators for evaluation of economic and social status of ethnic minorities makes it apparent that their comparative social exclusion from Georgian society is mostly cultural. The main reason is their lack of knowledge of the official state language rather than economic or social discrimination. However, signs of social and economic discrimination against ethnic minorities are still observed in mostly in Kvemo Kartli, Samtskhe-Javakheti, Kakheti and others.

1.11. Conclusions

Georgian economy suffered a deep contraction of 10.7 percent in annual terms in the second quarter of 2009 after a contraction of 5.9 per cent in the first quarter. This contrasts sharply with positive real GDP growth of 8.3 percent in the second quarter of 2008 (and 2.1 per cent growth during 2008 as a whole). This sharp slow-down is mainly due to lower investment, both foreign and domestic, and very limited

⁴⁵ According to the Georgian law about "General Education" adopted in 2005, the united national examinations require from the accredited university entrant to have predetermined passing mark in Georgian language and literature

⁴⁶ In 2005, when the united national examinations were conducted for the first time, only two entrants out of sixty-four non-Georgian entrants residing in Akhalkalaki and Ninotsminda, managed to pass the exams and were enrolled in accredited universities. This figure remained almost the same in 2008.

bank lending. The construction, services and manufacturing sectors all experienced significant falls in activity during the first half of 2009. Exports decreased by 37 percent in the first half of 2009 compared with a year earlier due to lower external demand and metal prices. However, imports – especially of services – decreased by 43 per cent, contributing to a fall in the current account deficit to 10 per cent of GDP (compared with 22.7 per cent of GDP in 2008 as a whole).

During the first half of 2009 foreign investment flows fell by about 80 percent relative to the same period in 2008, and remittances declined by about 20 per cent at the end of July due to the economic slowdown in Russia. Although the crisis has negatively affected fiscal revenues, the government has recently amended the budget with public investment focused on conflict-related reconstruction and infrastructure, along with social spending. The expected increase in the fiscal deficit to some 9 per cent of GDP in 2009 is likely to be funded by donor funds. After the economic contraction in 2009, Georgia is likely to experience only a modest recovery in 2010-2011, reflecting relatively low levels of domestic and foreign investment and limited bank lending. The large fiscal stimulus, mainly financed from international financial support, will provide some counter-cyclical effect. Remittances, although significant, are expected to decline further due to the recession in neighboring countries, in particular Russia, which in turn will affect consumption.

Despite the economic reforms and rapid growth in 2003-2008, the benefits are not still tangible for many Georgians, especially in rural areas. Livelihoods in rural areas continue to rely on low-productivity, self-subsistence agriculture, making eradication of poverty in rural areas extremely challenging. Given these constraints, in the short to medium term, expanding the coverage of Targeted Social Assistance to the extreme and overall poor to the some 41.2 % of those below the official subsistence minimum may be a viable strategy for the Government of Georgia to achieve further poverty reduction and reduce vulnerability to shocks among the poor.

As for the labor market, constantly increasing unemployment remains the main concern. Also, the agricultural sector's large share in employment is unfavorable; earnings in self-subsistence agriculture (accounting for the value of in-kind consumption) are extremely low—about 20 percent of median earnings in wage employment. This tendency may lead to an increase in absolute poverty and cause a decline of decent living in Georgia. There is a clear deficit of qualified workers in sectors like industry, services, and healthcare, among others. The other challenge is the ageing population. The share of 60+ aged population is increasing and in the medium term this may negatively affect the development of the labor market development and contribute to increasing the number of people in need of social protection or assistance.

In the future, the measures to be implemented by the state in terms overall economic development should include the following aims:

- To achieve the long-term high economy growth, the state should perform more active investment attraction policy and actions; Also, improve the climate for SMEs operations and sectoral diversification;
- The continuous reforms are need to be implemented for public finance management (e.i introducing the program-based budgeting) to implement proper fiscal discipline, ensure the macro-economic stability and regional development;
- State economic policy should focus on strengthening the rule of law and especially on property rights; developing in the business climate and public sector institutionalization; further support of market economy formation and regional economic development (e.i increase of agro productivity and decrease the dependence on agriculture sector).
- Special policy for labor market development should be introduced, mainly covering: the supply/demand connection development; requalification of existing labor force; increase of labor

force qualification; develop easy labor market access initiatives for youth; and further development of labor market regulating legislation;

- The government needs to sustain its education reform to: increase the quality of teaching; develop appropriate infrastructure; promoting incentives for private sector provision of educational services; and increasing the enrollment rates;

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Annex1. General Tables

Table 1.A.1. Nominal GDP of Georgia (Euro)

	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture, hunting and forestry; fishing	1041,2	1026,2	1016,8	1144,0	1054,8	1048,3	1089,6	969,1
Mining and quarrying	48,3	64,5	63,8	82,3	127,2	124,3	120,7	101,6
Manufacturing	699,5	706,5	809,9	1098,8	1355,2	1540,9	1775,0	1520,5
Electricity, gas and water supply	277,2	240,4	223,2	253,8	298,1	317,7	345,0	341,2
Processing of products by households	497,5	477,8	511,1	545,5	462,6	624,4	692,1	708,5
Construction	387,0	486,8	631,5	747,4	930,3	1169,7	1054,4	1045,2
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	654,0	668,8	752,4	949,4	1288,9	1486,1	1929,0	1354,5
Hotels and restaurants	165,0	155,1	171,5	222,7	216,5	242,4	286,6	278,7
Transport	580,2	525,3	582,8	643,0	753,2	828,7	830,8	835,8
Communication	149,4	179,6	230,1	300,5	321,3	344,3	438,4	394,2
Financial intermediation	80,9	81,6	84,5	160,0	205,9	258,9	324,1	314,2
Real estate, renting and business activities	94,6	118,8	151,4	189,8	288,5	369,9	457,3	378,6
Imputed rent of own occupied dwellings	159,2	135,4	138,6	149,5	160,6	173,6	228,2	247,4
Public administration	196,9	175,4	332,6	458,1	729,9	1317,2	1867,1	1521,3
Education	157,9	136,9	175,7	212,6	287,0	300,4	383,9	400,3
Health and social work	269,9	226,3	230,7	286,1	429,3	461,6	593,6	579,1
Other community, social and personal service activities	144,3	162,3	205,9	270,3	331,6	455,1	567,4	443,2
Private households employing domestic staff and undifferentiated production activities of households for own use	4,9	4,2	4,1	4,6	5,0	5,3	7,1	8,1
(=) Output at basic prices	5607,9	5571,9	6316,7	7718,4	9245,8	11068,8	12990,3	11441,3
(=) Output at market prices	5847,2	5787,7	6667,4	8309,7	10031,0	12113,9	14161,4	12502,0
Total output per capita in Euro	1337,6	1332,8	1545,1	1922,9	2279,1	2756,5	3231,6	2850,8

www.geostat.ge (2010)

Table 1.A.2. Consolidated Budget (mln Euro)

	2002	2003	2004	2005	2006	2007	2008	2009
Revenue	552,5	555,8	952,5	1251,7	1734,3	2181,0	2685,4	2269,2
Taxes	446,4	415,7	642,9	877,3	1192,2	1609,2	2180,1	1891,7
On income, profits, & capital gains	108,8	105,0	180,8	221,7	327,5	474,3	866,2	705,4
On payroll and workforce	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
On property	27,8	29,1	26,1	26,7	38,8	47,3	60,5	69,1
On goods and services	279,6	248,3	367,3	572,7	764,3	1053,6	1186,9	1075,4
On intern. trade & transactions	30,2	33,3	60,5	55,0	59,6	22,8	23,8	15,5
Other taxes	0,0	0,0	8,4	1,3	1,9	11,1	42,7	26,3
Social contributions	65,1	92,0	169,0	189,7	226,5	316,7	0,0	0,0
Grants	10,9	20,0	52,4	46,2	88,2	44,7	283,1	167,5
Other revenue	30,1	28,1	88,2	138,4	227,5	210,4	222,2	210,0
Expense	538,2	521,2	771,3	1073,4	1341,8	1920,6	2482,1	2326,3
Compensation of employees	107,3	119,3	198,7	243,2	253,7	305,7	462,4	451,9
Use of goods and services	157,4	132,4	180,1	253,1	354,3	697,7	736,9	476,4
Consumption of fixed capital	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Interest	70,9	69,6	64,3	53,9	47,4	43,2	55,3	73,8
Subsidies	50,5	43,5	91,3	193,1	188,7	117,2	166,3	264,4
Grants	0,0	0,0	0,0	2,1	3,1	8,2	5,6	3,8
Social benefits	152,1	156,5	230,1	246,9	297,9	409,5	618,1	649,1
Other expense	0,0	0,0	6,8	81,1	196,6	339,0	437,5	407,0
Net operating balance	14,3	34,5	181,1	178,3	392,6	260,4	203,3	-57,1
Gross operating balance	14,3	34,5	181,1	178,3	392,6	260,4	203,3	-57,1

www.mof.ge (2010)

Table 1.A.3. Distribution of population age of 15 and older by economic status, 1998-2009

Thousand persons												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Active population (labour force), total	1972,8	1939,3	2049,2	2113,3	2104,2	2050,8	2041,0	2023,9	2021,8	1965,3	1917,8	1991,8
Employed	1728,5	1694,4	1837,2	1877,7	1839,2	1814,9	1783,3	1744,6	1747,3	1704,3	1601,9	1656,1
Hired	724,4	697,5	683,9	654,3	650,9	618,5	600,9	600,5	603,9	625,4	572,4	596,0
Self-employed	987,1	918,6	1041,2	1135,9	1184,9	1195,2	1180,8	1143,3	1141,6	1078,8	1028,5	1059,0
Not-identified worker	17,0	78,4	112,1	87,3	3,4	1,3	1,6	0,8	1,8	0,1	1,1	1,2
Unemployed	244,2	244,9	212,0	235,6	265,0	235,9	257,6	279,3	274,5	261,0	315,8	335,6
Population outside labor force	1044,0	1086,9	1092,3	1077,7	1135,3	1048,4	1105,9	1136,1	1228,0	1138,6	1145,2	1139,3
Unemployment rate (percentage)	12,4	12,6	10,3	11,1	12,6	11,5	12,6	13,8	13,6	13,3	16,5	16,9
Economic activity rate (percentage)	65,4	64,1	65,2	66,2	65,0	66,2	64,9	64,0	62,2	63,3	62,6	63,6
Employment rate (percentage)	57,3	56,0	58,5	58,8	56,8	58,6	56,7	55,2	53,8	54,9	52,3	52,9

www.geostat.ge (2010)

Table 1.A.4. Distribution of population age of 15 and older by economic status in urban areas, 1998-2009

Thousand persons												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Active population (labour force), total	927,3	893,5	910,1	910,0	902,5	846,2	855,1	839,6	831,9	839,2	828,2	857,0
Employed	722,6	697,2	742,5	707,5	683,8	659,4	647,7	618,9	615,1	638,5	589,3	610,0
Hired	503,9	483,6	478,8	441,7	457,3	442,2	422,6	423,7	426,0	459,0	408,7	413,5
Self-employed	208,1	193,9	223,7	228,0	224,1	216,7	224,2	194,5	187,7	179,5	180,2	195,6
Not-identified worker	10,5	19,7	40,0	37,6	2,4	0,5	0,8	0,7	1,4	0,0	0,3	0,9
Unemployed	204,8	196,3	167,6	202,5	218,7	186,8	207,4	220,6	216,8	200,7	239,0	247,0
Population outside labor force	710,2	731,2	714,7	728,3	738,9	653,9	690,4	705,8	757,3	741,6	694,1	668,0
Unemployment rate (percentage)	22,1	22,0	18,4	22,3	24,2	22,1	24,3	26,3	26,1	23,9	28,9	28,8
Economic activity rate (percentage)	56,6	55,0	56,0	55,5	55,0	56,4	55,3	54,3	52,3	53,1	54,4	56,2
Employment rate (percentage)	44,1	42,9	45,7	43,2	41,7	44,0	41,9	40,1	38,7	40,4	38,7	40,0

www.geostat.ge (2010)

Table 1.A.5. Distribution of population age of 15 and older by economic status in rural areas, 1998-2009

Thousand persons

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Active population (labour force), total	1045,5	1045,8	1139,1	1203,3	1201,7	1204,6	1185,9	1184,3	1189,8	1126,1	1089,6	1134,8
Employed	1006,0	997,2	1094,7	1170,2	1155,4	1155,5	1135,6	1125,6	1132,2	1065,8	1012,7	1046,1
Hired	220,5	213,8	205,1	212,6	193,7	176,2	178,3	176,7	177,8	166,4	163,7	182,5
Self-employed	779,0	724,7	817,6	907,9	960,8	978,4	956,6	948,8	954,0	899,4	848,3	863,3
Not-identified worker	6,5	58,7	72,1	49,7	1,0	0,8	0,8	0,1	0,4	0,1	0,7	0,3
Unemployed	39,5	48,6	44,4	33,1	46,3	49,1	50,2	58,7	57,7	60,3	76,9	88,6
Population outside labor force	333,8	355,7	377,6	349,4	396,4	394,5	415,5	430,2	470,7	397,0	451,0	471,3
Unemployment rate (percentage)	3,8	4,6	3,9	2,7	3,9	4,1	4,2	5,0	4,8	5,4	7,1	7,8
Economic activity rate (percentage)	75,8	74,6	75,1	77,5	75,2	75,3	74,1	73,4	71,7	73,9	70,7	70,7
Employment rate (percentage)	72,9	71,2	72,2	75,4	72,3	72,3	70,9	69,7	68,2	70,0	65,7	65,1

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Table 1.A.6. Distribution of population age of 15 and older by economic status and age groups, 2007-2009

Thousand persons

2008

	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+	Total
Active population (labour force), total	44,2	155,7	183,2	189,0	188,5	192,9	213,7	203,2	181,9	112,4	253,1	1917,8
Employed	30,8	98,1	128,5	147,1	156,2	165,6	184,8	176,7	162,3	102,9	248,9	1601,9
Hired	5,0	42,0	63,6	71,6	66,6	66,1	73,7	66,1	54,9	33,4	29,5	572,4
Self-employed	25,7	55,9	64,8	75,4	89,7	99,2	111,0	110,6	107,4	69,5	219,5	1028,5
Not-identified worker	0,0	0,2	0,2	0,1	0,0	0,2	0,1	0,1	0,0	0,0	0,0	1,1
Unemployed	13,4	57,6	54,6	41,9	32,3	27,3	28,9	26,5	19,6	9,5	4,2	315,8
Population outside labor force	224,5	134,0	67,7	53,3	47,8	43,4	48,4	52,1	54,1	57,2	362,7	1 145,2
Unemployment rate (percentage)	30,3	37,0	29,8	22,2	17,1	14,2	13,5	13,0	10,8	8,5	1,6	16,5
Economic activity rate (percentage)	16,4	53,7	73,0	78,0	79,8	81,6	81,5	79,6	77,1	66,3	41,1	62,6
Employment rate (percentage)	11,5	33,9	51,2	60,7	66,1	70,1	70,5	69,2	68,7	60,7	40,4	52,3

2009

	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+	Total
Active population (labour force), total	36,0	166,5	191,8	187,8	192,1	197,6	230,7	216,1	190,8	130,8	251,6	1991,8
Employed	24,0	100,1	134,5	142,4	157,0	166,0	200,2	189,9	171,6	122,4	248,2	1656,1
Hired	3,7	40,9	68,3	69,1	69,2	68,4	79,2	67,5	58,8	41,1	29,8	596,0
Self-employed	20,3	59,0	65,9	73,3	87,8	97,5	120,9	122,4	112,3	81,2	218,3	1059,0
Not-identified worker	0,0	0,1	0,3	0,0	0,0	0,1	0,0	0,1	0,4	0,0	0,2	1,2
Unemployed	12,0	66,4	57,3	45,4	35,1	31,6	30,5	26,1	19,3	8,4	3,4	335,6
Population outside labor force	212,7	132,3	71,5	56,3	42,3	37,1	48,3	48,5	53,2	63,7	373,4	1139,3
Unemployment rate (percentage)	33,4	39,9	29,9	24,2	18,3	16,0	13,2	12,1	10,1	6,4	1,3	16,9
Economic activity rate (percentage)	14,5	55,7	72,8	76,9	81,9	84,2	82,7	81,7	78,2	67,3	40,3	63,6
Employment rate (percentage)	9,6	33,5	51,1	58,3	67,0	70,7	71,7	71,8	70,3	62,9	39,7	52,9

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Table 1.A.7. Average monthly nominal salary of employees, 2002-2009

2002	54,8	Euro
2003	52,0	Euro
2004	65,8	Euro
2005	90,4	Euro
2006	125,2	Euro
2007	161,4	Euro
2008	245,4	Euro
2009	240	Euro

Table 1.A.8. Average monthly nominal salary of employees by economic activity, 2002-2009 (Euro)

	2002	2003	2004	2005	2006	2007	2008	2009
Total	54,8	52,0	65,8	90,4	125,2	161,4	245,4	240,0
Agriculture, hunting & forestry	20,4	19,7	28,6	57,0	66,7	81,1	137,3	113,8
Fishing	18,1	19,1	25,5	41,2	42,5	74,0	96,9	110,9
Mining & quarrying	92,9	90,4	75,4	93,3	158,7	288,5	371,0	292,1
Manufacturing	69,3	63,0	77,2	93,8	117,3	156,9	234,2	193,1
Electricity, gas & water supply	103,8	103,4	108,9	151,1	179,4	234,1	338,7	330,5
Construction	85,1	85,2	111,1	131,2	176,1	216,9	274,0	269,9
Wholesale & retail trade; repair of motor vehicles, motorcycles & personal & household goods	35,2	35,3	45,3	76,8	111,0	155,9	234,2	223,2
Hotels and restaurants	24,9	23,4	29,5	47,9	88,5	104,6	153,0	157,2
Transport & communication	82,9	79,0	96,3	117,5	176,3	215,9	306,3	314,3
Financial intermediation	207,5	219,2	310,6	464,2	350,9	445,0	616,3	568,5
Real estate, renting & business activities	44,4	45,6	52,7	93,3	128,0	178,0	247,8	276,0
Public administration	68,2	54,5	80,8	151,5	201,8	256,8	398,9	383,1
Education	27,3	28,3	37,3	40,9	55,0	67,1	111,8	116,1
Health & social work	26,9	31,7	33,7	44,0	64,5	90,5	140,3	158,0
Other community, social & personal service activities	39,7	29,8	51,8	50,2	79,1	114,3	187,5	177,2
*The significant decrease of salary in Financial Intermediation sector can be explained by methodological changes, which concerns coverage of units contained in the sector								

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Table 1.A.9. RESIDENT POPULATION OF GEORGIA (at the beginning of the year)

Years	Total population thsd.	Urban	Rural
1959	4044	1712.9	2331.1
1970	4686.4	2239.8	2446.6
1979	4993.2	2548.7	2444.5
1989	5400.8	2991.3	2409.5
1990	5424.4	2998.5	2425.9
1991	5453.3	3004.6	2448.7
1992	5467.4	2983.4	2484.0
1993	5345.8	2914.1	2431.7
1994	4929.9	2652.8	2277.1
1995	4794.2	2568.4	2225.8
1996	4674.5	2483.2	2191.3
1997	4558.4	2412.5	2145.9
1998	4504.9	2365.8	2139.1
1999	4469.8	2338.2	2131.6
2000	4435.2	2308.2	2127.0
2001	4401.4	2280.7	2120.7
2002	4371.5	2284.8	2086.7
2003	4342.6	2266.8	2075.8
2004	4315.2	2252.5	2062.7
2005	4321.5	2257.5	2064.0
2006	4401.3	2310.4	2090.9
2007	4394.7	2308.9	2085.8
2008	4382.1	2303.8	2078.3
2009	4385.4	2309.1	2076.3

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Table 1.A.10. BALANCE OF THE INTERNATIONAL MIGRATION OF POPULATION (thsd. Person),

2000	-35,2
2001	-32,6
2002	-27,8
2003	-27,5
2004	5,5
2005	76,3
2006	-12,1
2007	-20,7
2008	-10,2
2009	34,2

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Table 1.A.11. Live births by order

Year	Birth order					Total
	I	II	III	IV	V+	
2000	25 327	16 250	5 270	1 318	635	48 800
2001	25 460	15 086	5 187	1 285	571	47 589
2002	24 952	14 878	5 060	1 146	569	46 605
2003	28 875	11 752	3 929	1 025	613	46 194
2004	28 100	15 773	4 207	1 037	455	49 572
2005	27 356	13 743	4 043	942	428	46 512
2006	28 935	13 371	4 107	938	444	47 795
2007	29 883	14 075	4 077	830	422	49 287
2008	31 308	18 146	5 400	1 184	527	56 565
2009	33 651	21 093	6 627	1 412	594	63 377

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Table 1.A.12. Life expectancy at birth (in years)	Table 1.A.									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Both sexes	71,34	71,58	71,54	72,14	71,61	73,96	74,27	75,07	74,23	73,57
Males	67,51	68,08	67,96	68,72	67,87	70,00	69,83	70,46	69,28	69,20
Females	74,98	74,87	74,91	75,29	75,13	77,57	78,45	79,41	78,99	77,69

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Table 1.A.14. Number of deaths

<i>Year</i>	<i>Deaths</i>	<i>Mortality rate (per thousand population)</i>
2000	47 410	10,7
2001	46 218	10,5
2002	46 446	10,7
2003	46 055	10,6
2004	48 793	11,3
2005	40 721	9,3
2006	42 255	9,6
2007	41 178	9,4
2008	43 011	9,8
2009	46 625	10,6

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Table 1.A.15. Age structure of the population 2008

<i>Age Groups</i>	<i>number</i>	<i>percent</i>
Population total	4 385,4	100
of which		
- 1	55,6	1,3
1 – 4	189,4	4,3
5 – 9	229,4	5,2
10 – 14	275,2	6,3
15 – 19	355,2	8,1
20 – 24	360,7	8,2
25 – 29	333,4	7,6
30 – 34	311,9	7,1
35 – 39	298,9	6,8
40 – 44	298,0	6,8
45 – 49	335,0	7,6
50 – 54	291,7	6,7
55 – 59	251,0	5,7
60 – 64	169,7	3,9
65 - 69	179,8	4,1
70 - 74	191,6	4,4
75 - 79	129,6	3,0
80 - 84	88,9	2,0
85+	40,4	0,9

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Table 1.A.16. Number of different nationalities in Georgia according to years

	<i>Thousands</i>			<i>In total population, percent</i>		
	1979	1989	2002	1979	1989	2002
Total population	4993,2	5400,8	4371,5	100,0	100,0	100,0
Georgian	3433	3787,4	3661,2	68,8	70,1	83,8
Abkhaz	85,3	95,9	3,5	1,7	1,8	0,1
Ossetian	160,5	164,1	38	3,2	3,0	0,9
Russian	371,6	341,2	67,7	7,4	6,3	1,5
Ukrainian	45	52,4	7,0	0,9	1,0	0,2
Azeri	225,7	307,6	284,8	5,1	5,7	6,5
Armenian	448	437,2	248,9	9,0	8,1	5,7
Jewish	28,3	24,8	3,8	0,6	0,5	0,1
Greek	95,1	100,3	15,2	1,9	1,9	0,3
Kurd	25,7	33,3	20,8	0,5	0,6	0,5

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Table 1.A.17. Economically active population by level of education and sex

	<i>TOTAL</i>	<i>PRIMARY</i>	<i>BASIC</i>	<i>SECONDARY</i>	<i>PRIMARY VOCATIONAL</i>	<i>SECONDARY VOCATIONAL</i>	<i>HIGHER</i>	<i>WITHOUT EDUCATION</i>
2006	2021.8	61,6	139,9	809,2	174,8	282,9	552,6	0,7
2007	1965.3	42,8	143,3	760,1	116,2	310,4	588,6	3,9
2008	1917.8	39,8	142,7	769,7	78,4	324,3	556,9	6
MALE								
2006	1085.9	27,1	71,8	466,2	103,7	122,2	294,6	0,3
2007	1031.8	18,8	70,1	433,5	70,7	134,1	302,6	1,9
2008	1028.0	16,5	74,3	445,7	50,8	149,5	289,2	2,1
FEMALE								
2006	935.9	34,5	68,1	342,9	71,2	160,8	258	0,4
2007	933.5	24	73,2	326,5	45,5	176,3	286,1	1,9
2008	889.7	23,4	68,4	324	27,6	174,8	267,7	3,9

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Table 1.A.18. Inactivity rate by gender

	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Male	24,3	26,4	24,9	24,1	24,2	23,7	25,7	26,5	27,8	26,7	26,6
Female	43,2	44,0	42,8	41,7	44,0	42,3	43,1	44,1	46,4	45,0	46,5

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Table 1.A.19. Inactivity rate by age groups

<i>15-19</i>	<i>20-24</i>	<i>25-29</i>	<i>30-34</i>	<i>35-39</i>	<i>40-44</i>	<i>45-49</i>	<i>50-54</i>	<i>55-59</i>	<i>60-64</i>
83,6	46,3	27,0	22,0	20,2	18,4	18,5	20,4	22,9	33,7

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Table 1.A.20. Number of employed by type of economic activity, 2002–07 (percent) ⁴⁷

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Agriculture, forestry, fishing	53,8	54,9	54,0	54,3	55,3	53,4
Mining and quarrying	0,3	0,2	0,2	0,3	0,2	0,3
Manufacturing	4,6	4,9	5,1	5,1	4,7	4,9
Electricity, gas and water supply	1,4	1,1	1,2	1,3	1,1	1,1
Construction	1,9	2,2	2,4	2,5	3,1	4,2
Trade services, repair services	11,7	10,9	11,0	10,8	9,6	9,9
Restaurant and hotel services	0,8	0,9	1,1	0,9	1,0	1,1
Transport and storage	4,3	4,2	4,2	4,0	4,5	4,2
Financial intermediation	0,4	0,5	0,7	0,8	0,8	1,0
Real estate, renting and business activities	1,1	1,9	1,6	1,5	1,5	2,0
Public administration and defence	5,9	5,1	4,9	4,7	4,5	3,8
Education	7,1	7,5	7,5	7,5	7,6	7,3
Healthcare and social services	3,4	2,7	3,0	3,3	3,0	3,4
Other community, social and personal service activities	2,8	2,4	2,4	2,3	2,4	2,5
Private households with employed persons	0,4	0,4	0,5	0,5	0,6	0,7
Extraerritorial, international organisation	0,1	0,2	0,2	0,2	0,1	0,2
Total	100	100	100	100	100	100

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⁴⁷ Number of employed by type of economic activity is not available from 2007, according to Geostat official letter (January, 2011) these indicators are not calculated any more.

Chapter 2: Social Protection in Georgia

2.1. Transformation of Social Protection System in post – Soviet Georgia

The evolution of the social protection system in the post–Soviet period can be broken down into three stages.

The first stage covers the years 1992 - 1995.

After the disintegration of the USSR and the restoration of independence, the country preserved almost all social benefits existing in the previous period (Budgetary accounts of state social insurance, 1992):

- ✓ Benefit for temporary inability to work
- ✓ Temporary work inability benefit paid for taking care of a sick person
- ✓ Pregnancy and maternity benefit
- ✓ Benefit to children from families in need⁴⁸
- ✓ Benefit for child birth
- ✓ Benefit for children younger than reaches 18 months
- ✓ Benefit for children from 1.5 to 3
- ✓ Burial related assistance
- ✓ Pension for working pensioners⁴⁹
- ✓ Treatment and recreation for employed people at sanatoria and resorts
- ✓ Periods for children in camps for children and sanatoria for adolescents
- ✓ Out of school service for children

Due to the civil war in 1991 - 1992 and internal conflicts, the country's budget was reduced to a minimum. The inflation rate was extremely high. This decreased the efficiency of the social protection system and caused gradual liquidation of the abovementioned assistances and benefits. From 1992 to 1995, the share of these benefits in the overall system of social support was very small. The main form of social support was humanitarian aid (in the form of food and clothing) provided by different countries and international organizations to certain segments of population (households with many children, disabled persons, war veterans, etc.). This kind of assistance was not provided on a regular basis and was rather chaotic. Only internally displaced persons (IDPs) received assistance on a relatively regular basis.

At that time, the only social assistance was reduced rates (electricity, gas, water, telephone).

After IDPs appeared in the country because of regional conflicts in 1990-1993 in Abkhazia and the Tskhinvali region, the state started to provide monetary social assistance to the displaced population.

The second stage of social assistance started in 1995.

⁴⁸ Families, the income of which per family member is below subsistence level

⁴⁹ In general, when a pensioner finds employment, a pension is no longer paid to him/her. This kind of social assistance is paid to a certain category of working pensioners (disabled war veterans, personal pensioners, etc.)

After achieving a relative stabilization in 1995, the state launched different social assistance programmes. Out of them, the so-called **family assistance** should be highlighted. It is a category-based system. Monetary assistance was provided for the population of the following categories:

- ✓ Blind people registered as people falling into the group with category 1 disabilities under the Georgian system of classifying severity of disabilities
- ✓ Orphan child who has suffered the death of both parents;
- ✓ Single pensioner;
- ✓ Family, which consists of two or more single pensioners⁵⁰;
- ✓ Family, which has 7 and more children under the age of 18.

For the beneficiaries of the first three categories, the amount of social assistance was GEL 22⁵¹ per person and for the other beneficiaries it was GEL 35⁵² per family. Details of the programme will be discussed below (chapter 2.2).

In the same period, privileges were introduced for certain categories of citizens (II World War invalids, recipients of the personal pensions, etc). In addition, certain in-kind benefits were introduced.

Out of the other social insurance programmes the old age pension⁵³ and health care programmes⁵⁴ should also be noted.

In addition to the above-listed benefits funded from the central budget, the state provided different regional and municipal non-monetary assistance too.

The third phase in the social assistance system began after Rose Revolution. Since 2004, the government introduced a transition to a new system of social protection.

Up to 2004 social registration and administration of insurance contributions made from taxes for social expenditure was provided by State United Social Insurance Fund (SUSIF). In 2004 the tax code was changed. In consequence, system of individual social insurance contribution was abolished and general taxes were determined to be the only source of revenue for state budget. As a result of changes, state budget turned into the only source of funding the social expenditure. Consequently, SUSIF lost one of its key functions - recording and collecting individual social contributions. Correspondingly, the structure began to be reorganized and finally, two new structures were created on its basis; they are: State Agency of Employment and Social Assistance (SAESA), which provides administration of social assistance, and Health and Social Programs Agency (HeSPA), which provides procurement of health and social services. By the end of 2010 these two structures were merged into Social Services Agency (SSA).

In 2006, important changes were introduced into the social protection system. At the same time the Law on Social Protection was adopted. Its main principles were formulated as follows (Georgian law on social protection):

- a) Recognition of social assistance as need-assessment-based state support rather than an unconditional right guaranteed by the law;

⁵⁰ This category is separated from previous one as beneficiaries of it are given a different amount of benefit.

⁵¹ At 1995 exchange rate it was USD 17.4

⁵² At 1995 exchange rate it was USD 27.8

⁵³ For details about the pensions, refer to chapter 4.

⁵⁴ For details of health care programmes refer to chapter 5

- b) Targeted distribution of required resources through the social assistance system to persons in need of special care, poor families and people without shelter;
- c) Support for the development of alternative means of social service (for example, prevention of children abandonment, deinstitutionalization of orphanages, reintegration of children in institutions to their families, etc.) .

Sources of funding for social assistance include:

- a) State budget of Georgia;
- b) Budgets of autonomous republics of Abkhazia and Adzharia;
- c) Budgets of local governments;
- d) Donations;
- e) Other sources, which are valid under Georgian legislation;

The monetary social assistance is mainly funded by the state budget of Georgia.

The appropriate bodies of autonomous republics and municipalities are authorized to fund additional social assistance in the territories controlled by them, in accordance with the legally determined forms of social assistance.

Under the law, social assistance was to be provided to the most needy part of the population.

According to the law on social protection, the following are the main forms of social benefits:

- a) Subsistence benefit;
- b) Household allowance;
- c) Reintegration benefits;
- d) Compensation for adoption (fostering);
- e) Compensation for giving care to an adult

Subsistence benefit is a social benefit intended for improvement of social-economic status of extremely needy families identified by assessment system.

To identify the poorest families, the government launched *the targeted social assistance (TSA) programme*. The programme was based on Proxy Means Testing (PMT) – a method of assessing the economic condition of households⁵⁵. The central budget-funded social assistance programmes implemented in Georgia since 2006 are mainly based on the methodology of TSA and beneficiaries are selected from the integrated database of socially vulnerable families.

When launching this programme, the number of beneficiaries of subsistence benefit was 89,000 families (233,000 persons). An applicant household may submit the application any time, therefore the number of beneficiaries is changeable.

Household allowance is monetary social benefit allocated to persons belonging to certain eligible social categories determined by Georgian legislation. Household allowance is intended for paying municipal taxes and other expenses.

Until 2005, certain categories of the Georgian population benefited from non-monetary privileges for municipal taxes and some services (For example, beneficiaries of this privilege had a right to consume

⁵⁵ Detailed description assessment methodology is in Annex 2.2

free electricity and gas without limit, etc.). But the system had several disadvantages, namely: the beneficiaries living in different territorial entities did not have equal access to these benefits. For example, the beneficiaries who did not live in Tbilisi, could not actually use the right of free transportation by underground railway because the network of underground stations exists only in Tbilisi. Besides, the list of social assistance included such kind of services which were impossible for the state to provide within the budget allocated for them (e.g., free air ticket, free car or motorcycle). Because of that, in 2005, a decision was made to change the in-kind benefit into monetary compensation⁵⁶. For this purpose, the categories of beneficiaries of monetary compensation and the amount of money to be allocated to them were determined⁵⁷. In 2005 amount of monetary compensation for household benefit for the population of Tbilisi varied from GEL3.5 (nearly €1.5) to GEL 23 (nearly €10.2). As for the rest part of Georgia, compensation amount was allocated within the range from GEL 2.5 (nearly €1.1) to GEL 16 (nearly €7.1). In 2006, the monetary compensation increased and a decision was made about equalization of this benefit all around Georgia.

According to the official data⁵⁸ of State United Social Insurance Fund (SUSIF), GEL 12.9 million (nearly €5.7 million) was spent on funding of this programme in 2005. This indicator was GEL 14.9 million (nearly €6.7 million) in 2006. Since 2007 program has been transferred to Social Services Agency (SSA), according to which budget of the program was GEL 22.2 million (nearly €9.5 million) and GEL 21.9 million in 2008 (nearly €9.4 million)⁵⁹

A further innovation in the new law on social assistance: the law was the emphasis placed on reintegration of children deprived of parental care into their family of origin or foster family. Care facilities and boarding schools operate in Georgia for orphans, children with special needs and those given up by their families of origin. By the year 2004 nearly 5,000 children lived in institutions. Children did not live in favorable conditions at institutions. Because of this, a decision to aim to deinstitutionalize children and place them in a family environment. The following social assistance was established as incentive to this process:

Reintegration benefit is a social benefit allocated to a family of origin or guardian (caregiver), which takes a child from a specialized institution into a family environment and gives appropriate care to him/her.

Compensation for adoption (fostering) is a social benefit issued to foster parents as compensation for giving care to a foster child and bringing him/her up.

Compensation for giving care to an adult is a social benefit issued to a person who takes an adult from a specialized institution into a family environment and gives appropriate care to him/her.

A person with special needs may also be a beneficiary of in-kind social assistance.

2.2. Current situation

In 2009, the state budget for social welfare except pensions, state compensations (a form of retirement pension) and scholarships, equaled to GEL 651.7 million⁶⁰ (which is 11.5% higher than the previous year). It was mainly (nearly 82.7%) funded by the central budget. The rest of the funds are allocated from

⁵⁶ Order # 16/n dated January 18, 2005 and order # 103/n dated April 5, 2005 of Minister of Labor, Health and Social Affairs of Georgia.

⁵⁷ For details about categories and benefit amount refer to Table 2.A.6 and contact <http://ssa.gov.ge/index.php?id=320&lang=2>

⁵⁸ Accounts of 2005-2006 of State United Social Insurance Fund of Georgia

⁵⁹ Social Statistics, Social Service Agency, 2009

⁶⁰ nearly €96.8 million

the budgets of autonomous republics and territorial entities. Some kinds of social assistance were funded by international donor organizations.

Nearly a half of the whole budget is spent on monetary social assistance programmes and the rest is spent on non-monetary programmes.

As was already mentioned above, the current social assistance programmes are funded by the state budget (as is the exemption from social taxes).

2.2.1. Monetary social protection programmes (cash benefits) implemented by the Georgian government

- **Subsistence benefit - Assistance to vulnerable families**

The subsistence benefit programme is the biggest monetary social assistance programme operating in Georgia. Subsistence benefit is a means tested programme.

As mentioned above, one of the main purposes of the country's social protection system is to help people with special needs and those below the poverty line. Subsistence benefit is a monetary assistance to families (households) and aims at improvement of social and economic conditions of these families in need as identified by the assessment system. Evaluation is carried out by means of PMT methodology⁶¹. According to this methodology, each household, applying for social assistance, is ascribed a so-called rating score (positive number), which is an assessment of socio-economic condition of this household. The lower the score the poorer the family is.

The amount of subsistence benefit is 30 GEL (€12.9) for single person families. Families with two or more members receive 24 GEL (€10.3) for every additional member.

By December 2009 the number of beneficiaries was 159,000 households (444,000 persons). In 2009, the total budget of the programme was GEL 150.9 million (nearly €64.8 million).

According to the latest research, despite of an awareness-raising campaign carried, a number of families do not possess adequate information on the subsistence benefit. In particular, about 9% of non-applicant families have not yet submitted their applications because they do not know whom to address (UNICEF Georgia, 2010). There are a number of people who do not receive benefits for other reasons: they don't have identity cards, they fear social exclusion, etc. but this number is not so great.

As it is known, the PMT methodology, on the basis of which the rating score of a household is calculated, is characterized by a certain margin of error. Nevertheless, successful targeting of the current programme is quite high: most of the beneficiaries are poor and extremely poor households. In particular, the research carried out by UNICEF in 2009 proved that according to consumption, 70% of beneficiary households are representatives of three poorest deciles and only 2% of them are included in the wealthiest three deciles⁶².

The amount of monetary benefits (family, subsistence and IDP assistances) paid in the country is not so high and equals to 20-25% of the subsistence minimum. For this reason, mostly extremely needy families, who face serious nutrition problems, feel the impact of such benefits. For 55.0 percent of them it is the only source of subsistence and 14.7 % would not be able to purchase food without the assistance⁶³.

⁶¹ Description of the PMT methodology is done in Annex2.2

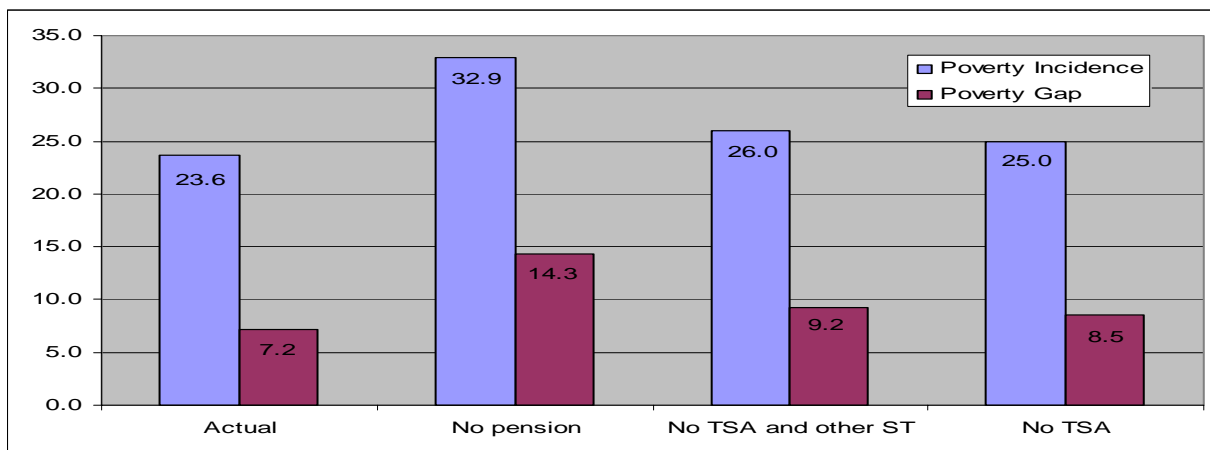
⁶² Calculation are made by the author on the basis of GWMS (Georgian Welfare Monitoring Survey 2009) data

⁶³ Source: LSMS, 2007

Despite the fact that it is a small amount, monetary social assistance can change the economic status of the families that are close to the poverty level. Therefore, the programme meets its objectives to provide social assistance for extremely poor households. If social assistance is increased, then it will lead much more effectively to a decline in the poverty level .

In particular, one year after the beginning of the programme, the poverty level decreased by 2.4% and the extreme poverty level - by 2.0% as a result of the social assistance (World Bank, 2009).

Figure 2.1. Impact of social transfers on Poverty reduction



Source: (World Bank, 2009)

Receipt of subsistence benefit precludes the receipt of other social assistance, like family assistance and assistance paid to IDPs. Therefore, if the potential beneficiary family already receives other monetary social assistance, it has the right to make the following choice: it can choose subsistence benefit and reject some other monetary social assistance or continue receiving the social assistance it has been entitled to while rejecting subsistence benefit. At the same time, the family retains the right to all the other kinds of non-monetary social assistance which are provided for by the conditions of targeted or other social programmes⁶⁴.

Subsistence benefit is higher than family assistance. For this reason, the beneficiaries of family assistance normally make a choice in favor of subsistence benefit, which leads to a decrease in the number of recipients of family assistance.

Before 2009, the level of subsistence benefit exceeded that of IDP assistance. For this reason, IDPs mainly chose subsistence benefit. Starting from 2009, IDP assistance has become slightly higher than subsistence benefit. Due to this, those IDPs, who became potential beneficiaries of subsistence benefit in 2009, reject this benefit, which was also rejected by those IDPs, who were beneficiaries of subsistence benefit before the year 2009.

Monetary benefits are awarded on the basis of the social agent’s visit to the family. The family decides to whom (in whose name) the benefit will be allocated and in what form. The family mainly receives the

⁶⁴ If a family or any family member used to be a beneficiary of family assistance and later made a choice in favour of subsistence benefit, in case of the termination of subsistence benefit in the future, the previous entitlement to family assistance will not be restored. This rule does not apply to assistance to IDP population. A family receiving subsistence benefit can any time change its decision and apply, again, for IDP assistance instead of subsistence assistance.

The family’s decision will be naturally determined by the amount paid under the assistance.

benefit through the bank, where an account is opened in the name of its authorized representative. If none of the family members is able to visit the bank, a bank employee delivers the benefit to the family.

According to research, no cases of delayed payment or non-payment have been reported so far.

It is worth mentioning that the costs of the social assistance system administration are quite low. The Social Service Agency has spent 26 million GEL (nearly €11 million) on assistance administration in 2009. This is nearly 2.3 percent of the total budget of the Social Service Agency (including charges of bank service). (Social Service Agency, <http://ssa.gov.ge/>).

- **Monetary assistance to IDPs**

The beneficiaries of this programme are displaced persons. In accordance with acting legislation (Georgian law on state budget of 2009)⁶⁵, assistance to IDPs and refugees is differentiated according to where they live. For beneficiaries resettled in private accommodation, the benefit is GEL 28 (nearly €12.0) and for IDPs living in organized settlements, the benefit is GEL 22 (nearly €9.4) per month. By the end of 2009, the agency had paid assistance to 216,427 IDPs and 850 refugees. In 2009, GEL 65.0 million (nearly €27.9 million) was allocated for this program.

Monetary assistance to IDPs (71 GEL⁶⁶ on average per household) makes the largest share (52%) of total social assistances transferred to IDPs (135 GEL⁶⁷ on average per household) (Nadareishvili M., 2008).

In general, social assistances is one of the main sources of income for the majority of IDP households (83.3%). Almost half of IDP households wouldn't be able to provide themselves with food without these assistances and every fourth household states that social assistance is the only source of food for them and without them it would be impossible to survive (Nadareishvili M., 2008).

- **Household allowance**

As was already mentioned above, **Household allowance** is monetary social benefit allocated to persons belonging to certain social categories determined by Georgian legislation. Household allowance is intended for paying municipal taxes and other such expenses. This is a category-based assistance and its amount varies from 7 GEL (€3.0) to 44 GEL (€18.9).

In 2009, household allowance was issued to 83.2 thousand persons. Total funding made up GEL 20.5 million (nearly €8.8 million).

Research focused on household allowance benefits has not been conducted yet, but as it is not a means tested programme and is a category-based assistance, presumably only a small number of the poor are among beneficiaries. This is especially true because if a household is extremely poor and receives subsistence benefit, it cannot also be a beneficiary of household allowance.

- **Family assistance**

As mentioned above, family assistance is a category- based monetary benefit. This benefit was defined as 22 GEL⁶⁸ per month per person, where the beneficiary is an individual. Where the recipient of benefit is a family, composed of two or more persons, the amount constitutes 35 GEL⁶⁹ per household. Beneficiaries are entitled to family assistance on a permanent basis from the time it is awarded, unless there are grounds

⁶⁵ Article 34.

⁶⁶ According to the January 2008 exchange rate, 71 GEL equals to nearly €32.4

⁶⁷ According to the January 2008 exchange rate, 135 GEL equals to nearly €11.7

⁶⁸ According to the January 2010 exchange rate, 22 GEL equals to nearly €8.9

⁶⁹ According to the January 2010 exchange rate, 35 GEL equals to nearly €14.2

for terminating or suspending the assistance (if a beneficiary drops out of the category of beneficiaries or a subsistence benefit is allocated to it).

In order to evaluate the efficiency of family assistance, a sampling survey of beneficiaries was held in 2005.

At the time of research, 92,000 people of 76,000 thousand households (2.1% of the whole population) were family assistance beneficiaries. The vast majority of them (71.1% of beneficiaries) were single pensioners.

The amount which the beneficiary received as family assistance was quite small and 80% of beneficiaries noted that the assistance was not enough to meet even their essential needs (Ministry of Labor, Health and Social Affairs, 2005).

Family assistance beneficiaries are representative of a high-risk group, however, research showed that the programme is not directly focused on households which are below the poverty line. Only 29,5% of beneficiaries are below the poverty line and more than 17% of programme beneficiaries are from families who enjoy medium and higher living standards (Ministry of Labor, Health and Social Affairs, 2005).

The number of beneficiaries of family assistance made up about 90,000 (persons) in June 2006.

Because the subsistence benefit programme proved to be more targeted than the family assistance programme, after launching the subsistence benefit programme, decision was made to eliminate family assistance gradually to spend the released funds on more targeted programme. Because of that, the family assistance program was not fully terminated, instead at the end of 2006, it stopped taking on new beneficiaries and quite a large share of its recipients became the recipients of subsistence benefit. Furthermore, some recipients of family assistance dropped out of the category of beneficiaries (e.g. after reaching the age of 18, disabled children lose the entitlement to family assistance). This, naturally, decreased the number of beneficiaries and by December 2009, their number had decreased to 23,500. The total budget of the 2009 program made up GEL 6.76 million (nearly €2.9 million).

Since 2005, research has not been conducted for evaluation of how successfully family assistance has been targeted, however, it should be noted that a household entitled to receive this benefit cannot be a beneficiary of subsistence benefit. The economic rating score of households receiving family assistance is therefore presumably too high to receive subsistence benefit or the household has not applied to the Social Services Agency for subsistence benefit as it did not regard itself as poor. Therefore, one may conclude that families which benefit from family assistance cannot be categorized as extremely poor.

- **Maternity benefit for working women**

Georgian legislation allows employed women to take maternity leave in case of pregnancy, child birth or child adoption. It means that in mentioned cases a woman may receive payment for a part of her leave according to her salary in recent months of her work; besides, she may receive certain state monetary assistance. Maximum duration of maternity leave is 477 days (in case of child adoption the duration is limited to maximum 365 days), out of which 126- 140 days are payable. 600 GEL⁷⁰ out of the amount to be paid to a woman on maternity leave is paid by the state budget; the rest is paid by employer. No assistance is considered for unemployed women in terms of pregnancy and child birth.

- **Child care programmes**

These programmes are intended for children deprived of parental care, socially vulnerable children, homeless children, children who have suffered from abuse, disabled children, children with special

⁷⁰ According to the 2009 exchange rate, 600 GEL equals to nearly €262.5

educational needs and children with antisocial behaviors. The program is aimed at the creation of family environments for their adequate development and social protection.

Out of the child care programmes the **reintegration and adoption programmes** are non-monetary.

The aim of the **reintegration and adoption programmes** is to ensure children's right to be brought up in family environment. At the moment, the programme beneficiaries number is 1394 families.

✓ **Reintegration assistance** is a social benefit provided to the families of origin of children with need of special care, or the guardians who transfer the child from institutional environment to family environment and take special care for him/her. This kind of assistance is paid on the basis of a contract concluded between the family and the government. The benefit amounts to 130 GEL (€55,8) per month.

✓ **Adoption or fostering assistance** is also a monetary social assistance paid to adoptive (or foster) parents for the upbringing of the child and taking care of her/him. This social assistance is paid on a contractual basis according to the contract concluded between the government and the adoptive (foster) family. The benefit totals 200 GEL (€85.8) per month in the case of a healthy child and 300 GEL (€128.7) in the case of a disabled child.

For implementation of childcare programmes, GEL 17.6 million (nearly €7.5 million) has been allocated from the budget in 2009⁷¹ (Social service guideline for child care, 2009).

2.2.2. Non-monetary social protection programmes (in-kind benefits) implemented by the Georgian government

- **Medical insurance of vulnerable families**

Families entitled to **free medical insurance** are registered in an integrated database for socially vulnerable households and the rating score reflecting their economic situation must not exceed 70,000. Nearly 900,000 beneficiaries receive **free medical insurance**. On average, GEL 143.1 (nearly €1.4) is allocated to each beneficiary per annum. In 2009, the total budget of programme made up GEL 129.5 million (nearly €5.5 million)⁷²

The programme is quite well targeted. According to research conducted by the World Bank, 64.5% of the beneficiaries of free medical insurance are poor.

Table 2.1. Distribution of beneficiaries by their economic status (World Bank, 2009)

	<i>Recipients of medical insurance voucher</i>
Extremely poor	49.0%
Poor	64.5%
Not poor	35.5%

⁷¹ Effectiveness of child care programmes (both, the monetary and nonmonetary benefits) is assessed in paragraph 2.2.2

⁷² For details about free medical insurance refer to chapter 5

Every beneficiary family receives a medical insurance voucher at the place of residence. The family members submit the voucher to an insurance company of their choice involved in the free insurance programme. If the family does not register with any of the insurance companies by the end of a fixed period, the Social Service Agency sends out a list of beneficiaries to insurance companies who will insure beneficiaries after visiting their families.

Since not all the insurance companies manage to insure all the beneficiaries on the list has been delivered to them by Social Service Agency, the family may not get an health insurance unless a need of medical service arises during the year.

- **Cheap insurance programme⁷³**

In 2009, the Georgian government developed a so-called "cheap insurance programme" to encourage the population to take up voluntary health insurance. This programme involves the joint participation of citizens and government. Financial participation of government in the programme significantly increased the population's accessibility to health insurance. Upon purchase of "basic"⁷⁴ insurance packet, the insurance premium (GEL 60⁷⁵) for each insured person consisted of the state's share (GEL 40.2⁷⁶) and the insured person's share (GEL 19.8⁷⁷).

In 2009, the program budget made up GEL 5.0 million (nearly €2.1 million) and 124,300 citizens of Georgia were insured within the program.

In the Soviet period, health services were free. Since the medical service became paid, the high cost of health care has created serious problems for not only the poor families but for well-to-do families as well if they do not have a medical insurance. Like in other post-Soviet countries, a medical insurance system was not developed in Georgia. Besides, the population did not have the habit of purchasing insurance.

As was mentioned above, to protect the poor families from extreme healthcare-related problems, the government developed a cheap insurance programme for all families, who do not receive a health voucher from integrated database of poor families. The programme covers all emergency medical services. In addition, the program assists the development of the habit of purchasing insurance Georgia.

It should be noted that the inclusion of healthcare vouchers in the targeted social assistance system stimulated the expansion of the country's health insurance system which started operating at a more or less acceptable level only after this exercise.

- **Childcare programmes**

The following non-monetary childcare programmes have been implemented:

- ✓ **Child abuse prevention sub-programme** is intended for children under the age of 18 who have suffered child abuse. It aims to collect/analyze data about children who face a risk of abuse or have suffered from it, to provide consultation for a child/family and to assure their contact with different state institutions and psychologists.
- ✓ Within the **sub-program "Our Home"**, children deprived of parental care of age of 6-18 live in an environment similar to a family environment. They are provided with food and medical services, professional education. They are also involved in different educational and sporting activities.

⁷³ For details about cheap insurance program refer to chapter 5

⁷⁴ Decree #33 of Georgian government, dated February 26, 2009

⁷⁵ Nearly €25.7

⁷⁶ Nearly €25.7

⁷⁷ Nearly €8.5

- ✓ **The daycare center sub-program** contributes to the prevention of institutionalization by taking responsibility for the upbringing and education of 6-18 years old children from vulnerable families during the daytime. Part of the policy is a provision of services to families through these centers either as a replacement for monetary assistance or simultaneously with the latter.
- ✓ Within the **sub-program for providing shelter to homeless children**, homeless children under 18 years old are provided with temporary shelter, twenty-four-hour care and service. The sub-programme contributes to the rehabilitation and socialization of homeless children.
- ✓ **The Sub-program for recreation and entertainment of children** is intended for children aged 9-18 years old living in childcare institutions, as well as from families receiving reintegration assistance and fostering assistance. The sub-programme provides these children with recreation and entertainment at Georgian resorts and contributes to their educational development and socialization.
- ✓ **The Sub-program for rehabilitation of children with osteoarticular disease** is aimed at providing twenty-four-hour care giving and rehabilitation for children who have a pathologic osteoarticular system. The sub-programme helps them to acquire educational skills.
- ✓ **The sub-program for prevention of age-related disorders of children's development and for early diagnostics aims to detect** detecting low and medium level mental disorders of children at early age. It will contribute to the normal development of these children.
- ✓ Within the **sub-program for supporting the special institutions for children with special educational needs**, children with special educational needs and children with antisocial behavior living at public boarding schools will be brought up with consideration of their individual needs, age and abilities.
- ✓ **The sub-program for determining the health of a child to be given up for adoption in foreign country aims** to study the condition of a child to be given up for adoption in foreign country and to prepare the appropriate statement.
- ✓ **The sub-program for supporting childcare institutions** is designed for providing children deprived of parental care (including disabled children) with the necessary living and development conditions, to assist them with acquiring education and integrating into society.

The study conducted by the "Institute of Social Studies and Analysis" in 2008 showed the factors which serve as the causes of placement of children at institutions:

1. Difficulties related to providing for a child's healthy nutrition;
2. Single status of the child's caregiver (mother, grandmother, etc) which might be caused by different reasons (spouse's imprisonment, spouse's death, divorce, single mother, family conflict, etc);
3. Having a child outside marriage. Another related reason could be a lack of psychological readiness for becoming a mother;
4. Busy job (fear to lose the job);
5. Unemployment;
6. Unavailability of a stable place of dwelling (house, flat);
7. Inability to provide for a child's medical treatment (children get free treatment in the institutions);
8. Having a disabled child; inability to look after the child at home;
9. Family conflict (conflict between husband and wife, grandmother and grandchildren, daughter-in-law and mother-in-law, etc);
10. Nonexistence of a school near the place of residence or a long distance between the secondary school and the place of dwelling; consequently, a risk of not being able to receive secondary education.
11. Inability to buy school items (especially textbooks).

These factors are usually encountered in combination and jointly create a synergic effect of social insecurity, which damages the child, in the first place. The placement of the child in the institution is considered to be a more or less effective solution.

The conditions for children in residential care institutions have been far from adequate for many years. Questions have been raised both in regard to protection from abuse and quality of accommodation, facilities, diet, hygiene, health care and educational services. This has particularly been the case for children with disabilities. However, in recent years more residential care institutions have been refurbished and reequipped, while more motivated directors have been appointed. Furthermore, in 2008 a joint decree of the MoES and the MoLHSA set the minimum standard requirements for institutions such as boarding schools and orphanages (Joint decree #42-16N on the Adoption of Child Welfare Standards). However, little is known about the provision of life skills for children in preparation for their leaving of the institutions upon adulthood (UNICEF Georgia, 2009).

One of the programmes for improvement of conditions of children deprived of parental care in particular should be highlighted. Between 2001 and 2008, The Ministry of Education and Science of Georgia implemented the Programme for Prevention of Child Abandonment and for Deinstitutionalization of Children under State Care or Deprived of Parental Care. Since 2009, this program has moved to the Ministry of Labor, Health and Social Affairs of Georgia. The main goal of the Program is to fulfill the right of the child to grow up with his/her family of origin. To achieve this goal, the Program aims at:

- Prevention of inflow of children into childcare institutions and child abandonment;
- Reintegration of children currently in residential institutions into families of origin;
- Foster arrangements for children in need of short or long-term care in foster families.

The State Programme for Prevention of Child Abandonment and for Deinstitutionalization of Children is not empowered to ameliorate the economic or other problems of a family so that it can guarantee sustainable welfare for its children, especially if social assistance is terminated. The only exception is the procurement of livestock for households in rural areas, which provides certain guarantees. However, in such a case, the feeding and maintenance of livestock might develop into an irresolvable problem. Thus the above program is not effective enough in terms of the elimination of the risk related which can lead to a child's being placed in an institution in a situation where an institution can provide better conditions for children than a family can across almost all the relevant criteria. Assistance provided under the program (monetary assistance, food) can only stop the aggravation of an extremely negative situation, but it cannot bring any improvements.

The beneficiaries of the program are not clear about the situation they will find themselves after the completion of the program when they reach the age of 18. They are concerned about their future, which does not seem to be promising and they are very pessimistic. The major reason for joining the Prevention and Deinstitutionalization program is the genetic and psychosocial need for mutual attachment between parents and children and their desire to exist within the same "space". State assistance creates the minimum material grounds for satisfaction of the above need. Due to the fact that placement of children in the institutions is a source of severe stress and marginalization, and also because of the inadequacy of monetary and food aid provided to families who are beneficiaries of the programme for Prevention of Child Abandonment and Deinstitutionalization of Children, the service of so-called "Day care centers" has turned out to be the best solution for the beneficiaries of the program. Consequently, it is advisable to expand this kind of service to all the regions of Georgia.

- **Programme for supporting the social rehabilitation of disabled persons, elderly people and children deprived of parental care**

The programme aims at assisting social rehabilitation of disabled persons and elderly people, development of their adaptability and their integration in society. All the mentioned activities are

implemented in accordance with the UN resolution No 48/96 about "Standard rules on equalization of opportunities for people with disabilities", dated December 20, 1993; requirements of convention on rights of the child and Georgian legislation about the people of mentioned category. The aims of the programme are achieved by means of the following sub-programmes:

- ✓ **Sub-programme for Day care Centers for persons with disabilities** aims at supporting the individual development of disabled persons living in family environments; it is also intended to aid their inclusion in social life. Within the sub-programme, the beneficiaries are provided with medical and psychological services, three meals a day, transportation to the center and back. Besides, the program assists the beneficiaries with developing professional and life skills, participating in cultural and sporting occasions.
- ✓ Within the **sub-programme for community organization of disabled persons**, beneficiaries living in special residential institutions for disabled children are provided with the conditions necessary for their individual development. The sub-programme contributes to increasing the functionality level of these children and their inclusion in social life.
- ✓ Within the **sub-programme for rehabilitation of beneficiaries of special residential institutions at health resorts**, disabled persons living in special residential institutions and elderly people are assisted with improvement of their emotional state and health level at Georgian health resorts.
- ✓ **Children's psychosomatic habilitation/rehabilitation sub-programme** is intended for children with central nervous system and peripheral nervous system diseases and children with pathologies. The sub-program aims to make individual psychosomatic habilitation/rehabilitation programme for each of mentioned children and to provide them with treatment.
- ✓ **Children's early development sub-programme** aims at providing early rehabilitation and prevention for mentally and physically handicapped children.
- ✓ **Sub-programme for provision with special aids** is designed for assisting the beneficiaries in increasing their functional independence. For this purpose, the sub-programme considers providing the beneficiaries with the following aids:
 - Devices for movement;
 - Hearing aid;
 - Cochlear implant (buying with 70% co-financing by the government);
 - Prosthetic-orthopedic equipment

GEL 4.5 million (nearly €1.9 million) has been allocated from the budget for implementing the programme for supporting the social rehabilitation of disabled persons, elderly people and children deprived of parental care in 2009.

2.2.3. Social protection programmes implemented by regional governments and municipalities in 2009

In addition to programmes funded by the central budget covering all of Georgia, there are small social programmes too, which are funded by the budgets of regional governments and municipalities in their regions or districts. Regional governments and municipalities play a significant role in social protection as the social assistance programmes funded from central budget are centralized and sometimes local specificities are not taken into account.

As discussed, social assistance is quite well targeted, but there are still people in need who are not beneficiaries of assistance programmes. Regional governments and municipalities are very important in dealing with this problem, especially in the case of disabled persons, elderly people and children deprived of parental care.

In total, more than 170 regional and municipal social programmes were implemented in 2009. They can be divided into the following groups (Social service guideline for child care, 2009):

- Assistance to families with children and poor families.
 - one time assistance to newborn infants;
 - Assistance to families with many children, orphans, families without providers, single mothers;
 - one time assistance monetary assistance to socially vulnerable persons;
 - Social assistance to poor families;
 - Rehabilitation programme for homeless children;
 - Funding of medical service for children;
- Education subsidies
 - one time assistance cash benefit for orphan pupils;
 - Exemption of crèches from taxes in some regions;
 - Funding of schools (transportation, textbooks and heating costs);
- Benefits for persons with disabilities
 - Medical examination programmes for disabled persons
 - Social protection of disabled persons and provision of drugs for them
- Benefits for internally displaced persons
 - Monetary assistance to IDPs
 - Exemption of children from IDP families from crèche fee
- Other
 - Funding of free canteens
 - Free transportation programmes
 - Assistance with food

It should be mentioned, that there are no significant differences in programmes of different regions and the general pattern more or less describes patterns of particular regions.

Regional/municipal programmes are funded by municipal and regional budgets as well as by municipal

and regional administrations. In total, GEL 62.1 million (nearly €26.7 million) was spent on these

programmes all around Georgia, which is no more than 5% of combined regional and municipal budgets.

The majority of municipal benefits are single and usually category-based benefits, however, some of the municipalities, including Tbilisi municipality, actively refer to database of socially vulnerable families for identification of their own social programme beneficiaries (UNICEF Georgia, 2010). But on the other hand they cannot correct the errors of central programmes. Correction could be achieved if the self-governing territorial entities created their own databases of beneficiaries.

According to the law on social protection, registration of people without shelter and provision of shelter to this category of people is a prerogative of local government.

However, no particular programs have been implemented in this field yet.

2.2.4. Social protection channels of international organizations

The population gets social support not only from the public sector, but also from international organizations.

During the year 2009 more than 15 international organizations implemented social programmes.

The activities of international organizations are very significant in terms of eliminating problems with the development of social assistance programmes for disabled persons, elderly people and children deprived of parental care as well as for providing the particular types of assistance.

In a number of cases, the programmes are both funded and implemented by international organizations, in other cases they are implemented by a local NGO.

The programmes can be divided into the following groups:

- Assistance for children and families
 - Rehabilitation of homeless (street) children;
 - Assistance for single mothers;
 - Contribution to deinstitutionalization of children;
 - Contribution to education of children;
 - Contribution to vocational trainings of children;
 - Assistance for mothers with many children;
 - Protection of children from abuse and neglect;
 - Psycho-social assistance for children who have suffered from psychological shock;
 - Assistance for socially vulnerable children and their families;
 - Free gynecologic-preventive clinic;
 - Day care centers;
 - Orphanages for newborn infants;
- Assistance for disabled persons
 - Rehabilitation of disabled children and their integration into society;
 - Programme for equalization of opportunities for persons with disabilities.
- Assistance for IDPS
 - Providing shelter for IDPs, who are victims of family violence;
 - Supporting the socio-economic integration of IDPs
- Other
 - Free canteens for vulnerable members of society, for example the homeless

2.2.5. Current and Possible Areas of future European Commission intervention in the Social Sector⁷⁸

European Commission's support for the social sector development in Georgia is related to the Action Plan of the European Neighborhood Policy (ENP AP) and includes social security reforms to reduce poverty, reform of the health sector, and the development of a system for handling IDPs and refugees issues in order to help them integrate into local communities and to provide them with opportunities for sustainable livelihoods.

EC interventions in Georgia relevant to social sector objectives use a range of instruments, including sector budget support (SBS), investment and technical assistance (TA) projects, and direct and indirect support to NGO and member state (MS) programmes.

There are no SBS programmes that currently directly support the social sector; the Food Security Programme budget support for childcare reform has been finished in 2009. However, other SBS programmes currently being implemented are complementary to social sector objectives. These include the Sector Policy Support Programmes in criminal justice (two untargeted SBS programmes, current and planned, with strong juvenile justice, access to justice and protection of civil rights components), vocational education and training (VET - important for skills development, livelihood opportunities, and social integration), implementation of the IDP Action Plan (three targeted SBS programmes), regional development (yet to be finalized but strengthening local delivery capacity), and Public Finance Management (a new second SBS directed at strengthening PFM and the efficiency of expenditure).

The biggest impact on social policies is through EC support to NGO and member state projects and programmes, the latter usually also implementing through NGOs. These are mainly concentrated towards support for IDPs and, to a lesser extent, childcare.

As possible areas of future EC intervention have been identified the following key areas of social sector reform (as a result of discussions with Government, Parliament, donors, NGOs and civil society):

Improvements to social assistance systems:

- improvements to the coverage, targeting and disbursement mechanism of the various benefits (and pensions), including associated voucher systems (childcare, health, education etc.);
- rationalization of benefit systems to improve effectiveness and efficiency within the same framework of objectives (including the mainstreaming of IDPs);
- improvements to data management and processing, within the context of broader e-governance objectives;

Shifting of vulnerable households from benefit dependency:

⁷⁸ Source: European Commission; European Neighbourhood Policy. Assessment of the Situation of the Social-Related Policies in Georgia, Needs Analysis and Recommendations for Future Assistance including a Potential Sector Policy Support Programme (SPSP), May, 2010

- prospects for employment services;
- appropriate skills development;
- improved efficiency in the use of social workers and expansion in their numbers and range of activities, including social psychologists;

Combatting social exclusion:

- programmes for social and economic enhancement and mainstreaming for the disabled;
- social integration and care for the elderly;
- reintegration and rehabilitation programmes for those in custody;
- support for care leavers;
- mainstreaming of IDPs;
- expanded use of social workers and other psychosocial support;

Child protection:

- full development of child protection mechanisms;
- further expansion and effectiveness of care services;
- improved efficiency of use and expansion in numbers of social workers;

Disaffected youth:

- support for care leavers (education, social skills, self-reliance, jobs, shelter, money management, continuing care into adulthood, etc.);
- reintegration/rehabilitation programmes for those in custody;
- non-custodial punishment systems for juveniles;
- innovative programmes for street children/youths;
- social and citizenship programmes, youth clubs, work experience for youth in disadvantaged households.

Programmes to support youth, linked to continuing involvement with child protection, have been identified as the most appropriate for an EC programme. There are important complementarities with EC's previous and existing programmes on child protection, juvenile justice, IDPs and vocational education, as well as projects supported on disability, inclusive education, trafficking, minorities and IDPs. Support to youth links with social inclusion and poverty reduction objectives within the ENP and with broader EC objectives on civil rights.

2.2.6. Role of NGOs in implementation of social assistance

NGOs play a significant role in implementation of social programmes funded by international organizations and governmental structures. 60% of the above listed programmes funded by international organizations are implemented by NGOs.

In addition to NGOs, charitable foundations are also active in the country. They carry out fund raising the proceeds of which they use to implement social assistance programmes. However, their overall contribution to the total amount of social assistance is very small so far.

2.3. Conclusions and recommendations

In a transition economy, like Georgia's, social assistance is of vital importance for eliminating extreme poverty and protecting basic human rights.

After the disintegration of the Soviet Union, a system of mainly category-based social assistance operated in Georgia. This assistance was not well targeted in terms of reducing poverty. Furthermore, it was subject to delays in payment due to the poor economic conditions of the time.

Since 2004, radical changes in the social assistance system have been made, which were reflected in the Law on Social Assistance adopted in 2006. According to this law, the main principle of social assistance was social protection of the extremely poor section of the population. This is a more effective and fair form of assistance. As for the system of category-based assistance inherited from the previous period, a large part of it was abolished altogether with the expansion of remaining parts being suspended and a significant number of existing beneficiaries being transferred to targeted programmes. It is intended to eliminate the category-based programmes gradually.

In accordance with the new law a **targeted social assistance** system was created. It is based on proxy means testing - a method of assessing the socio-economic condition of households. The largest social assistance programmes (according to the budget as well as number of beneficiaries) currently in operation in Georgia are based on common database of vulnerable households created by this mentioned system. Despite the largely successful targeting of the system, it has certain errors due to which a certain amount of the poor population cannot benefit from targeted assistance.

In addition to providing the population with subsistence means, the social assistance system is also focused on child care and care of disabled persons, in which spheres large-scale programmes have been created. They contribute to the prevention of child abandonment and deinstitutionalization, provide disabled persons with appropriate support devices, assure their rehabilitation and social integration and so on.

Social assistance is also of primary importance for development of the insurance infrastructure in the country. The government's initiative to co-fund the basic insurance of population and to fund the health insurance for the extremely poor, contributes significantly to the development an insurance system in the country.

In addition to social assistance funded by the central budget, there are also municipal programmes with relatively small budgets. These programmes should serve to cover needy groups living in their administration area but not targeted by central programmes. However, the municipal programmes are frequently based on common database of vulnerable households according to which the central programmes work. Therefore, they cannot correct the errors of central programmes. Correction could be achieved if the self-governing territorial entities created their own databases of beneficiaries.

International organizations are also involved in social assistance in Georgia. Financial and administrative assistance provided by them contribute much to the improvement of the education system, protection of

children's rights, rehabilitation of disabled persons, assistance to IDPs and social integration, monitoring of social assistance programmes, etc.

In certain cases (e.g., care for disabled persons and children deprived of parental care, public mental health and psycho rehabilitation services, prevention of family violence and protection of victims to family violence, etc.) aims of social assistance than state action. Therefore, it is important that NGOs also play a role in the social service delivery. Attention should be paid to the fact that it is mainly NGOs which implement programmes funded by international organizations.

In the future, the measures to be implemented by the state in terms of social protection should include the following aims:

- State regulation of social assistance should be provided by implementing targeted assistance and active social policies, introducing a diversified scheme (e.g. families at lower level of economic development should be provided with more assistance to equalize their incomes with subsistence level) of social security and increasing the effectiveness of utilization of resources for the development of social assistance system, to minimize the number of cases when social assistance is not enough for overcoming the poverty.
- Identification of extremely needy families is difficult and so representatives of local governments should be involved in this process; existing programmes should also be monitored.
- Currently, social assistance is mainly funded from the state budget. Allocation of assistance from local budgets mainly is marred by the same problems as those observed in the allocation of targeted assistance from the central budget. Therefore local government should create supplementary programs for social assistance to be funded by the state budget. Distribution of such programs should emphasize identification of extremely needy households "missed" by the state programs.
- For assisting the deinstitutionalization of children and prevention of child abandonment, the network of social workers needs to be expanded. The network of day care centers should be also intensively developed as these facilities are the most effective tools for prevention of deinstitutionalization of children.

Annex 2.1. Main statistical indices

Table2.A.1. State budget expenses allocated for social assurance according to the years (mln)

	2007		2008		2009	
	GEL	€	GEL	€	GEL	€
Expenses allocated for pensions*	497.7	217.7	763.0	348.6	854.2	366.5
Expenses allocated for social protection (excluding pensions)	436.0	190.7	584.4	267.0	651.7	279.6
Total	933.7	408.4	1347.4	615.6	1505.9	646.1

* Here, the pensions include state pensions as well as compensation and scholarship.

Source: (<http://www.mof.ge/3991>; SSA <http://ssa.gov.ge>)

Table2.A.2. Number of families and beneficiaries registered in integrated database of vulnerable families (expressed in thousands) (Account of Social Service Agency, 2009)

	2006		2007		2008		2009	
	Family	Population	Family	Population	Family	Population	Family	Population
Registered in database	373.1	1,143.8	447.8	1,414.2	502.7	1,636.0	539.3	1,761.2
Beneficiary of health insurance policy	293.1	867.5	234.3	675.9	256.8	750.8	297.7	904.9
Beneficiary of subsistence benefit	89.0	233.0	121.6	319.3	131.2	370.9	153.4	420.8

Source: (Social Service Agency, 2009)

Table2.A.3. Number of family assistance beneficiaries according to the years (expressed in thousands)

Year	Number of beneficiaries
2006	44.4
2007	33.4
2008	26.8
2009	22.6

Source: (Social Service Agency, 2009)

Table2.A.4. Activities of Social Service Agency in terms of guardianship - care according to the types of activities. 2009

<i>Type of activity</i>	<i>Total number of cases</i>	<i>Out of them</i>	
		Finished	Ongoing
Establishing guardianship (age of 0-7)	55	43	12
Establishing care (age of 7-8)	253	205	48
Establishing guardianship for disabled persons (over the age of 18)	122	110	12
Establishing care for adults with health problems (over the age of 18)	56	55	1
Issuing permission for confiscation of the property of a person under guardianship/care	18	13	5
Relieving a guardian/caregiver from his/her duties	66	63	3
Participation as a third party in judging a case about acknowledging a person as incapable	147	109	38
Participation in family disputes	193	193	
Participation in executing a court decision	19	19	
Limitation of parent's right	107	107	
Deprivation of parent's right	10	9	1
Responding to child abuse cases	30	30	
Child adoption	162	156	6
Establishing that a child is to be given up for adoption	204	142	62
Acknowledging a child as abandoned by means of court	40	40	
Acquiring birth certificates for underage children	92	92	
Assigning a personal number to children deprived of parental care	10	10	
Introducing changes into decisions about establishing guardianship-care	9	9	
Acquiring an ID card	3	3	
Introducing changes into birth certificate	2	2	
International dispute over returning of children	2	2	
International adoption	1	1	
Judicial dispute between the guardian and relatives of a person under guardianship	1	1	
Abatement of court decision about determination of underage person's place of residence	1	1	
Getting registered as a candidate for adoptive parent	409	409	
Total	2012	1824	188

Source: (Account of Social Service Agency, 2009)

Table2.A.5. Child care programme budget of 2009

<i>Sub-programme</i>	<i>GEL</i>	<i>€</i>
The financial sub programme for running the system of child abandonment prevention and of deinstitutionalization, guardianship and child care	5,573,700	2,391,427
Child abuse prevention sub-programme	55,980	24,019
Sub-program "Our Home"	420,000	180,203
Day care center sub-program	400,000	171,622
Sub-program for providing shelter to homeless children	190,800	81,864
Sub-program for recreation and entertainment of children	54,000	23,169
Sub-program for rehabilitation of children with osteoarticular disease	88,200	37,843
Sub-program for prevention of age-related disorder of children's development and for early diagnostics	72,000	30,892
Sub-program for supporting the special institutions for children with special educational need	2,423,000	1,039,602
Sub-program for determinating the health of a child to be given up for adoption in foreign country	20,000	8,581
Sub-program for supporting the childcare institution	8,222,120	3,527,747
Childcare programme - total	17,580,000	7,542,798

Source: (*Social service guideline for child care*, 2009).

Table2.A.6. Amount of Household allowance and quantity of its beneficiaries according to the categories 2007 - 2009

Quantity of beneficiaries	Amount of subsidy		Quantity of beneficiaries		
	GEL	€	2007	2008	2009
Disabled veterans of world war II, military actions in the other states' territories, defence of territorial integrity of Georgia, military actions for freedom and independence	44	18.9	3 909	3 756	3 431
Participants of World War II	44	18.9	6 638	5 548	4 595
Children under 18 years age of persons who died during the military actions for territorial integrity and independence of Georgia. Children, spouse and incapacitated parents of person with childhood disability.	44	18.9	1 277	1 413	1 439
Persons equalized to participants of World War II.	22	9.4	16 873	14 966	12 515
Participants of military actions in the other states' territories, defence of territorial integrity of Georgia, military actions for freedom and independence	22	9.4	20 272	22 282	22 238
Children under 18 years age of soldiers, who died during or after the military actions in the other states' territories or after the military actions for freedom and independence of Georgia. Children, spouse and incapacitated parents of person with childhood disability.	22	9.4	11 864	12 777	12 819
Veterans of military forces when reaching the pension age	22	9.4	2 834	3 097	3 456
Persons disabled while liquidating the results of Chernobyl nuclear accidents	7	3.0	804	978	1 072
Participants of liquidation of the results of Chernobyl nuclear power station accidents	7	3.0	106	120	122
Families granted with pensions for losing provider due to Chernobyl nuclear power station accidents	7	3.0	64	112	75
Persons acknowledged as victims to political repressions and incapable members of their families	7	3.0	23 588	21 836	20 874
Persons disabled during a raid on April 9 peace action demanding the independence of Georgia	44	18.9	199	204	153
Incapable parents, incapable spouse, underage child or/and adoptive child of a person, who died during a raid on April 9 peace action demanding the independence of Georgia	44	18.9	11	37	39
Persons injured during a raid on April 9 peace action demanding the independence of Georgia	22	9.4	531	498	420
Total			88 970	87 624	83 248

Source: (Social Service Agency, 2009)

Annex 2.2. TSA methodology

The system of households' welfare level evaluation works as follows: One of the stages of the involvement of families in need in the programme is self-identification: family has to deem itself to be poor and in need of assistance. A family willing to receive assistance applies to any office of the Social Services Agency, located in administrative center of all the municipalities. The social agent⁷⁹ visits the applicant family and completes a special questionnaire – the so-called family declaration, which, along with the questions regarding the family members' demographic data, includes questions about their property and income.

Household welfare is evaluated by means of PMT methodology. A formula has been developed on the basis of regression analysis in which each contributing factor recorded in the family declaration is assigned a certain weight. This weight shows how each factor contributes to the household welfare level. In addition to the socio-economic specificities of each household, a certain weight is also assigned to the territorial entity (region, settlement), where the family lives. To a certain extent this allows the formula to account for the difference in poverty levels between different territorial entities.

Based on these data, each family is ascribed the relevant score (so-called rating score), which reflects the assessment of its socio-economic condition⁸⁰. The score attributed to the family reflects its socio-economic condition. The lower the score the poorer the family is. The data in the family declaration (including the rating score) are entered into the database for socially vulnerable households. The rating score limit (maximum rating score) is defined for each benefit. If the rating score of applicant family does not exceed the limit, the family becomes a beneficiary of the relevant programme.

To take part in any programme, applicants have to submit a number of documents. However, to be registered in the integrated database of socially vulnerable people it is not actually necessary to collect documents. The only thing the family needs is ID (for adults) and a birth certificate (for adolescents). However, even this requirement caused serious difficulties especially in the starting phase of the programme, when over 50% of population did not have an ID⁸¹. The absence of required documents was most frequently encountered in poor families. However, in the recent period, after the Soviet documents lost their validity, the problem has been mainly solved and there are very few households who do not apply for assistance because of the absence of the required documents (UNICEF Georgia, 2010).

TSA is very well targeted, as 70 percent of its recipients are pre-TSA consumption poor. In other words, the margin of error is 30 percent. This targeting performance puts Georgia's TSA among the best-performing similar programs in the world (World Bank, 2009).

However, like all the other statistical methods, the PMT method too has some errors. In particular, the unofficial income in total family income can be quite big and it is almost impossible to record it. In addition, the calculation of the rating score is focused on the assessment of property state of household. Therefore, the methodology identifies the chronically poor very well, but it has difficulties with

⁷⁹ Social agent - a person with special authority who identifies the families willing to register in the database and assesses their socio-economic status.

⁸⁰ Overall, estimation of socio-economic status of family is a complex process. It includes description of socio-economic status of family, revisit (check visit) if applicable and processing of data collected by means of visits. In total, the process takes three months and an applicant is regarded as registered in database four months since submitting application. The applicant's rights to receiving any benefit may appear only after that. The stated term seems to be too long for applicants and it must be reduced to minimum.

⁸¹ the reason is that before 2006 it was possible to use Soviet passports within the country and there was no to acquire another ID unless the person intended to travel abroad

identification of households which have become poor recently, because of lost of jobs or some unexpected big costs (costs of medical treatment, repayment of debt, etc.)

Quality of correlation of contributing factors of rating-score calculation formula with household welfare level varies over time. Because of that, it is necessary to periodically reassess contributing factors and the weight accorded to them.

The first formula of PMT methodology was created in 2005 and it worked from 2006 to 2010. In 2009, the formula was corrected and since June 2010, rating-score is calculated by means of corrected formula.

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Chapter 3: Poverty and Social Exclusion

3.1. Introduction

The official 2007 definition of poverty refers to *'the person's and/or a household's condition of not having the means to afford basic needs (such as food, shelter, physical security, basic education and personal development, health, communication) because of material deprivation or low income'*⁸².

Poverty has been an unresolved problem for the Georgian population since independence in 1991. However, different tendencies of changing the poverty level are revealed while using various methodologies for measuring poverty. For example, the poverty level set against the subsistence minimum, as announced by the state, does not reveal any declining trend compared to the previous year. Whereas according to the data published by other organizations (e.g. World Bank, UNICEF), poverty has been declining steadily in recent years. Despite other data, the presence of various poverty indicators differs from social group to social group. In Georgia, poverty is concentrated among low-income households: households in rural areas, households involved in subsistence agriculture, unemployed and self-employed households, households with many members, households with many children. Among ethnic minorities, poverty is concentrated in Azeri households. Since 2003, inequality has increased between the urban and rural areas in terms of poverty, as rural areas have become poorer. This was caused by the use of different structures of employment.

Poverty level varies among pensioners too. The state pension is the only source of income for many pensioners. Some pensioners get extra income support from relatives or other sources. In order to eliminate inequality, targeted state social assistance is granted to provide poor pensioners with extra income. Recent trends show that the increase in the state pension and social assistance granted to the poorest households led to a lessening of the risk of poverty in this social group.

Inequality is also caused by social assistance granted to IDPs. This assistance amounts to the same sum for everyone and is not differentiated according to the economic status of households. Assistance to IDPs is not focused on helping poorer households to escape the poverty trap. Instead it is like a political gesture intended to go towards compensating for the fact that the state cannot restore jurisdiction in the two Georgian territories effectively lost in armed conflicts.

Recently, overcoming poverty has been one of the vital issues in state policy. The Government of Georgia adopted the Economic Development and Poverty Reduction Program in 2003. The program was aimed at accelerating economic development in the country. It also intended to allow all levels of the population to benefit from the economic development of the country and to provide care for socially vulnerable groups (Government of Georgia, 2003).

According to the updated poverty reduction program of 2004, the strategic aim of the country was to solve the following major issues: creation of effective and transparent public service; improvement of business climate; attraction of private capital; improvement of investment and entrepreneurial environment; development of infrastructure and targeted improvement of social assistance system (The United Nations Association of Georgia, 2006).

In order to overcome poverty and reduce the risk of poverty, the government regularly makes efforts to implement reforms. In the short period, between 2006-07, the state has funded several social programs:

⁸² This definition is accepted by state organizations for defining the poverty (Ministry of Labour, Health and Social Affairs (MoLHSA), 2007).

allowance for the unemployed, professional trainings and professional development courses, temporary employment of the unemployed and social assistance to marginalized and poor families (For details please refer to chapter 1.5.6).

Unemployment is still one of the main unresolved problems of Georgia. According to the data for 2009, the unemployment level was 16.9 percent (National Statistics Office of Georgia, 2009). A major proportion of the unemployed is concentrated in urban areas. Assistance to the unemployed was managed by unified system which did not differentiate between different reasons for unemployment or factors like difference in age, gender etc. However, it is worth mentioning that the state budget has always lacked the wherewithal to provide effective social protection for the unemployed because of the low level of the allocated assistance.⁸³ In 2007, the clause on social protection of the unemployed was removed from the budget altogether and measures for contributing to social protection and employment of the unemployed were integrated into social assistance to the poor.

The unemployment level is high in urban areas (according to the data of 2009, unemployment level is 7.8 percent in rural areas and 28.8 in urban areas), however, 82.5 percent of the employed living in rural areas, are self-employed i.e. are involved in subsistence agriculture (National Statistics Office of Georgia, 2009). Due to low effectiveness of agriculture, low level of professional education among the farmers, non-targeted strategy of social assistance as well as inflation, the field of agriculture remains weak.

Poverty has led to an increase of inequality in terms of access to social services (for example healthcare and education), which reflects in inequality in economic status; besides, inequality of access to social services hampers the development of labor productivity and labor market. As public financing of social services decreased, privately provided social services (e.g. in health care, education) increased, but the poor part of the population cannot afford them.

It is noteworthy that the poverty indicator has not significantly deteriorated in Georgia in consequence of the armed conflict of August 2008 with Russia and the world financial crisis. This trend can be explained by the fact that after the war, international organizations allocated 4.5 billion USD to Georgia to avert a financial crisis (Jashi, Ch and Tokmazishvili, M, 2009). Thanks to this transfer, the amount of the state pension as well as social assistance actually increased in Georgia since 2008. This is why the economic situation could be stabilized in 2008. The August war and the global financial crisis as well as changes caused by these events, inflicted particular loss to the middle and upper classes and bank creditors.

3.2. Historical Perspective

Poverty dynamics in Georgia fluctuated over time according to the economic growth of the country and various social, economic and legislative reforms implemented by different governments. The most vulnerable period was the first years of independence which saw a tremendous decline in economic activity, hyperinflation and unemployment, a radical drop of the wages and pensions, general instability and a high criminal rate, civil and ethnic wars, huge migration of people within and outside of the country. As a result, the Georgian population became severely impoverished.

Poverty indicators for the period since Georgia gained independence to date are quite debatable. Different technical and methodological difficulties were used over the years. The National Statistics Office of Georgia (former Statistics Department of Georgia) and other organizations, like World Bank, IMF (International Monetary Fund), UNICEF etc. use different methodologies and poverty calculation systems. Within this text different methods of calculating poverty will be used. We mainly base our

⁸³ For details refer to Chapter II.

analysis on the data provided by the National Statistics Office of Georgia. Data from other organization will be used as additional and complementary information.

In 1994-1997 several significant reforms were implemented by the government, such as the introduction of a stable national currency (GEL), the privatization of state property, agricultural and non-agricultural lands, support for attracting investment, etc. These reforms promoted economic growth and the reduction of inflation, improved the economic situation of the country and reduced the level of poverty. According to the report of the International Monetary Fund of 2003, in 1994 the administrative absolute poverty level in relation to the official 'subsistence minimum' was approximately 80 percent in 1994 and 60 percent in 1995. The lowest level of absolute poverty was in 1997 (about 46 percent).⁸⁴ Later on, the poverty level in relation to the official subsistence minimum increased again, due to unfavorable natural conditions (severe droughts in 1998 and 2000), the large-scale shadow economy and corruption. As a result, in 1999 the absolute poverty level in relation to the official subsistence minimum reached 60 percent. It meant that more than 2.5 million Georgian citizens lived on less than USD 2.5 (€1.70) per day. In 2002 there was another relative decrease in poverty within the country as the poverty level in relation to the official subsistence minimum made up 52 percent. (IMF, 2005, 2003).

A 2003 IMF report identified vulnerable groups, at high risk of poverty: single pensioners, households with three or more children, internally displaced persons, residents of certain regions (in 2003 Imereti and Samegrelo regions were the poorest). The critical period came in 2003 when the level of poverty in relation to the official subsistence minimum increased by 2.4 percentage points and reached 54.2 percent. The peculiarity of this period was that rural poverty increased sharply (by 7.7 percentage points), while urban poverty decreased by 2.7 percentage points.⁸⁵ In rural areas, poverty increased due to the unpaid social transfers and public sector wages, while in urban settlements (especially in Tbilisi) pensions and wages were mostly disbursed. (IMF, 2003).

After the 'Rose Revolution' of 2003, the new government implemented a new taxation system and started to fight corruption alongside other structural reforms. This period was marked by the government's spending more than envisaged in the original budget. In reference to the subsistence minimum, the poverty level was 41.2% in 2005, and this is a significantly improved data if compared to 2003. The poverty level (in reference to the subsistence minimum) in subsequent years fluctuates significantly (e.g. it rises in 2007 and declines in 2008). If we use a 2.5 USD per day threshold as a benchmark for measuring the poverty, then the poverty has decreased gradually in Georgia since 2003. Once again this indicates on the contradictory picture of poverty in Georgia. These issues will be discussed in detail in the following subchapters.

⁸⁴ For details about change of subsistence minimum, refer to Subchapter 3.3. Which chapter do you mean? Ch 2?

⁸⁵ According to IMF report (2005), in 2002 the absolute poverty level in rural settlements was 48.5 percent, while in 2003 it reached 56.2 percent. As for urban settlements, the poverty level in 2002 was 55.4 percent and dropped to 52.7 percent in 2003 (International Monetary Fund (IMF), 2005).

3.3. Methodology of measuring Poverty in Georgia

As was mentioned above, measuring poverty in Georgia is complicated by a number of methodological difficulties. To measure poverty, both absolute and relative poverty thresholds are used. Furthermore, different thresholds are used for measuring absolute poverty: a) official subsistence minimum (calculated according to daily 2 300 kcal (the food basket makes up the 70% of the subsistence minimum, while the other 30% is for non-food items), with consideration of equivalence coefficients and cohabitation effect); b) the threshold calculated by the World Bank (calculated according to daily 2 260 kcal, consisting of cheap food; calculated on the basis of the research) and c) 2.5 USD per day threshold⁸⁶.

In 2006, the National Statistics Office of Georgia began to publish the poverty indicators with respect to 60 percent and 40 percent of median consumption, which constitute the relative poverty thresholds. Relative poverty shows the distribution of the population in relation to the well-being of “average” households rather than the share of households beyond the subsistence minimum threshold. Therefore, the relative poverty dynamics shows changes in inequality of well-being and this indicator is relatively stable if inequality does not change in a country.

The poverty indicators calculated in relation to official subsistence minimum are also defective. According to the expert evaluation, there are several drawbacks associated with the calculation of subsistence minimum threshold: a) The proportion of the food basket and non-food items is not proper. This proportion was established in 2003, when the share of taxes in the total expenses of families was relatively low. Since 2004 the tax system was changed and the share of these in families’ total expenses increased significantly. According to the experts, the current relations between the food basket and non food items, will be around 60% of food basket to 40% of non food items. b) prices on the products in the food basket of subsistence minimum are calculated incorrectly: first of all, the product prices are taken seasonally. However, the population does not consume all the products seasonally (e.g. citrus in summer and summer fruit in winter). On the other hand the prices on products in the food basket are taken from the market of various types (elite supermarkets, stores and agriculture markets), and the prices are automatically averaged. The drawback of this approach is that while calculating the average, the amount of a product consumed at such markets is not taken into consideration. Other than the methodological problems of calculating the subsistence minimum, reference is also made to the problems of reflecting the expenses and revenues in household surveys. According to the surveys, the revenues of the population of Georgia is extremely low. The households consume 2.4 times less, than the domestic product produced in Georgia (Megrelishvili, 2011). Thus, there is an expert opinion that the poverty calculated against the subsistence minimum is increased twice as much, as far as the subsistence minimum is unfairly inflated, and the population’s revenue – reduced.

Despite the National Statistics Office of Georgia publishes the amount of subsistence minimum every month, in regards to this threshold the poverty indicators are not officially published. This can be caused by two reasons: a) methodological drawbacks of subsistence minimum and b) high indicators of poverty calculated in relation to the subsistence minimum, the poverty level is significantly higher than the poverty level published by other organizations.

In this report we are providing the poverty indicators calculated in relation to the subsistence minimum, however, we also consider opinions of others that these data are not realistic and this is why the advantage should be given to poverty indicators calculated in relation to the 2.5 USD per day threshold . The

⁸⁶ For a detailed picture, section 3.5 in this chapter compares poverty indicators calculated according to different methodologies.

advantage of this kind of approach is that the poverty data are comparable with the data of the other countries. The change in this threshold takes purchasing power parity (PPP) of currency into account according to the years (See Tables 3.2 and 3.3). As far as the 2.5 USD per day threshold is low according to PPP (among them, lower than the official subsistence minimum), consequently it reflects the economic changes in the extremely poor layer, for which the state reforms were carried out in general. Table 3.1 reflects the fluctuation of subsistence minimum in 2005-2009 (GEL and EUR).

Table 3.1: Subsistence minimum in GEL and EUR (2005-2009):

Year	Subsistence minimum (GEL)	Subsistence minimum (EUR)
2005	95.8	40.73
2006	106.5	46.34
2007	118.6	50.5
2008	127.9	60.73
2009	128.8	53.02

Table 3.2: Poverty Threshold in relation to USD 2.5 per day considering PPP (Purchasing power parity)

Year	Poverty threshold in GEL	Poverty threshold in Euro
2005	59.3 GEL	€25.13
2006	62.7 GEL	€28.89
2007	66.6 GEL	€29.73
2008	70.6 GEL	€30.17
2009	70.3 GEL	€31.38

Table 3.3: PPP of Georgia in dynamics:

Year	Purchasing power parity
2005	0.785
2006	0.830
2007	0.881
2008	0.933
2009	0.930

Source: <http://search.worldbank.org/data?qterm=PPP%20Georgia&language=EN&format=html>

For creating a comprehensive picture on poverty, we are using different methods of measuring poverty within the frameworks of this report. Namely, the poverty level measured by the World Bank, material deprivation indicators identified based on the survey by UNICEF. The poverty indicator, calculated in relation to the subsistence minimum threshold and in relation to USD 2.5 per day considering PPP (Purchasing power parity) threshold, provided in this section is mainly based on Household Budget

Survey data. The HBS sample is constructed based on the data collected from the National Statistics Office of Georgia.

Poverty data provided in this chapter refer to persons not households. Although, it is obvious that poverty indicators calculated for households would have been lower because of higher poverty risks of larger households'.

In general, poverty must be measured according to three indicators calculated in relation to the above mentioned poverty thresholds:

- Poverty level (a share of poor people in the whole number of people);
- Poverty gap (shows the average distance of poor people from the poverty line);
- Severity of poverty (takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. It is a poverty measure which is sensitive to income distribution among the poor – the worse this distribution is, the more severe poverty is.

3.4. Absolute poverty indicators in relation to the subsistence minimum threshold

Absolute poverty levels (both in relation to the official subsistence minimum and in relation to USD 2.5 per day threshold) are calculated in relation families' monthly expenditure. (See table 3.4 and 3.5)

Table 3.4: Poverty level, gap and severity in relation to the official subsistence minimum (percent), 2005-2009

<i>Poverty Indicators</i>	2005	2006	2007	2008	2009
poverty level	41.4	43.0	46.0	40.4	41.2
poverty gap	14.4	15.1	16.7	14.3	14.3
poverty severity	7.1	7.5	8.4	7.1	7.0

Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Table 3.5: Poverty level, gap and severity in relation to USD 2.5 per day threshold (percent), 2005-2009

<i>Poverty Indicators</i>	2005	2006	2007	2008	2009
poverty level	17.3	16.1	17.0	13.8	13.0
poverty gap	5.3	5.0	5.3	4.1	3.9
poverty severity	2.5	2.4	2.4	1.8	1.8

Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

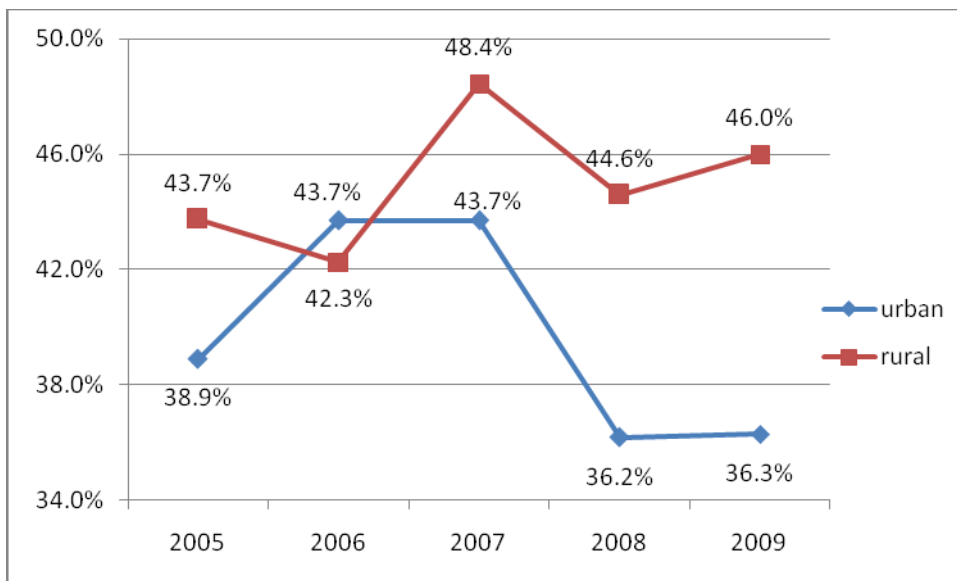
Other than having the tables above that reflect the different indicators of poverty level, depth and severity (because the thresholds are different), the dynamics of poverty change is also different in them. As the Table 3.4 shows, the poverty level has risen in reference to the subsistence minimum in 2006-2007, though it has decreased in 2008-2009 and became equal to the situation of 2005. In relation to the 2.5 USD per day threshold, poverty has been declining in a stable way since 2003. During recent years, the amount of gross domestic product (GDP) increased by at least 10 percent per year. This was reflected by a decrease in poverty indicators in 2008. Furthermore, the August war of 2008 and the world financial crisis did not significantly impede poverty deduction due to the fact that the EU states, the USA and

international financial institutes allocated 4.5 billion USD for supporting Georgia. This financial assistance was directed to rehabilitation of the economy and infrastructure of Georgia, as well as to helping those directly affected by the conflict and ameliorating the consequences of the military conflict. Furthermore, this aid enabled the state to increase the amount of the state pension and social assistance. The financial crisis mainly had a negative effect on the middle and upper classes, financial organizations, persons who lost their jobs and those involved in economic risk group (especially those, who got loans from the Banks). As far as the 2.5 USD per day threshold is low and reflects the economic situation of extremely poor population, who have been assigned social assistances in recent years, and whose state pension has increased, the poverty decrease tendency is clearly identified among them.

The poverty levels (both in relation to the official subsistence minimum and in relation to USD 2.5 per day threshold) are higher in rural areas than in the urban areas (See Figure 3.1 and 3.2). Methodology problems cannot be considered as the main reason for this difference because non-cash income of rural population are interpreted in monetary units and are considered in calculation of incomes and expenses. Accordingly, the same methodology is used for calculating the poverty indicators of rural and urban population.

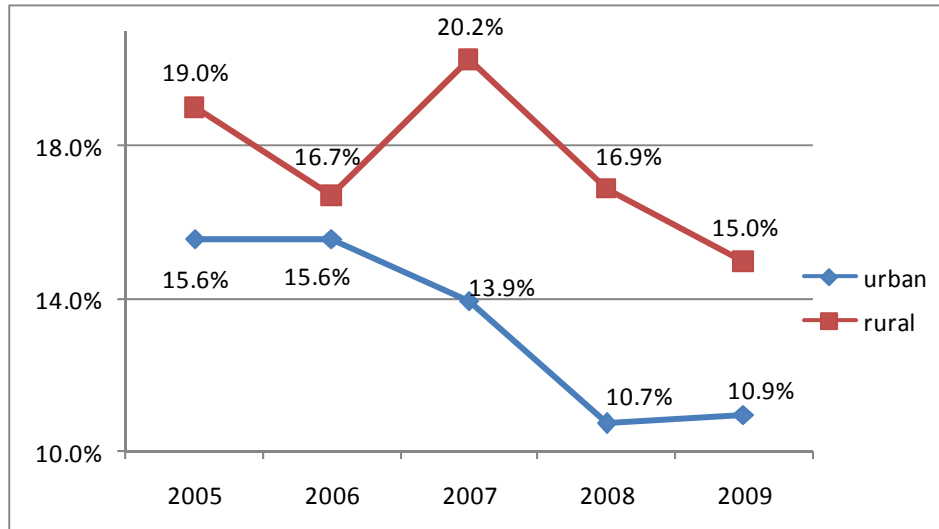
In the opinion of experts, the reason for the economic inequality between rural and urban areas is the prevalence of various types of incomes. Cash income from most spheres of employment (private as well as state) is higher in the cities and it exceeds the subsistence minimum several times (about 4 or more times), while the majority of the rural population is self-employed and engaged in subsistence agriculture

Figure 3.1: Poverty level in relation to the official subsistence minimum according to the settlements types (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

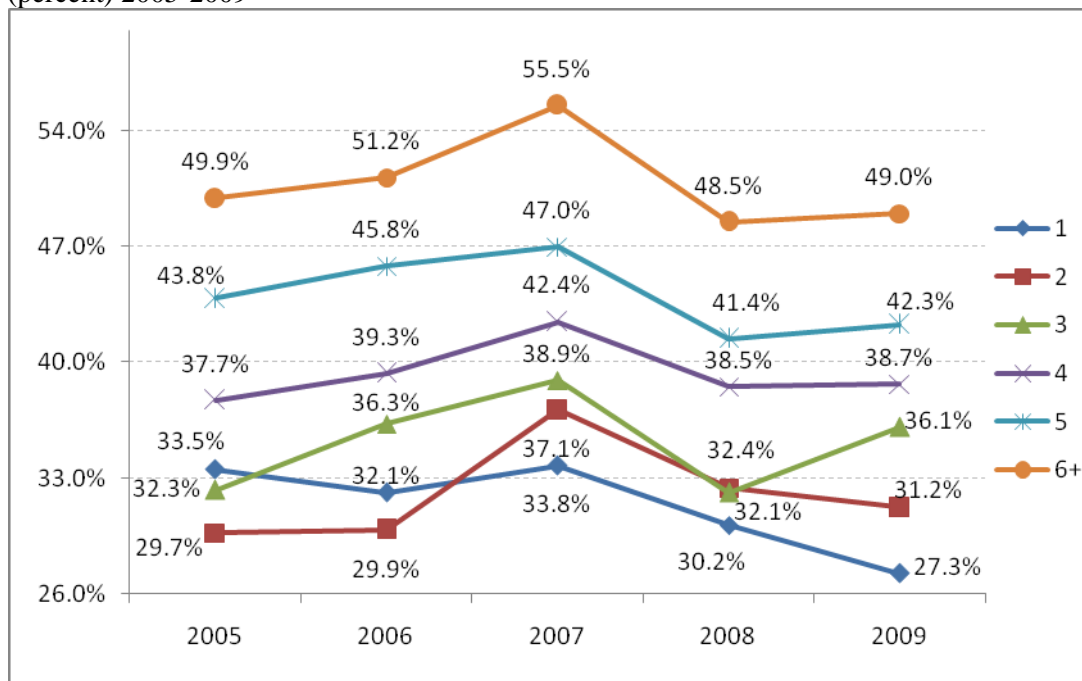
Figure 3.2: Poverty level in relation to 2.5 USD per day threshold according to the settlements types (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

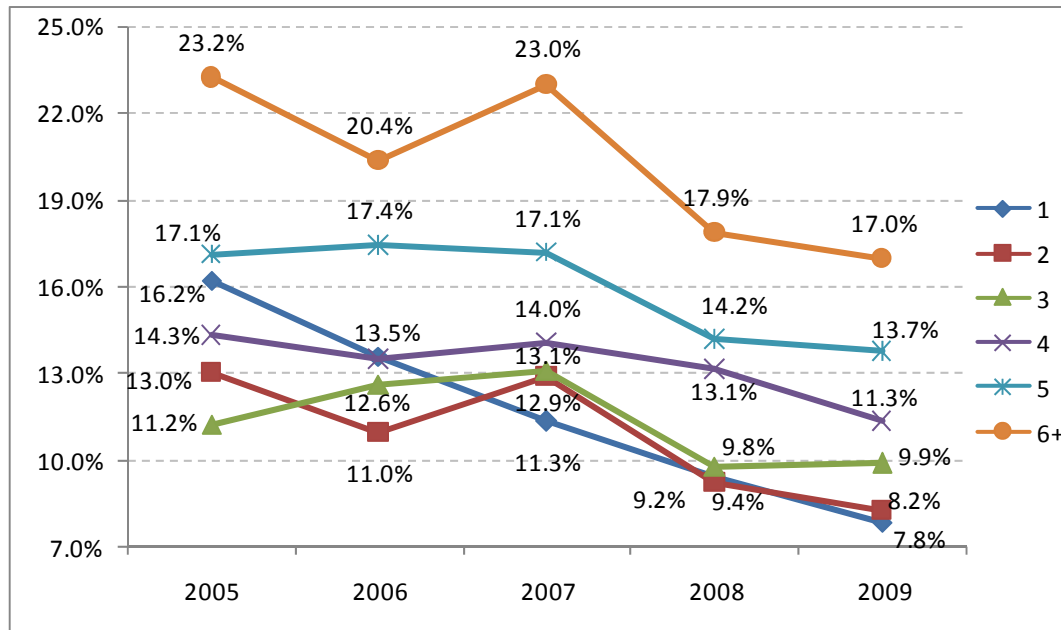
Poverty level is also disproportionately distributed among different-sized households (number of family members). The poverty level (in relation to the official subsistence minimum) increases along with an increase in the number of family members. Families at the highest risk of poverty are those consisting of six or more members. As per 2009, families consisting of one, two and three members are less represented among poor families (Source: The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010) (*see figure 3.3. and 3.4*):

Figure 3.3: Poverty level in relation to the official subsistence minimum according to the family size (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Figure 3.4: Poverty level in relation to 2.5 USD per day threshold according to the family size (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

However, statistical data collected by social workers show quite an interesting picture. According to the Social Service Agency’s (SSA) information, the number of applicants for social assistance among one-member families is proportionally higher than among large families (Social Service Agency (Data Files), 2010). In order to explain this fact, it is necessary to take the factor of subjective evaluation of poverty into consideration, which differs from objective poverty criteria. In one-member households, where the individual is not involved in family relationships, the subjective feeling of insecurity and alienation is stronger and such families are regarded as a risk group in terms of poverty.

Additionally, two-thirds of applicants from one-member families are pensioners (Social Service Agency (Data Files), 2010). Such households have an acute feeling of insecurity, maybe because of high health service expenditures, and thus they represent a risk group. The number of pensioners requiring the social assistance subsistence minimum is also high in households with two members. Among these types of applicants, 27 percent are pensioners (Statistic of State Agency for Healthcare and Social Programs, 2010).

It may well be that the increase of poverty indicators along with the increase of household size is caused by methodological problems, and it is possible that the coefficient of cohabitation needs to be revised. Until 2004, the share of taxes in the total expenses of families was relatively low. Since 2004 the tax system was changed and the share of these in families’ total expenses increased significantly. The effect of cohabitation effect most strongly reflected in taxes. Because of that, the coefficient of cohabitation would naturally increase leading to decrease of poverty level of multi-member families.

As the Figures 3.3 and 3.4 shows, since 2005, the poverty has reduced in one-member households most of all. One-member households are mainly made up of pensioners. In 2005 the state pension⁸⁷ increased

⁸⁷ See the dynamics of pension increase in chapter 4.

and granting of targeted social assistance started. As a result, poverty decreased in this group. In households with two and more members; significant economic changes have not occurred.

3.5. Comparison of different poverty thresholds used by different agencies and poverty rate in relation to these thresholds (2004-2009)

Table 3.6 reflects the relative and absolute poverty levels calculated in relation to various thresholds. The first one is the relative poverty levels published officially by the National Statistics Office of Georgia (poverty level is 60%, and 40% - level of extreme poverty). As we have already pointed out in the methodology part, the relative indicators of poverty rather reflect the economic inequality in the society. Dynamics of these data show that the economic inequality has slightly decreased in Georgia since 2004.

Second main line of the table reflects the absolute level of poverty as calculated by the World Bank. The World Bank has taken two thresholds: thresholds of poverty and extreme poverty. This organization calculates the food basket independently, based on the main products consumed by population. As far as this organization does not publish the survey every year, we only have the data of 2007 in the Table 3.6, according to which the poverty level is 23.6% and the level of extreme poverty is 9.3%. If we compare the absolute level of poverty published by the World Bank to the absolute level of poverty calculated on the basis of survey conducted by the National Statistics Office of Georgia, we will see a big difference. The reason, on one hand, is the recognition of less amount of daily calories by the World Bank, and on the other hand, a different rule of making up the food basket (in the surveys of World Bank, the food basket is made up by the products actually consumed by the population).

Poverty level, as calculated in relation to the subsistence minimum, is much higher than the poverty level calculated with other methodology. Fluctuation of the subsistence minimum per years causes the instability of poverty level. However, it should be mentioned that the poverty level calculated with other methodologies, indicates on the decrease of poverty in the last 4 years, whereas this tendency is not reflected on the poverty that has been calculated in relation to the subsistence minimum. This is caused by increased prices for the food basket, which has no significant reflection in other methodologies. At one glance, only the increased price for food basket could result in impoverishment of population. However, the GDP produced in the country is increasing, which is not reflected on the revenues of population revealed in the surveys held by the National Statistics Office of Georgia. This is why many experts think that the poverty level is unrealistically high in relation to the subsistence minimum.

Among the different methodologies for measuring poverty, we also prefer the USD 2.5 per day threshold. The advantage of this kind of approach is that the poverty data are comparable with the data of the other countries. The change in this threshold takes purchasing power parity (PPP) of currency into account according to the years⁸⁸. In relation to the 2.5 USD per day threshold, the poverty level is quite low. In the dynamics, this rate has been decreasing since 2005 to date.

As far as the poverty measured against various poverty thresholds shows different tendencies, measuring the poverty according to material deprivation is a widespread and approved method, which has been prioritized recently by the European Union. This method is less used in Georgia. These data are not found in the household surveys carried out by the National Statistics Office of Georgia, and the surveys by other organizations have been carried out once and do not reflect the change of dynamics of these data. The

⁸⁸ In the Annex, the Table 3.A.1 and Table 3. A.2 reflect the PPP change per years, and amount of this threshold in GEL and EUR.

material deprivation indicator, that we have used, is taken from the survey carried out by UNICEF in 2009. This was a one-time survey; correspondingly, we cannot reflect the change in the dynamics of material deprivation (this issue is discussed in details in the subchapter 3.6). Material deprivation is 22.3% in Georgia in 2009.

The Table #3.6 lets us see the poverty levels calculated with various methodologies and in relation to various thresholds. Due to these differences, it is not recommended to compare these levels without considering methodological differences.

Table 3.6: Comparison of different poverty thresholds used by different agencies and poverty rate in relation to these thresholds (2004-2009):

<i>Poverty Level</i> (percent)	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
<i>Relative poverty level in relation with relative poverty thresholds</i>						
<i>National Statistics Office of Georgia</i> (National Statistics Office of Georgia, 2010)						
60 percent of the median consumption and	24.6 percent	24.0 percent	23.3 percent	21.4 percent	22.1 percent	21.0 percent
40 percent of the median consumption	10.9 percent	10.0 percent	9.4 percent	9.3 percent	9.4 percent	8.8 percent
<i>World Bank (Living Standards Measurement Survey (LSMS)) 2007</i> (World Bank (WB), 2009)						
47.1 GEL = total poverty				23.6 percent		
71.6 GEL ⁸⁹ = extreme poverty				9.3 percent		
<i>Absolute poverty rate in relation to official subsistence minimum</i> (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)						
<i>official subsistence minimum according years</i>		41.4 percent	43.0 percent	46.0 percent	40.4 percent	41.2 percent
<i>Absolute poverty rate in relation to USD 2.5 per day threshold</i> (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)						
<i>USD 2.5 per day considering PPP</i>		17.3 percent	16.1 percent	17.0 percent	13.8 percent	13.0 percent
<i>Material Deprivation</i> (UNICEF, 2010)						
<i>population is lacking five or more of the listed items from 7 items</i>						22.3 percent

3.6. Material Deprivation (housing and living conditions)

For measuring the material deprivation of the Georgian population, we cannot use precise criteria, e.g. those defined by the EU. This is mainly because of scarcity of data. For measuring material deprivation,

⁸⁹ According to the January 2009 exchange rate, 47.1 GEL equals to nearly €1.31 and 71.6 GEL equals to nearly €20.60.

we use data from UNICEF's Report on the Georgia Welfare Monitoring Survey (draft 2009). We should also note that this was one-off research and it is impossible to provide the dynamics of this data from year to year.

Material deprivation is measured here in terms of certain durable goods in a household. The following items have been included in the analysis: personal cars, cell phones, washing machines, televisions, refrigerators, vacuum cleaners, and irons (Table 3.7).

Table 3.7 Lack of selected durable goods in households (n=4808)

<i>Durable Goods</i>	<i>percent of households lacking item</i>	<i>percent of total population living in such households</i>
Vacuum cleaner	79.3	77.5
Car	78.7	73.9
Washing machine	67.7	64.0
Refrigerator	42.8	40.0
Cell phone	34.9	27.3
Iron	15.1	13.0
TV set	8.7	5.8

Source: (UNICEF, 2010)

UNICEF regards a household as materially deprived if it lacks five or more of the listed items. According to this criterion, the list provided below shows that 27.2 percent of households and 22.3 percent of population suffer material deprivation (Table 3.8):

Table 3.8 Number of selected durable goods lacked by households. Shaded cells indicate households lacking 5 or more types of goods (n=4808).

Number of selected types of item lacked	percent of households lacking	percent of total population living in such households
0	6.8	8.5
1	13.6	15.3
2	14.1	15.8
3	17.8	19.0
4	20.4	19.1
5	16.1	14.7
6	8.0	5.9
7	3.1	1.7

Source: (UNICEF, 2010)

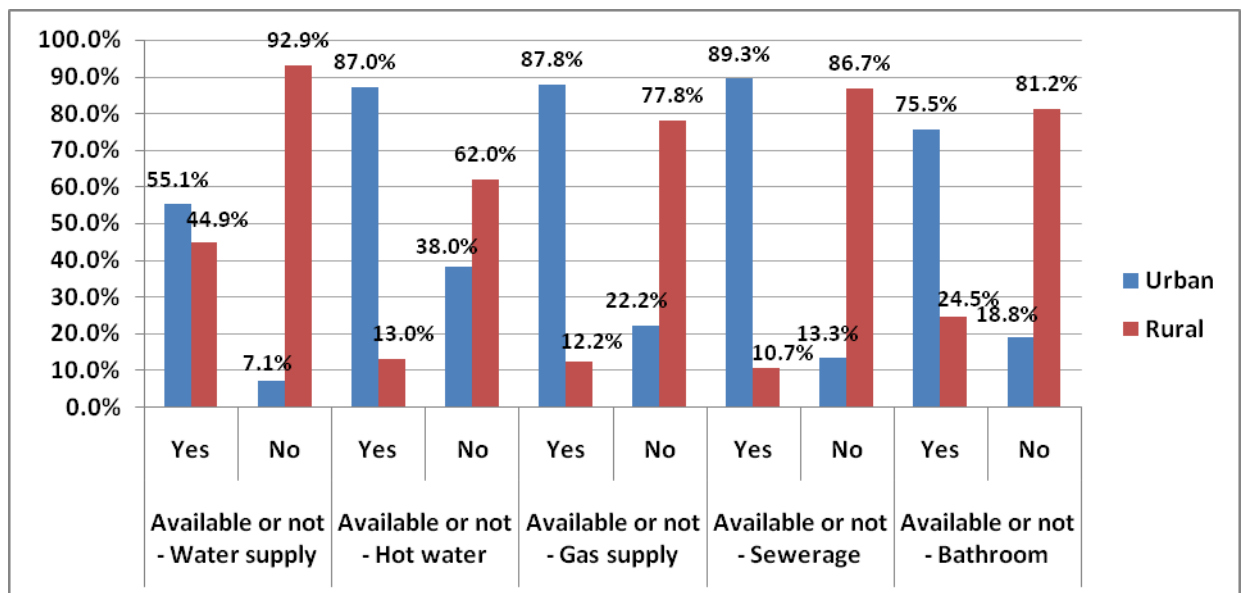
The poverty level measured according to material deprivation is lower than the poverty level measured according to the population expenditure in relation to the subsistence minimum. This can be explained by the reason that the families may have retained the goods, which have been used for measuring the material deprivation, since the early (socialism) period.

In addition to possession of durable goods, the wellbeing of households can be also measured according to housing conditions. In general, families' housing conditions in urban and rural settlements differ

dramatically. Most rural settlements are deprived of a sewerage system, central water supply, heating, hot water or cleaning services. However, after the collapse of the USSR, urban settlements also experienced the deterioration of housing conditions.

According to the UNICEF 2009 survey of family wellbeing indicators, water supply is inaccessible for 9.3 percent of interviewed people. Out of those, 92.9 percent are in rural areas. Over half of people residing in villages (77.3 percent) have no indoor water supply system. The situation is even more difficult with heating and hot water supply. Hot water is unavailable for 74.2 percent of interviewed people (their main share or 62 percent resides in rural areas). 81.2 percent of those residing in villages have no bathroom (UNICEF and Institute of Social Studies and Analysis (ISSA), 2009) (See figure 3.5 for more detailed information on housing conditions by urban and rural settlements).

Figure 3.5 Housing conditions according to the type of settlement



Source: (UNICEF and Institute of Social Studies and Analysis (ISSA), 2009)

Heating the dwelling place is also a problem. 3.4 percent of interviewed people are not able to heat their houses at all, 59.7 percent heats one room only, and 31.1 percent heats only a certain part of the living space. Only 5.8 percent of families are able to heat the entire living space. As for heating means, 68.9 percent uses a stove for this purpose (wood, diesel, coal, etc).

3.7. Poverty Risk Groups

The poverty risk groups include people involved in subsistence agriculture in Georgia, the unemployed and the self-employed and children. Among ethnic minorities, Azeri are most at risk of poverty. For some risk groups, economic reasons (plus cultural exclusion) are a cause of social exclusion. We discuss them in detail as socially excluded groups. Some specific problems are related to such social groups as people involved in subsistence agriculture, pensioners and children. Below we discuss their economic status and the problems related to it.

People involved in subsistence agriculture: Employment and income related to it naturally determine the level of wellbeing. However, the negative correlation between employment and poverty variables is not unconditional in particular in countries with high shares of subsistence agriculture and other forms of underemployment and precarious jobs. Factors like field, type, duration, place of employment and so on are significant also. Precisely because of these factors, most of the research conducted in Georgia does

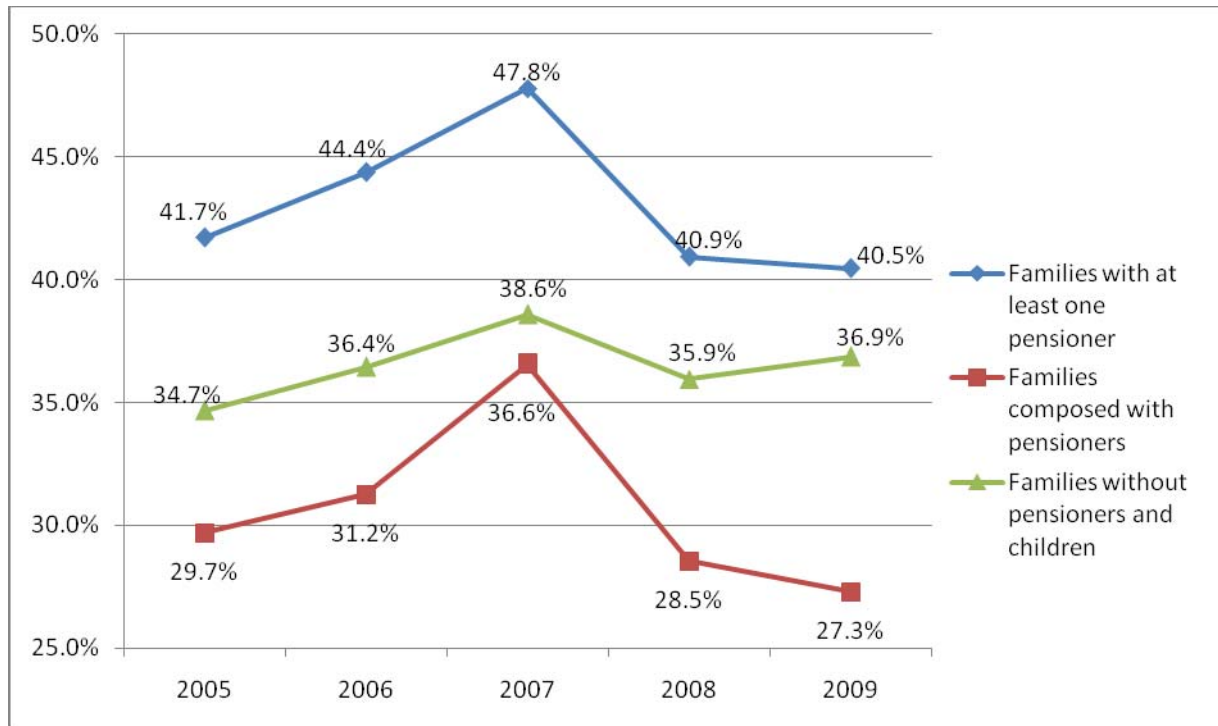
not prove a correlation between employment and poverty levels. In particular, unemployment level is lower but on the other hand, poverty level is higher in rural areas compared to the urban areas. Part-time employment serves as one of the main reasons for this. According to the International Labour Organization (ILO), ‘employment’ includes both part-time employment and full-time employment. Seemingly, the majority of the Georgian population has a part-time job, which is not sufficient for earning enough income, or they work in a full-time job where the salary is also insufficient.

According to the data of the National Statistics Office of Georgia, the unemployment level in Georgia was 16.9 percent in 2009. Broken down by rural/urban areas, this data shows the following picture: unemployment was at 28.8 percent in urban areas and at 7.8 percent in rural areas. Considering the relation of unemployment to economic activity, in 2009, 82.5 percent of employed rural population was self-employed; as for the urban areas, self-employment level was 32.1 percent of total number of employed population there. 17.4 percent of the rural population have paid job; while this is the case for the majority of the urban population (67.8 percent) (National Statistics Office of Georgia, 2010). The vast majority of the rural population is self-employed and is involved in agriculture, which is the only source of income for most rural families. These families are engaged in agricultural activities on their own small farms. This kind of activity is ineffective due to various reasons: education level is low among the farmers, the privatized plots of land are of small size, agricultural equipment is insufficient, in case of remote agricultural land the population faces transportation problems, transportation of harvest is also problematic, there are too few canning factories. The rural population has to transport the agricultural products to urban areas, which incurs some extra costs.

Influence of external factors is also worth mentioning. The Russian embargo on Georgian agricultural products in place since 2006 (which inflicted sharp losses on small and medium entrepreneurs) and natural disasters had a severe negative impact on agriculture in Georgia. Most agricultural lands, forests and desert are still included in state property. They are actually vacant. Because of absence of land rent (according to the Georgian legislation, land of less than 5 hectares does not incur land rent) and because of the low profitability of agriculture, frequently the population does not cultivate its own plots of land, however they do not lease or sell it either. Therefore, the plots of land are not unified and large farms are not created. Because of that, the rural population cannot escape subsistence agriculture. These problems prevent creation of large farms in rural areas which would contribute to employing a part of rural population in more profitable agriculture and increasing their income. There are no industrial centers in rural areas. Such centers would allow the rural population to have paid jobs. Therefore, the rural population cannot move beyond subsistence agriculture.

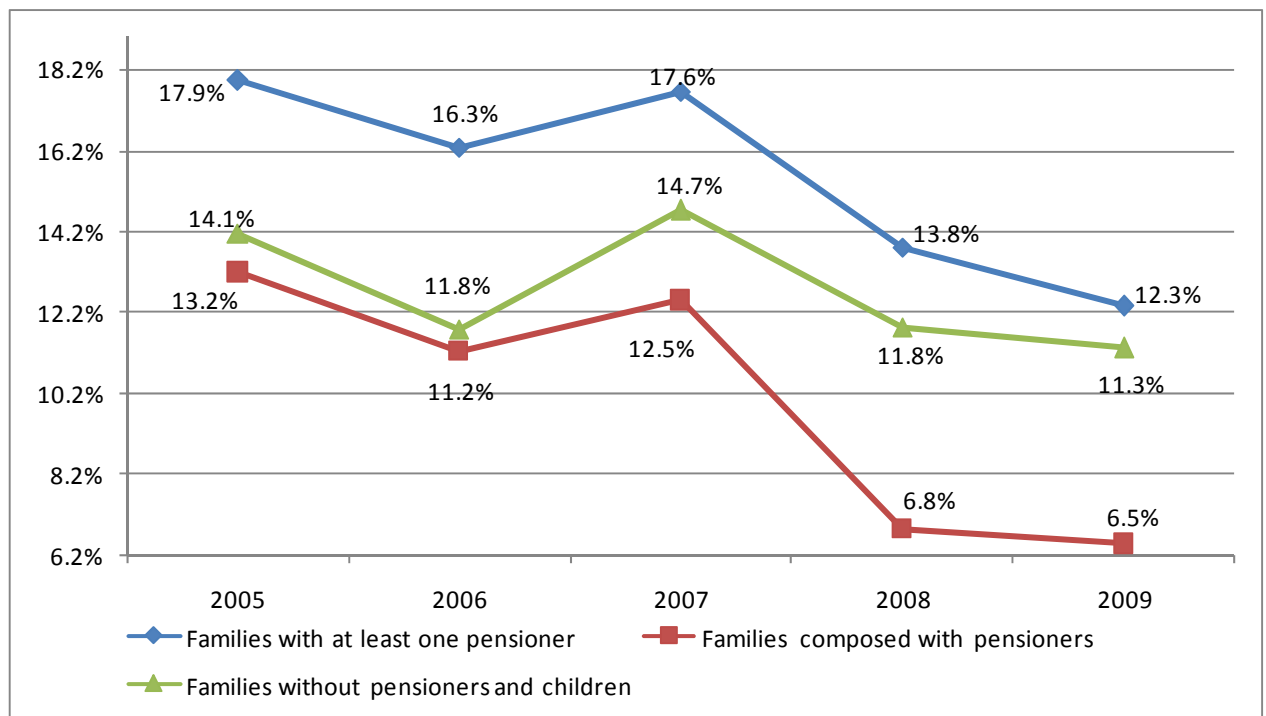
Pensioners: In Georgia, pensioners have long been included in poverty risk group. The main policy used to improve their economic status, was increasing the amount of the state pension. The amount of the pension paid was usually the same, irrespective of relative need or poverty (for details refer to Chapter IV). However, some pensioners are poorer than others. Some pensioners get extra monetary support from relatives or others. Poorer pensioners now get extra income via targeted state social system in order to overcome inequality among them. (see figure 3.6 and 3.7).

Figure 3.6 Poverty level in relation to the official subsistence minimum, according to the family demography (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Figure 3.7: Poverty level in relation to 2.5 USD per day threshold, according to the family demography (percent) 2005-2009



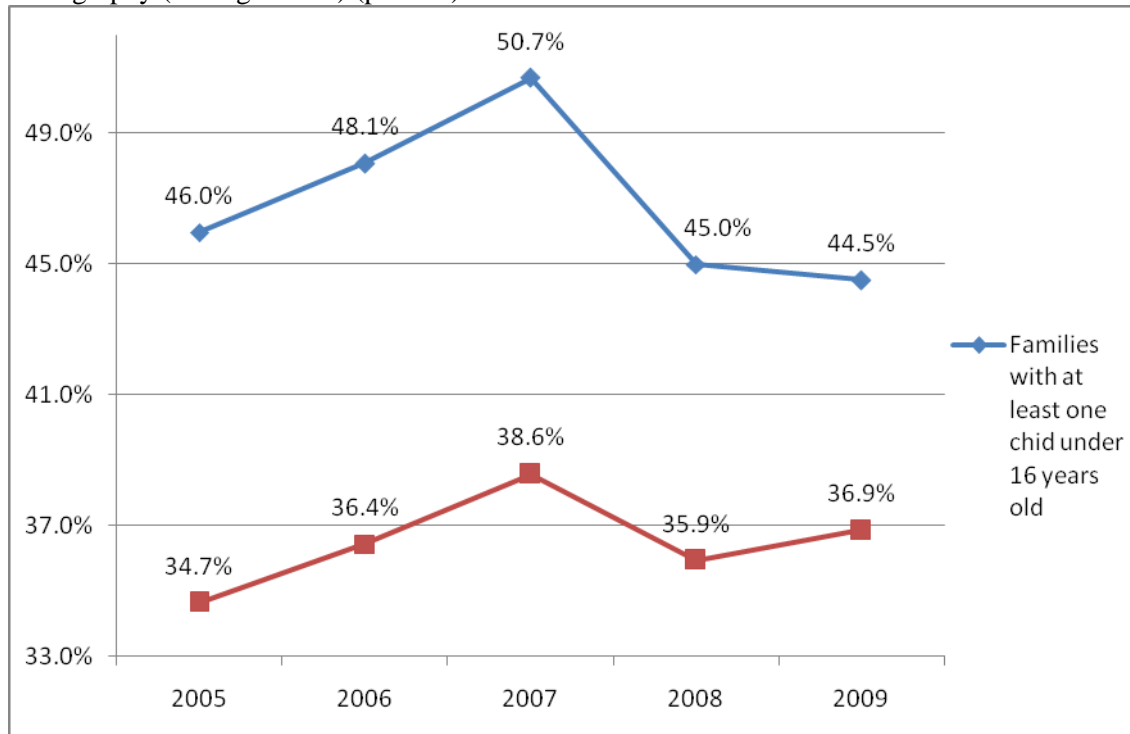
Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

As the figures 3.6 and 3.7 show, since 2005, poverty has reduced more in pensioner-only households than in other households. This can be explained by the increase in the state pension and the targeted social

assistance granted to some pensioners as these measures were implemented just in 2005. If this trend is continued and local governments direct targeted social assistance to households which could not benefit from central targeted social assistance because of various reasons (lack of documents, insufficient information, methodological errors, etc.), the condition of pensioners will presumably improve further.

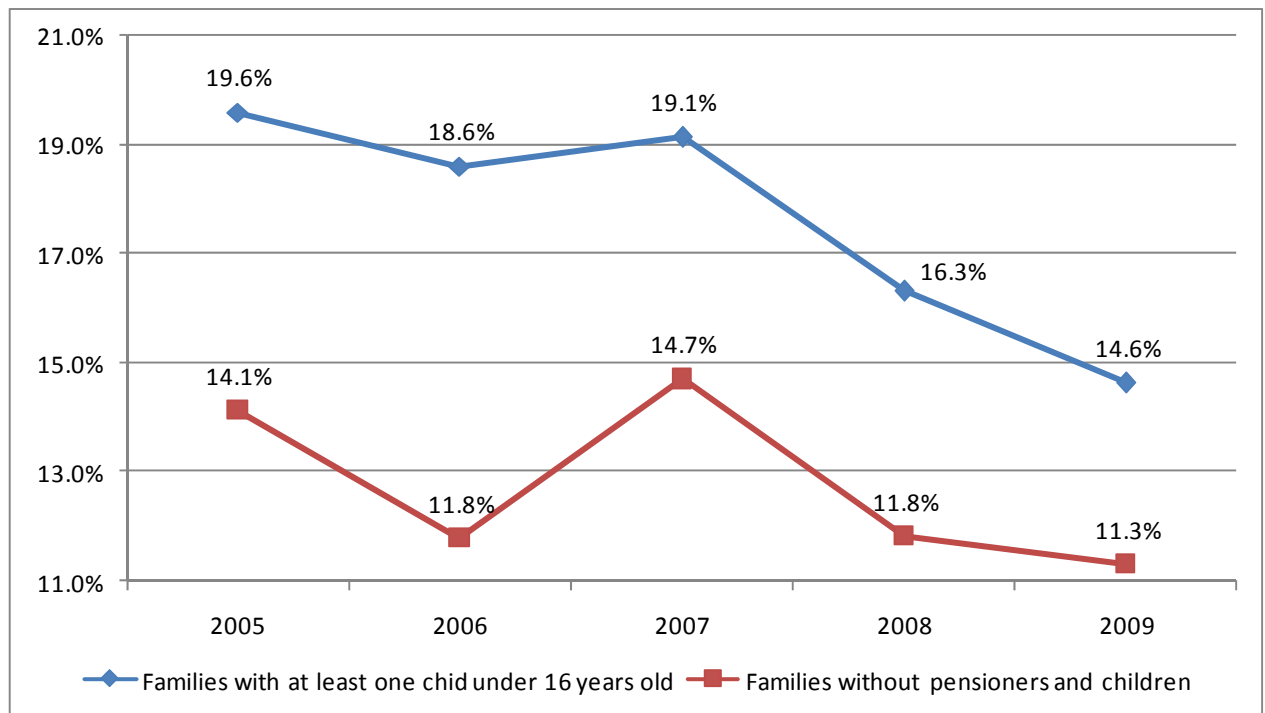
Children: Children fall into a poverty risk groups. The figures below (Figures 3.8 and 3.9) show that the difference in poverty rates between households with children and childless households indicates that having a child is undoubtedly a risk factor for a family.

Figure 3.8: Poverty level in relation to the official subsistence minimum according to the family demography (having a child) (percent) 2005-2009:



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Figure 3.9: Poverty level in relation to 2.5 USD per day threshold according to the family demography (having a child) (percent) 2005-2009



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

According to UNICEF’s report on the Georgia Welfare Monitoring Survey, (2009 draft) the overall child poverty rate - the percentage of all children living in poor households - varies between 11.5 percent and 49 percent of all children, depending on the threshold used (Table 3.9). For every threshold the percentage of children living in poor households is higher than the headcount for the whole population and much higher than that for pensioners. (UNICEF, 2010):

Table 3.9: Headcount poverty rates for children and pensioners (4646 households, 2009)

percent living in poor households	Poverty threshold		
	General (< 122.2 GEL)	Extreme (< 61.1 GEL)	Official (< 89.7 GEL) ⁹⁰
Children	49.0	11.5	28.4
Pensioners	41.7	7.3	22.2
Population	44.8	9.9	25.7

Source: (UNICEF, 2010)

Child poverty leads to marginalization, deterioration of health and sometimes even death of children. Research conducted by the National Statistical Service of Georgia and UNICEF (Multiple Indicator Cluster Survey, 2005) showed that the poverty level is higher in households with children. Death rate of

⁹⁰ According to the January 2009 exchange rate, 122.2 GEL equals to nearly €52, 61.1 GEL equals to nearly € 26, €89.7 equals to nearly €38.17.

infants and children aged under five is 44 per one thousand diseased children in 60 percent⁹¹ of poor households while the same indicator equals to 22 per one thousand diseased children in 40 percent of well-to-do households (National Statistics Office of Georgia, National Centre for Disease Control of Georgia and United Nations Children's Fund (UNICEF), 2008). According to "A Situation Analysis of Children in Georgia", carried out by UNICEF in 2009, the consumption-based total child poverty rate was 28 percent (corresponding to 280,000 children) and the extreme child poverty rate was 12 percent (120,000), in 2007" (UNICEF, 2009).

Poverty in households with children is worsened by several extra factors: if a household has more than three children; if one of the family members is disabled; if adult member(s) of family is (are) over working age; if households with children are situated in rural area; if adult members of the family are unemployed. For households with children living in rural areas, the poverty indicator is 38 percent while the same indicator is 20 percent for households with children living in urban area (UNICEF, 2009). As for employment, in 48 percent of poor households with children, none of the adult members of family is employed (UNICEF, 2009).

Employment appears to be the essential prerequisite for poverty elimination in any social group. Besides, it is worth mentioning that poverty in households with children results in much more negative outcomes which affect future generations such as inadequate level of education, professional development, health and living conditions. Undoubtedly, this situation will lead to the passing on of poverty to future generation(s). In addition to poverty, it is important to note that street children and children deprived of parental care suffer the social exclusion in addition to poverty (refer to paragraph 3.9).

As having a child requires extra economic resources, the government should pay special attention to allocating extra social security to households with children. As for specific groups of children (street children, children deprived of parental care, children with disabilities, etc.), special programmes must be implemented to deal with them and their families. Such programmes should not be intended only for the temporary improvement of their financial and psychological status. Instead they should have long-term effects for the beneficiaries.

3.8. Indirect indicators measuring the socio-economic level of households

3.8.1. Health

In the sub-chapter below, we will discuss the availability of healthcare for the poor. If employment was mentioned as the number one problem by the majority of the surveyed families, the inaccessibility of medical services (17.5 percent) and medication (14.3 percent) have been named as the second and third most important problems. However, when the families were given the choice to name more than one problem they were facing, most families mentioned the problem of buying medication (66.1 percent) and inaccessibility of medical services (57.3 percent) (UNICEF and ISSA, 2009). Along with a regular decrease in incomes of the families, healthcare problems become more and more acute. Despite the fact that the medical insurance system has significantly improved in the country and free health insurance is allocated to the poorest quintile of households, these households make up just over a fifth (21.3 percent) of the population (UNICEF, 2010), and the majority of the surveyed do not feel that medical insurance can cover their medical expenses. Only 13 percent of the respondents said that their medical expenses were covered by medical insurance. This may be explained by the fact that insurance is not

⁹¹ This is a poverty indicator, when poverty line is less than €31.32 expenditure per family member and most part of this amount is spent on food and the other insignificant living expenses. While males aged 30-39 equal one adult, children aged 0-3 years equal 0,98 adults, children 4-6 (0,9), children 7-12 (0,89), and children 13-17 (0,96).

enough to pay the health care costs in full and the insured still have to pay out-of-pocket for medical services and medicines. In addition, the same number of people (13 percent) said that medical insurance covered their medication expenses. 77.7 percent of households pay for medications and medical services from their family budget, and 9 percent pay with the help of their friends and relatives (UNICEF and ISSA, 2009).

According to the UNICEF's report on the Georgia Welfare Monitoring Survey, 2009 (draft) "for some households, out-of-pocket expenditure on medical services and medicines can be catastrophic". "In 54 percent of households it constitutes over ten percent of total expenditure. In 31 percent of households, health care expenditure accounts for more than 25 percent of non-food expenditure. In almost 60 percent of all households in 2008-9 at least one person needed medical services or medicines which the household could not afford to purchase. For the poorest fifth of households the figure is more than 75 per cent. Financial costs acted as barriers to both types of healthcare provision in a higher percentage of rural than urban households" (UNICEF, 2010)

It is a fact that the state healthcare provision mitigated the severity of healthcare problems of the poor section of rural population. However, the number of people covered by state insurance is small even among the poor population. It is recommended that this number be increased, thus reducing people's out-of-pocket expenditure on medical services and medicines.

3.8.2. Access to Education

Education is one of the most important spheres affected by poverty. After Georgia gained independence in the 1990s, state financing of the educational sphere decreased significantly. Although it is true that primary and secondary schools remained free of charge, families still had to pay additional sums for heating the classrooms, or share the costs of repair works in the school once a year. From 2000 the heating problems began to be gradually solved, though in villages this problem still persists.

There are actually no children in Georgia who are unable to receive primary or secondary education due to financial problems. This has been proved by UNICEF's 2009 study (UNICEF and ISSA, 2009). However, lack of financial means still causes some inequalities in the educational sphere. This concerns, in the first case, the purchase of textbooks. 12.7 percent of families surveyed mentioned that purchasing textbooks was a problem for them (UNICEF and ISSA, 2009). Furthermore, although reform in the educational system, especially the introduction of Unified National Exams, has significantly changed the level of corruption in the sphere of higher education, it is still difficult to pass university entrance exams without private tutoring. The problem is especially acute in regions and villages where there is a deficiency of qualified teachers in the newly introduced subjects required at entrance exams (General Skills and Abilities) as well as in foreign languages. In the Study of Well-being Indicators of Households in Georgia (UNICEF, 2009), one-third of the families with school-age children mentioned that they could not afford private tutoring for their children. Consequently, higher education for the children of these families becomes inaccessible. One-third (33 percent) of those surveyed (aged 18-29) said they had a wish to continue their studies in universities, but due to economic problems they could not afford it (UNICEF and ISSA, 2009). According to experts, for many families the cost of meeting the living expenses their child would incur as a student living in a city is a barrier to accessing higher education. There are no cheap students' hostels or catering facilities in the city anymore, thus accommodation and food expenses for students are rather high and poor families cannot afford them.

Vocational Schools as an alternative to higher educational institutions are largely unavailable for school graduates, since their number has been reduced. School education does not equip students with sufficient technical skills (especially IT skills) or the knowledge of foreign languages which is the main demand of employers. Therefore, secondary education does not equip young people to get a proper job. According to the Economic Development and Poverty Reduction Program of Georgia (IMF, 2003) households with a

comparatively low level of education carry a high risk of living in poverty. Thus, one third of households living in extreme poverty have an average or lower level of education (IMF, 2003). Accordingly, along with a contribution to equal access to education, the state should also contribute to expanding the network of vocational schools to enable youth to specialize in different professions.

However, despite grave economic conditions, education still remains the main priority for families. According to the results of the UNICEF study, 2009, more than half of the families (55.3 percent) in Georgia with a school-age child (or children), spend on average 100 GEL⁹² on school textbooks, and 44.1 percent spend more than 300 GEL. Expenses for private tutoring are far higher. Consequently 64.6 percent of families with school-age children spend more than 300 GEL on private tutoring over the course of a year (UNICEF and ISSA, 2009).

3.9. Social exclusion

This sub-chapter relies on a general concept of "social exclusion", according to which '*Social Exclusion is a complex and multi-dimensional process. It involves the lack or denial of resources, rights, goods and services, and the inability to participate in the normal relationships and activities available to the majority of people in society, whether in economic, social, cultural or political arenas. It affects both the quality of life of individuals and the equity and cohesion of society as a whole*' (Ruth Levitas *et al.*, 2007).

It is also useful to examine social exclusion in relation to poverty. Though exclusion and poverty often intersect, they are not synonymous terms. Poverty is one of the factors contributing to exclusion but does not necessarily bring it about. In a number of cases the poor remain incorporated within family and extra-family networks of social protection and mutual assistance, and that this incorporation produces integration and not exclusion. This means emphasizing groups in which poverty and social exclusion are correlated variables. A change in either state affects the other one. These groups (including those in Georgia) can be distinguished only by empirical study as no poor group can be considered *apriori* as socially excluded.

Multiple researches carried out in Georgia identifies ethnic minorities, Roma, children (street children), eco-migrants, persons with disabilities, displaced persons as groups simultaneously at risk of poverty and of social exclusion. Therefore, poverty and social exclusion are correlated; however, it would be an exaggeration to make a causal link between them.

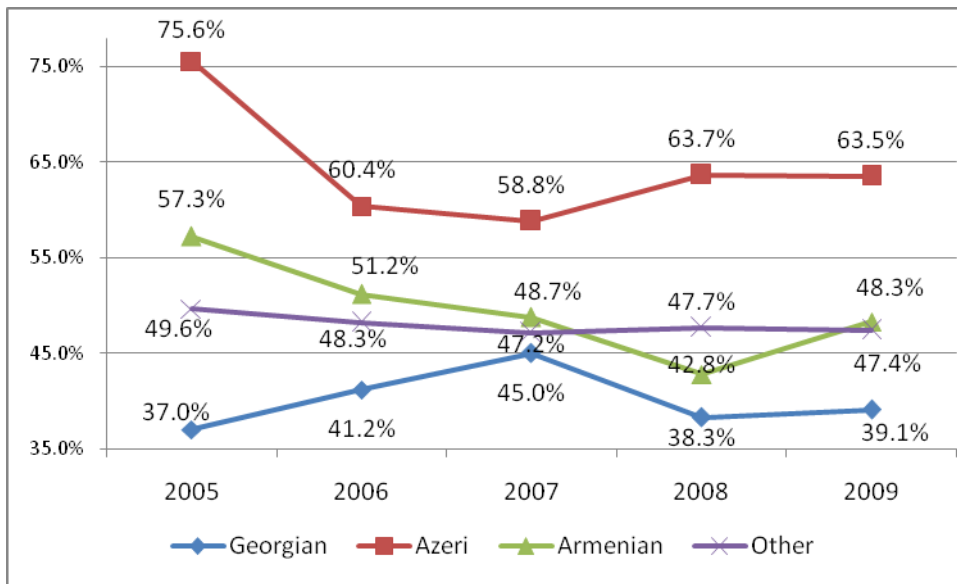
3.9.1. National Minorities

National minorities issue is complex and includes political, ideological, social, economic factors. Decreasing level of minority rights protection will lead to social exclusion, assimilation or disappearance of minority groups. Georgia has taken some positive steps towards minority rights protection, such as the ratification of the European Framework Convention for the Protection of the Rights of National Minorities in 2005, and the adoption of a National Concept and Action Plan for Tolerance and Civil Integration in 2009.

There are two basic reasons for including ethnic minorities in socially excluded groups: economic and cultural exclusion; however, it is difficult to separate these two factors from each other because cultural exclusion often causes economic hardship for ethnic minorities. According to the data of the National Statistics office of Georgia, the Azeri population is the poorest ethnic minority in Georgia (in relation to both thresholds), followed by the Armenian population and other ethnic minorities (see figures 3.10 and 3.11).

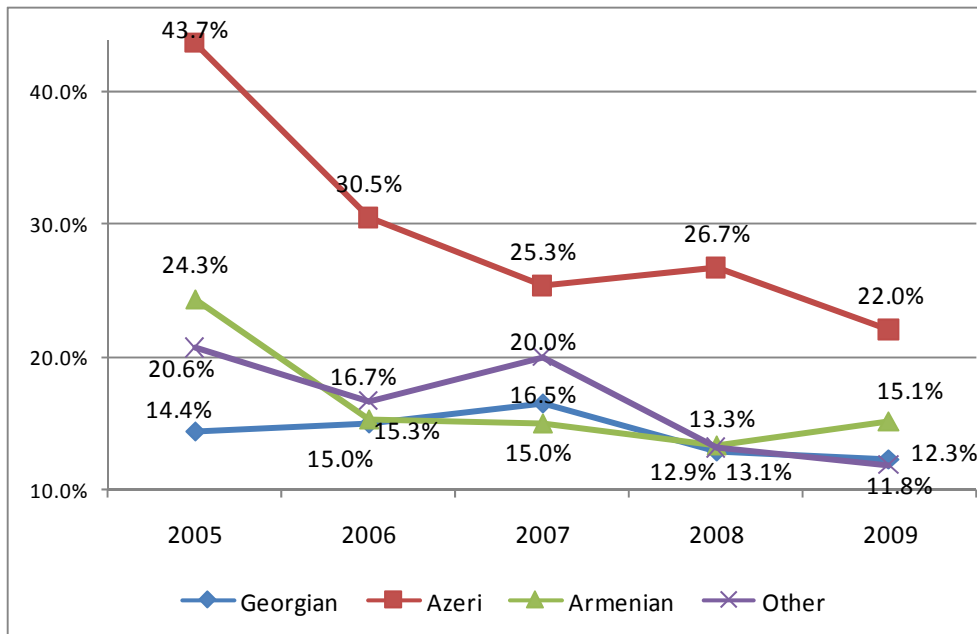
⁹² According to the January 2009 exchange rate, 100 GEL equals to nearly €42.55 and 300 GEL equals to nearly €127.66.

Figure 3.10: Poverty level in relation to the official subsistence minimum according to nationality (percent) 2005-2009:



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Figure 3.11: Poverty level in relation to USD 2.5 per day threshold according to nationality (percent) 2005-2009:



Source: (The database of the National Statistics Office of Georgia, processed by Institute of Social Studies and Analysis (ISSA), 2010)

Such poverty among the Azeri and Armenian population can be explained by the fact that the communities are densely concentrated in two rural areas – Keno Karla and Samtskhe-Javakheti, where they are involved in subsistence agriculture. Accordingly, the poverty risk is high among these groups as well as among the Georgian population living in rural areas; however, poverty among the Azeri and Armenian populations has assumed a permanent character because of cultural exclusion, the main source of which is lack of knowledge of Georgian language. This lack of knowledge means that they find it difficult to find work other than in subsistence agriculture.

According to The Advisory Committee (Council of Europe, 2009) report, marginalization and isolation from country's cultural, social and economic life and in public affairs of persons belonging to national minorities depend on several factors. One of the main factors is related to the linguistic rights, in particular, inadequate command of Georgian language. This issue still remains a major challenge facing the authorities and has a great influence on main aspects of social, economic and political life:

Legislation - Poor command of Georgian language leads persons belonging to national minorities to lack of information regarding their rights (legislation is written in Georgia) and in case of discrimination particularly on ethnic origin, there is a very small amount of complaints. Poor translation of legal proceedings (civil, criminal, and administrative) often causes misleading of judges.

Lack of documentation. Some persons belonging to national minorities still have no Georgian passport, partly through lack of information about the administrative procedures (inaccessible information in minority language) and partly because they are sometimes obliged to pay for the services which are now free of charge.

Poor command of Georgian language is a significant barrier in **accessing to education and employment** for persons belonging to national minorities. Higher education is simply not an option for most young people from ethnic minorities⁹³. Moreover, it is almost impossible for them to be employed by state structures. Many students from the minority-language education system continuing their higher education abroad, those who stay in Georgia have restricted opportunities to get into the labour market by their lack of access to higher education.

After the collapse of the Soviet Union, ethnic minorities had difficulties integrating into the social and political life of independent Georgia because they did not know the Georgian language, which became one of the state languages (together with the Abkhazian language). Only 31 percent of ethnic minorities speak Georgian fluently. This group is mainly made up of ethnic minority individuals living in Tbilisi and regions with mixed population. In mono-ethnic minority regions, the level of knowledge of Georgian language is very low. Recently, Georgian government implemented reforms in relation to the official state language (requirement of inclusion of Georgian language and literature⁹⁴ in the national entrance exams to higher education institutions, obligatory test in Georgian language for the employees of state structure, etc.). In 2006 Ministry of Science and education lowered the language level required for minority school graduates, but in practice it is impossible to pass without a good command of Georgian language.

In regions, where there is a dense concentration of ethnic minorities, these reforms were interpreted as a state effort at assimilation of minorities rather than a move to help them integrate into society. Therefore, the reforms were unpopular in these regions.

Language barrier may have an impact on **access to public employment, political representation and in the judicial sphere** for persons belonging to national minorities. Misunderstandings and problems of communication between persons belonging to national minorities and new employees create problems of access to certain public goods and services for persons belonging to these minorities.

Lack of communication between various groups - particularly in regions where persons belonging to several national minorities and to the majority live side-by-side. It has to be mentioned that communication level among different groups has not been affected seriously after August 2008 armed conflict in the areas under Government control) (Council of Europe, 2009).

⁹³ In 2005, when the united national examinations were conducted for the first time, only two entrants out of sixty-four non-Georgian entrants residing in Akhalkalaki and Ninotsminda, managed to pass the exams and were enrolled in accredited universities. This figure remained almost the same in 2008.

⁹⁴ According to the Georgian law about "General Education" adopted in 2005, the united national examinations require from accredited university entrant pass exams in Georgian language and literature

The Russian language has lost much of its importance as a means of communication between different national and ethnic groups in Georgia and the new generation of ethnic Georgians have less and less knowledge of the Russian language. Therefore, ethnic minority individuals who do not speak Georgian have become socially excluded from the ethnically Georgian part of ethnic minority individuals. Evaluating Azeri children's knowledge of Georgian language, professor of Political Science at Carleton University mentioned that "for most of them, Georgia itself is still an alien concept (Dutkiewicz, 2008)". Besides, There is a fear among persons belonging to national minorities that poor command of Georgian language leads to loosing of citizenship or becoming second-class citizens, as the law did not specify level of competence of Georgian language.

Lack of effective participation in public affairs – lack of political participation, very limited representation in elected assemblies and in the executive, particularly in posts of responsibility, are related to the following factors: 1. negative attitudes of political elite towards formation, registering and participation of political parties that represent the interests of minorities or specific regions (which reduces the constitutional rights of minorities in the process of decision making and hinders the creation of equal opportunities for electing) 2. Georgian as the working language in public bodies. However, local assemblies are not prevented from working in languages other than Georgian. In spite of this there are no legislative provisions enabling a legal basis to be given to this practice. It should be mentioned, that after self-government elections in 2006, about a half of the selected officials, in districts with larger minority populations were persons belonging to national minorities.

Lack of effective participation of national minorities in Georgian society – role of media. In certain regions, persons belonging to national minorities have access to information in their own language only through neighboring countries' media. In practice, public radio and television do not cover the whole of Georgian territory. Persons belonging to national minorities who live in certain regions receive information from media sources of neighbor countries. The number of print media in minority languages is also limited. Besides, negative stereotyping has emerged in media sources, not only in "neighbor" media outlets (Russian news outlets often portray Georgia in a negative light) but also from the Georgian side (for instance, representing Javakheti as a potential 'hot spot')

The language barrier plays an important role in the **repatriation process of Meskhetian Turks** (the national groups of the Soviet Union deported during Stalin in 1943-44). Application forms have to be completed in Georgian or in English and also they are required to supply certificates that are expensive and difficult to obtain.

Teaching of Georgian and minority languages - The authorities should improve the quality of teaching of the Georgian language to persons belonging to national minorities and increase motivation to learn the language. The efforts still do not appropriately response to the existed needs - there is a shortage of qualified teachers to teach Georgian as a second language.

The quality of teaching of minority languages should also be improved. The following issues should be taken into consideration: 1. lack of resources – textbooks, 2. lack of distribution of resources, 3. problems in recruitment and training of teachers belonging to national minorities are closely associated with increased number of teachers who are not proficient in minority languages and heads of most schools that are mainly from majority population)

Some efforts are made to solve the abovementioned problems by the Teachers' Professional Development Centre (TPDC) the has been established by the President's Decree. In cooperation with international organizations (for instance OSCE) the program of teaching minority languages in Georgian schools has been launched and the following activities were implemented: provision of textbooks and teacher assistance, training civil servants, police officers and community leaders, also provision of legal services by multilingual lawyers.

Use of different economic indicators for evaluation of economic and social status of ethnic minorities makes it apparent that their comparative social exclusion from Georgian society is mostly cultural and lies in their lack of knowledge of the official state language rather than economic or social discrimination. However, the signs of social and economic discrimination against ethnic minorities are still observed ethnic minority regions.

Other factors having an impact on social exclusion of national minorities

Social and economical factors - Unemployment and poverty of persons belonging to national minorities mainly stem from the place (regions) they live which is highly disadvantaged both economically and in terms of infrastructure, and which have poor links with the rest of Georgian territory, because of an unequal redistribution of resources between regions. Several programs have been established in order to encourage employment and developing local small and medium business, such as: Millennium Challenge Program, The Cheap Credit Program, etc. It should be taken into consideration such entities among national minorities (for instance Roma people) which are mainly excluded from social-economic life in Georgia and have barriers almost in every field: language, education, employment, social security, participation in decision-making process, etc.

The Institute of Social Studies and Analysis and the non-governmental organization "Multi-national Georgia" studied the problems of ethnic and non-ethnic Georgians residing in 10 districts of 5 regions of Georgia (Adzharia, Kakheti, Shida Kartli, Kvemo Kartli, Samtskhe -Javakheti) in 2008. The research also looked into these populations' attitude to social services. The research revealed a number of statistically reliable differences between the ethnic and non-ethnic Georgian respondents. The differences were observed while evaluating the communities' problems. The differences include *structural discrimination indicators and/or indicators of adaptation to problem* (Public Movement "Multinational Georgia" (PMMG) and ISSA, 2008).

Some of definitions

1. **Structural discrimination indicators.** Structural discrimination includes intentional or unintentional actions of state or certain structures, which cause inequality of certain social groups. For example, 90 percent of non-Georgian respondents in one region say they have no gas supply. The same answer is received from only 60 percent of Georgian respondents. Therefore, one may assume that the structures responsible for gas supply privilege the areas populated with Georgians.

2. **Indicators of adaptation to problems.** In the abovementioned example, most of the Georgian respondents assess the gas supply problem as "urgent". As for the non-Georgian respondents, they regard the problem as "not so important". Obviously, the problem is subjectively less urgent for non-Georgian population. This can be explained in the following ways:

a. Non-Georgian population regards the problem as significant one, but avoids protesting (even as part of a social survey) because they are afraid of provoking the authorities

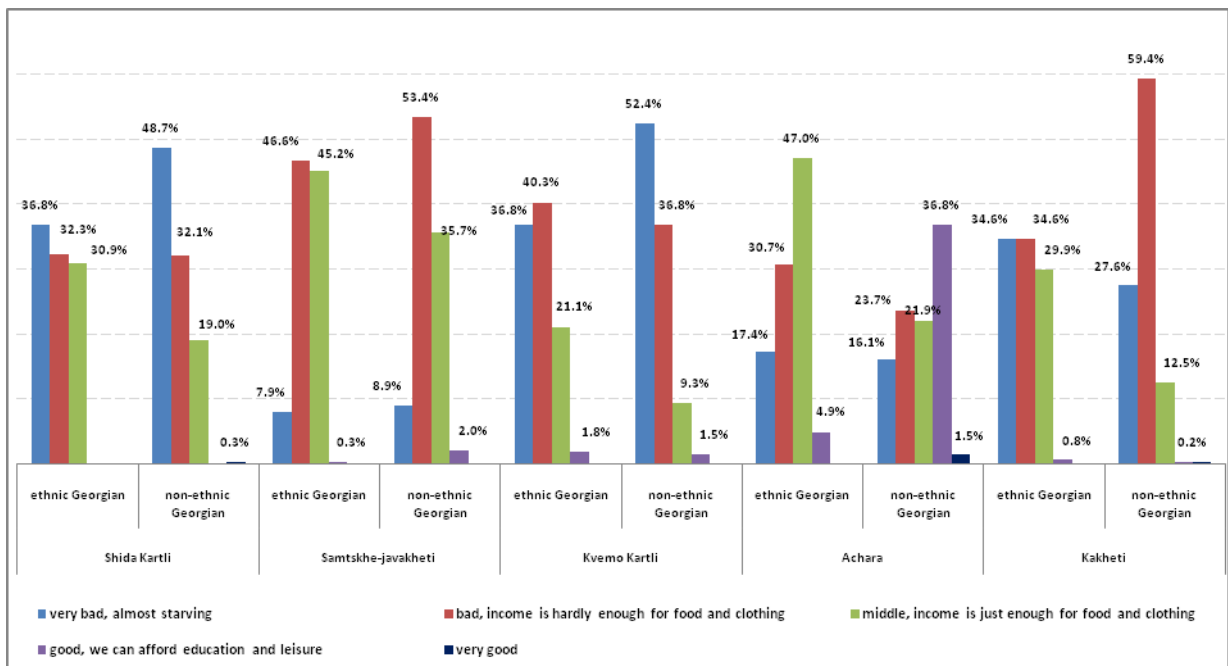
b. Because of certain historical -cultural or other factors, the non-Georgian population does not realize how urgent the problem is.

The research shows that structural discrimination and adaptation to problems occur much more frequently and apparently in the regions where there is a dense ethnic minority concentration (Lagodekhi, Sagarejo, Kaspi, Gori). The situation is reversed where there is no concentration of ethnic minorities (Batumi and Kobuleti districts) (PMMG and ISSA, 2008). One may assume that the programmes supporting ethnic minorities and carried out by international and non-governmental organizations are in fact intended to be

implemented only in areas of ethnic minority concentration (Kvemo Kartli and Samtskhe-Javakheti). Because of that, the non-Georgian population residing in the other regions of Georgia is structurally discriminated against too.

Subjective descriptions of families’ economic status as broken down by ethnic origin bears out this trend. In Shida Kartli and Kakheti regions, where ethnic minorities are densely populated, the vast majority of families (more than 80 percent) describe their economic status as bad or very bad. At the same time, this indicator is comparatively low in Georgian families. Therefore, the number of ethnic Georgians who describe their economic status as "middle", is greater compared to non-ethnic Georgian families (PMMG and ISSA, 2008) (See description of family's economic status from ethnic perspective in figure 3.12).

Figure 3.12 Economic status of family from ethnic perspective



Source: (Public Movement “Multinational Georgia” (PMMG) and Institute of Social Studies and Analysis (ISSA), 2008)

In order to improve the condition of ethnic minorities, the state should pursue the policy enforcing the learning of the state language within a liberal framework so that ethnic minorities do not feel they are being discriminated against. In addition, it is necessary to implement certain policies to allow the ethnic minorities, like the Georgian rural population, to escape subsistence agriculture. It should be state policy to offer incentives to medium size and large farms in ethnic minority regions, which would increase employment opportunities.

Religious factors - According to report presented by the NGO (Georgian Government's Third Periodic Report, 2007) related to national minority rights protection issues, “Georgia is the only state in the post-Soviet space without a separate law on religion or religious associations”. Moreover, religious identity is increasingly associated in the public perception with national identity. The environment for religious freedom has significantly improved, for the last several years different target programs have been implemented to promote tolerance and intercultural understanding. Nevertheless, stereotyped attitudes towards “others” (representatives of minority religions) restricted religious education and registration rights of minority religious organizations (registering as non-commercial private law legal entities) are considered as worrying fact by the persons belonging to national minorities. This issue is closely associated with problematic questions regarding the rights of ownership of some religious property.

Main principles of protection of national minorities are reflected in the Constitution of Georgia, but some crucial issues still remain under discussion, such as definition and status of national minorities. There is no legislative basis directly regulating these questions.

Finally, it should be noted that while the **conflict zones** exist on the territory of Georgia, issues regarding displaced people (not only ethnic Georgians, but also persons belonging to national minorities) and **repatriants** (Meskhetian Turks) are unsettled, it will continue to have a negative impact on national minority rights protection in general, their relationships with majority population and integration into Georgian society.

3.9.2. Roma⁹⁵

The Roma is a large and wide-spread heterogeneous minority, whose members live in different countries under different circumstances. The Roma people mainly appeared in Georgia after the defeat of Georgia by the Russian empire. They mostly practiced chandlery, fortune-telling and also sold horses. It was with the coming to power of the Soviet Union in 1921 that the Georgian government first paid attention to their problems. Places were allocated for the nomadic Roma people and conditions were created for their residence. At the same time, the Roma people began to receive education. The education was in Russian in order to ensure easy communication between the peoples living in the territory of former Soviet Union.

After Georgia became independent, the Roma's situation became very difficult. Most of the Georgian population was left unemployed, and many Roma earned their living for example from fortune-telling. Because of the severe socio-economic situation, the majority of the Roma people left the country. According to the National Statistics Office of Georgia (census 2002) only 472 Roma and 864 Moldovans were counted in Georgia (Population of Georgia by Ethnicity (Census 2002)). However, the number of Roma living in Georgia exceeds the data of governmental structures. The reason of the insufficient data is the lack of identity cards and lack of permanent residence places of Roma in Georgia. Insufficient formal registration (ID cards) of Roma in Georgia and especially, the exclusion of Roma from the census of Georgian population proved the social exclusion of this minority group as a whole. It is thought that the Roma population exceeds several thousand in Georgia, but it is difficult to state even an approximate number. The general lack of exact statistical data on the situation of Roma in key sectors aggravates their existence.

It should be mentioned that the people referred to as Roma living in Georgia, also known as "Tsigane", in fact, consist of 3 different ethnic groups: Most of them who have documents are registered as Moldovans, and hence have Moldovan nationality; others are Kurdish travelers and the third group is Roma itself. This fact stresses that there is no concrete source on Roma issue in Georgia.

After gaining independence, the Georgian government ratified a number of conventions focused on the protection of human rights of national minorities. However, the analysis of the problem confirmed the absolute nonexistence of human rights protection means of the Roma in Georgia. Main problems, which the Roma people face in Georgia, are as follows:

⁹⁵ Recent research has investigated the issues of different ethnical minorities; however, the lack of data about Roma is still obvious. The only research found up to date is conducted by Dea Elibegova, who studied Roma people in 2008 and published the work: Protection or Isolation? On Georgia's policy choice towards Roma. The main part of our report relies solely on this work. An interview with the author proved that only foreigners and journalists take an interest in this group. There is no detailed research and reliable information about them.

- ✓ Georgia does nothing to defend the rights to life and health of Roma people. The Roma who arrive in Georgia by chance are not protected by the government. There is nowhere in Georgia where homeless Roma can find shelter. The Georgian government has not paid any attention to Roma families, though the majority of families are large and live in very poor conditions (small living area, poor communal conditions, etc.). They do not enjoy the social support allocated to other large families have
- ✓ Medical services are not available for the majority of Roma because of their poor financial situation. They use medical help only in extreme situations and mostly in such cases doctors are unable to do anything for their survival.
- ✓ Roma often become the victims of illegal detention.
- ✓ Roma women often deliver children at home without a doctor or nurse.
- ✓ Registration and civil status are not given to Roma infants which means that Roma children do not become citizens of Georgia; having reached the legal age they do not become legal entities of Georgia national law.
- ✓ Because of this Roma children as well as the adults often become the victims of trafficking, civil and political rights violations.
- ✓ They do not enjoy the right to vote because they do not have an Identification Card. Because of the same reason they do not participate in social and political life and can not go abroad.
- ✓ Roma do not receive pensions or social assistance; No programs exist to integrate Roma into the social insurance system.
- ✓ Funds are not allocated for Roma to develop their national folklore.
- ✓ The right of Roma to work is violated as, for the most part, they are not accepted for employment. For this reason, illegal activities might become 'coping strategies'.
- ✓ They are not involved in vocational or technical courses or training programs and, therefore, no activities are carried out to foster their sustainable economic, social and cultural development or for their full and profitable employment.
- ✓ Only the elder generation and a minor part of young Roma (those who attended classes for two or four years) are literate; only one or two from every hundred Roma can read and write. The majority of Roma people have only Grade 2-3 education. Their difficult living conditions encourage Roma parents to take children out of school and make them work or beg to assist the family financially. According to Roma parents' statements, they took their children out of school because they could not buy the books and other materials needed at school.
- ✓ The absolute majority of Roma does not know the state language, Georgian, nor can they read or write in Georgian; The Roma living in Georgia cannot read and write even in their own language. No schools in Georgia teach Roma in their own language. (Elibegova, 2009).

Despite severe discrimination, the Roma in Tbilisi are struggle to keep their ethno-culture, religion, traditions, customs and language in order not to loose or forget the values, morals and ethics of their nation. Roma families attempt to pass on traditions and habits to their children and grandchildren. Vast majority of Roma, at least in Tbilisi, are Muslims, though a new tendency of converting to Christianity was noticed. The Georgian government still lacks specific means and policies for the protection of basic human rights for Roma in Georgia, while there is a systematic ignorance of this vulnerable minority group contributing to its segregation and social exclusion (Elibegova, 2009).

Out of the socially vulnerable groups discussed, the Roma people suffer the most severe social exclusion. Therefore the Georgian Government together with NGOs should work out a special program aimed at the defense of Roma's rights. Training sessions to raise the level of civil education level of Roma should be held. Supporting the Roma with medical, educational and cultural issues should be the key target of any program created. Birth certificates and identification cards must be given to every Roma citizen. Children must be registered in the hospital after birth and given Georgian citizenship, which would guarantee their right to vote and participate in social-political life. Special meetings should be organized in order to explain to Roma their rights to civil status and citizenship. Roma's access to pre-school education should be expanded and their access to compulsory education should be ensured. Their access to post-secondary

education and training programs where they will get appropriate elementary technical skills should be improved. A special program for Roma employment should be developed, thus combating and overcoming poverty.

3.9.3. Eco-migrants

Eco-migrants are persons who have been displaced due to natural disasters (landslide, avalanche), which damaged their houses. This population is subject to resettlement or has already been resettled in different regions of Georgia. Over the years until 2007, the houses of 3,507 families in Adjara had been damaged. Out of them, just 318 families have been relocated to different regions of Georgia since 2002 (National Statistics Office of Georgia, 2010). Initially it was envisaged that the government would provide the eco-migrants with accommodation, homestead land and so-called "start package" (animals, seeds, etc.). Questioning of already resettled eco-migrants showed that the government does not provide them with accommodation at all or provided accommodation late or partially. As for the "start package", it was provided in full only for 11.6 percent of resettled families (Kachkachishvili, I. and Mezvrishvili, L., 2007).

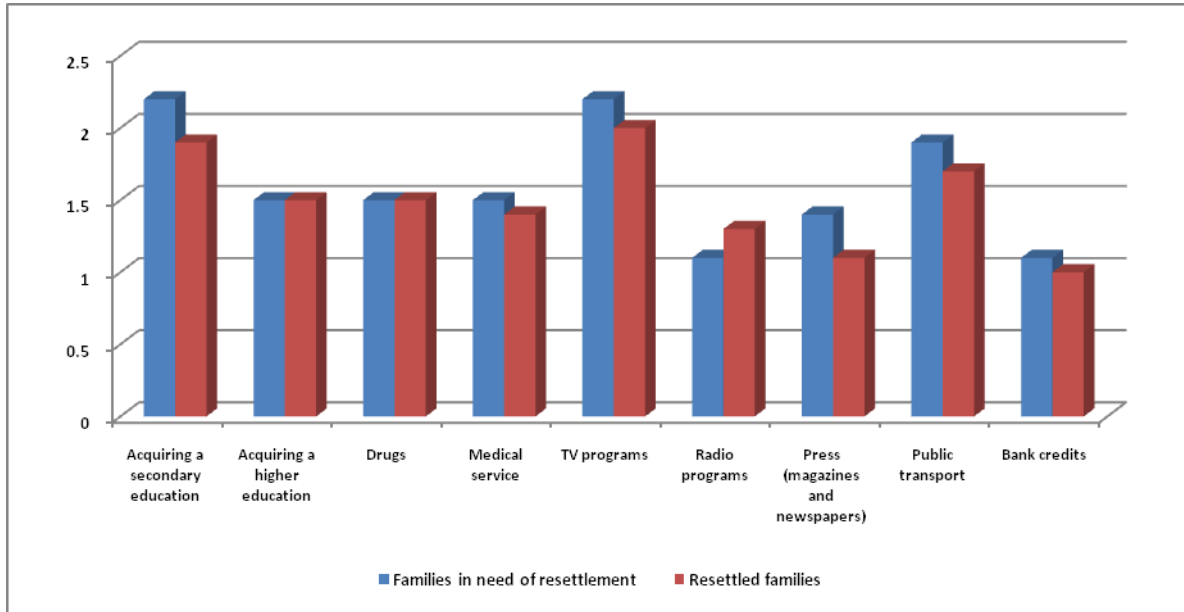
The level of efforts of governmental structures in terms of offering particular assistance to the families in need of resettlement is extremely low. The vast majority of families willing to be resettled have not received any concrete state offer concerning the purchase of accommodation, homestead land and start packet, even by the 6th anniversary of their eco-migration (2002 - 2007).

In addition to living in houses under the threat of collapse and damaged homestead land, the most urgent problems of families in need of resettlement includes lack of funds, unemployment and lack of access to medical services. Families say they live in economic hardship: almost every second respondent (49 percent) answers that family income is not enough even for food. This situation is very distressing for families. 48 percent of respondents admits, "*It is impossible to stand this situation any more*" (Kachkachishvili, I. and Mezvrishvili, L., 2007).

Eco-migrants displaced from Adjara (and resettled in other regions) face serious problems of house/land ownership. This is the most pressing problem for 48 percent of resettled families. One third of them live in houses which they have neither purchased, nor rented, nor leased. Moreover, a significant part of this population has faced problems registering in their new area.

Resettled families as well as those in need of resettlement, suffer from lack of access to daily social contact, services and provisions (e.g., listening to radio or reading the newspapers). It is a proof of their poor inclusion in social life. From this perspective, eco-migrants in need of resettlement are in worse situation compared to the resettled ones. (Refer to Figure 3.13):

Figure 3.13 Access to social goods for eco-migrants (Mean)



Source: (Kachkachishvili, I. and Mezvrishvili, L., 2007)

Note: The diagram presents average values of access to indicated services take from 3-point scale (a. access to; b. more or less access to; c. no access to). At scale, neutral point is 2. The value, which is below 2, corresponds to "inaccessibility" field, and values above 2 correspond to "accessibility" field.

Families in need of resettlement say that main income for them are pensions. However, sale of agricultural products is the main source of income for resettled families. Self-evaluation of economic status by families of different categories differs. Almost double the number of families in need of resettlement compared to already resettled families describes its own economic status as "very bad, almost starving". The difference is apparent when it comes to description of middle or good economic status too: the rate of the resettled families assessing themselves as enjoying such status is higher (Kachkachishvili, I. and Mezvrishvili, L., 2007).

A comparison of the results of surveys carried out among the two groups shows that the psychosocial stability of resettled families is much higher than that of those in need of resettlement. In particular, almost half of families in need of resettlement regard the existing conditions as unbearable, while just below 29 percent of resettled families have such an extreme attitude (Kachkachishvili, I. and Mezvrishvili, L., 2007).

It is worth considering that resettled eco-migrants face one more serious problem - curtailment of their relationship with their community and relatives, and alienation from their new environment. Therefore when resettling eco-migrant families, neighbours and families should be resettled close to each other. This would facilitate their adaptation to a new social environment. Besides, attention should be paid to the ethnic composition of the area of settlement. Eco-migrants who are resettled ethnic minority areas more frequently have different kinds of conflicts with local residents. The government should also provide the eco-migrants, as a vulnerable group, with all the necessary resources.

Both groups of eco-migrants (resettled and to be resettled) suffer social exclusion caused by various factors. The resettled eco-migrants mainly find themselves isolated in new cultural and social environment. It is particularly true when resettlement is followed by economic problems caused by the state's failure to perform its obligations. As for the eco-migrants to be resettled, they are marginalized and mostly suffer from economic hardship.

3.9.4. People with disabilities

According to data provided by the National Statistics Office of Georgia, 139,932 people with disabilities were registered in Georgia in December 2009 (refer to the enclosed tables (A3.1 and A3.2) in Annex 3 for details about the number of disabled persons of different categories, amount of pension granted to them and region-based distribution) (National Statistics Office of Georgia, 2010). Families of disabled people live in poverty. Most of them (54 percent) say that their family income is not enough even for food (ISSA and IRC, 2007)(see table 3.9).

Table 3.9 Describe economic status of your family

<i>economic status</i>	<i>(percent)</i>
Very bad, family income is not enough even for food	54.0
Bad, family income is barely enough for food and clothes	30.5
Middle, income is just enough to meet the main family requirements	15.0
Good, we can afford the leisure and entertainment too	0.5
Very good	0.0

Source: (Institute of Social Studies and Analysis and International Red Cross, 2007)

According to the people with disabilities themselves, the only form of social aid for 90 percent of them is the **disability pension** (For the remaining 10 percent the **disability pension** had been suspended or ceased following medical assessment) . Other types of aid, such as humanitarian aid, privileged access medical service, privileged use of public transport, etc., are unavailable for the absolute majority of people with disabilities. There is also a problem with awareness as people with disabilities do not constitute an active social group and live in a sort of ‘wait state’. Very often, they are unaware of different social programmes and aid. People with disabilities actually constitute a group of unemployed people. The rate of those employed is very low (7.5 percent). A survey showed that unemployment is a "stable" social characteristic of the mentioned target group: the vast majority (67 percent) of those who are currently unemployed have never had a job since the deterioration of their health. Regardless of their present circumstances, 65 percent of unemployed people with disabilities wish to have a job (Institute of Social Studies and Analysis and International Red Cross, 2007). However, it is a mere wish: many people with disabilities do not make concerted efforts to find a job. At least one third of those who have tried to find work say that they were not employed because of their physical disabilities (ISSA and IRC, 2007).

Most people with disabilities (97.5 percent) are neither members of any NGO nor of any political parties. Besides, almost no disabled people (99 percent) have ever applied to any organization for psychological support (ISSA and IRC, 2007).

Research conducted by The Institute of Social Studies and Analysis and International Red Cross in 2007 made it apparent that in general, society is supportive of with disabilities, however, this is often expressed as mere passive sympathy. According to the people with disabilities themselves, they have no problems in their relationships with their primary social group (mainly families, friends, relatives and neighbors), however, the level of their inclusion in society at large is low. This is frequently caused by conditions in buildings, on transport systems etc which impedes their movement (at shops, governmental and other institutions, cultural and educational institutions). On the other hand, the inactivity of the people with disabilities should also be taken into consideration.

Until 2007, there was no state programme or initiative designated specifically for the social integration of disabled adults. Even nowadays, there is no state programme to find employment for disabled persons. Currently, mentally disabled adults can only work at several secure workshops. As was already mentioned, this service is implemented by several NGOs, which were funded by foreign donors only up to 2005. Since 2005, the state also funds them.

Since 2006, the state has been supporting the development of alternative services for disabled persons. Recently, the condition of disabled children has relatively improved. They already have access to education at special and public schools. The Ministry of Education and Science implemented a programme to integrate disabled children, including mentally disabled ones, into public schools. The programme also includes a component aimed at the psycho-social rehabilitation of disabled persons.

In 2005, a new sub-programme ‘Care and Provision of Disabled Persons with Hospice Service’ was initiated within the support programme for social integration and adaptation of disabled persons by the Ministry of Labor, Health and Social Affairs. The new sub-programme was designed to support the development of day centers for disabled persons (In 2009, the entire programme budget made up 4 500 000 GEL (around €1 875 000)).

The budget of sub-programme “Care and Provision of Disabled Persons with Hospice Service” has increased from year to year. In 2005, the budget of this programme was 401 900 GEL (around €68 000) and daily cost per programme beneficiary was 5 GEL (around €2.1); in 2007, the sub-programme budget increased up to 1 351 300 GEL (around €563 000) and respectively, daily cost per beneficiary increased to 7.30 GEL (around €3.1). In 2009, the sub-programme budget was 1 673 950 GEL (around €697 000) and daily cost per beneficiary was 10 GEL (around €4.1)⁹⁶.

This support programme for social integration and adaptation of disabled persons intends to contribute to social integration of disabled persons, including mentally disabled people, into society. The aim is to be achieved by means of development of different skills (life and professional skills). The programme also aims at involving the mentioned persons in educational, cultural, sports and fitness activities; it also aims to provide the beneficiaries with transportation service, two meals a day, outpatient and psychological service, if applicable. The programme is implemented by the NGOs selected through bidding. These are NGOs, which have the technical experience necessary for providing a day care center service. In 2005, 10 organizations participated in the programme’s implementation. In total, 656 beneficiaries were provided with daycare services. According to the data of 2009, the number of day care centers has risen to 23, however, the number of beneficiaries remained the same.

Despite the positive assessment of the above measures in general, the programme still has the following defects: insufficient funds (daily 10 GEL per beneficiary (around €4.2)) to finance aspects of the programme (development of different skills; cultural, sports activities, etc.) .The day care centers within the programme often serve as free canteens and do not develop beneficiaries’ independent life. Furthermore, potential beneficiaries often have no idea about these programmes and those who already benefit from them, do not know about that 10 GEL per day is being allocated for their benefit.

A sub-programme concerning disabled persons’ community organizations implemented within the state programme of 2009, aims to improve the condition of disabled persons and to support their social integration. The main targets of the sub-programme are strengthening state institutions and providing

⁹⁶ In 2005, the programme implementation was monitored by Unified State Fund of Social Insurance of Georgia. Since 2007, monitoring has been implemented by the Health and Social Programme Agency,

different services for beneficiaries; it also aims to transfer disabled adults living in children’s institutions to community institutions.

In a number of cases people stay at children’s institution even after reaching maturity since they have no other place to go. Development of community institutions within the state programme would enable children’s institutions to provide children with services in improved environments and allow the adults to receive the service appropriate for their age.

Social exclusion of disabled persons is related to their status and physical or mental ability. In general, society has loyal attitude to disabled persons, however, mostly it is a passive sympathy. Social exclusion of disabled persons is revealed by isolation of them, limited number of employment programmes for them and limited number of any other programmes implemented for them.

Governmental institutions and stakeholder NGOs are urged to develop a more effective communication strategy in relation to people with disabilities. This would contribute to an improvement of awareness about the law on social protection of people with disabilities. It would also help people with disabilities to get adequate representation of their interests (so called "bottom-up" strategy). The contents of the law should be adapted for the actual needs and requirements of people with disabilities.

3.9.5. IDPs

According to the statistical data from the Ministry of Refugees and Resettlement, in 2008 there were 220,692 IDPs in Georgia (IDPs from Abkhazia and South Ossetia who appeared as a result of regional conflicts in the 1990s). They are mostly resettled in Tbilisi (87,580) and Samegrelo region (80,314). In a survey carried out by the Swiss Agency for Development and Cooperation (SDC) and the Danish Refugee Council (DRC) every sixth IDP family assesses their economic state as being extremely poor, they point out that they are constantly starving, as they cannot afford to buy food. The same number of IDPs (one-sixth) says that they cannot afford enough food. 48.1 percent of IDPs say that their income is just enough to buy food. Only 17.3 percent of IDPs are content with the economic condition of their families (Survey of the living and social-economic conditions of IDPs (SDC and DRC, 2008).

The economic status of IDPs differs according to where they live. Poverty indicators are highest in IDP families living in Samegrelo region. Generally, in Tbilisi and other big cities the economic status of the IDPs is much better than that of those living in small towns and villages (*see table 3.10*):

Table 3.10 Distribution of IDP families according to their assessment of economic conditions by zones

<i>Assessment of the family's economic state</i>	<i>Tbilisi</i>	<i>Samegrelo</i>	<i>Imereti</i>	<i>Shida Kartli</i>	<i>Other regions</i>	<i>Total</i>
Very hard, permanently starving	6.1 percent	33.3 percent	13.9 percent	8.8 percent	12.3 percent	17.2 percent
Hard, people help and that's how we get some food	20.6 percent	11.5percent	15.6percent	14.9percent	29.3percent	17.4percent
Bad, the income /or what we get from farming is just enough for food	49.4percent	43.9percent	58.1percent	58.8percent	42.1percent	48.1percent
Average	23.2percent	10.7percent	12.4percent	17.5percent	16.2percent	16.8percent
Above average	0.7percent	0.6percent	0.1percent	0.0percent	0.2percent	0.5percent
Total	100.0percent	100.0percent	100.0percent	100.0percent	100.0percent	100.0percent

Source: (Swiss Agency for Development and Cooperation (SDC) and Danish Refugee Council (DRC), 2008)

The main reason for poverty among IDPs is unemployment. The major income source for IDPs living outside Tbilisi is social benefits. The average amount of social benefits (including pensions) per family is about 135 GEL⁹⁷ a month. The main part of this sum is the IDP subsistence (on average 70.8 GEL⁹⁸ a month). IDP pensioners are additionally given an extra pension of 52.2 GEL⁹⁹. Every fourth IDP household indicates that these social transfers are their only means of living covering their food expenses. Only 31 percent of economically active IDPs throughout Georgia is employed. More than half of them work in private and state organizations. More than two-thirds of IDPs in Tbilisi and Shida Kartli have jobs, whereas in Samegrelo and Imereti the situation with regards to employment is at its worst (SDC and DRC, 2008).

45 percent of IDPs are resettled in collective centres where living conditions are difficult. Often several members of one family have to live in one room. Heating and hot water problems are mostly unresolved. About half of IDPs have medical insurance which helps with or covers the cost of medical services. Consequently, medication is less accessible for them than medical services, however both problems are acute due to their difficult existence (SDC and DRC, 2008).

Most school-age IDPs (99.7 percent) are registered in schools. 98.9 percent of them regularly attend school. 95.8 percent of IDPs go to public schools but those who study in private schools mainly live in Tbilisi and not in collective centres (SDC and DRC, 2008).

33 percent of IDPs who reached the age appropriate for receiving higher education before becoming IDPs have higher education. 53 percent of IDPs received higher education since becoming displaced. Due to the unprecedented growth of the number of private non-accredited higher educational establishments (their number was more than 400), it became significantly easier to receive higher education, which caused sharp increase in the number of university graduates. This explains the fact that the share of higher education graduates among 22-36 year-old IDPs is approximately one-and-a-half or two times higher than the number of IDPs with higher education aged above 37 (SDC and DRC, 2008).

It would be interesting to examine the quality of IDPs' integration with the local population. One-third of IDPs have relationships with other displaced people as well as with the local population. One-fifth mainly communicates with IDP families. Those displaced persons who have relationships with IDPs only are mostly resettled in collective centres. Consequently, two-fifths of IDPs in collective centres have relationships only with displaced persons. As for school-age children, we can assess the quality of their integration by their relationships with their classmates. School-age IDPs are well integrated with non-IDP children throughout the country. There is no compelling evidence of any kind of pressure on IDPs from their classmates. Generally, 97.5 percent of IDPs do not complain of any difficulties in their relationships with the local population. Such assessment applies for collective centers of all sizes. The worst situation in this respect is in Tbilisi, where 3.7 percent of IDPs admitted having some difficulties in their relationship with the local population. According to the type of resettlement no significant differences have been observed (in collective centres 3.1 percent note difficulties in their relationships with the local population, in private settlements the figure is 2.0 percent). (SDC and DRC, 2008).

Status of IDP as such, does not lead to social exclusion of persons with this status. First of all, it is related to economic success, employment, involvement in institutions, contact with local population and type of settlement. IDPs, who in private settlements managed to improve their economic status during several years and to get involved in different institutions (employment, education, cultural activities, etc.), do not suffer social exclusion. One may say that they are well integrated in local population. Living in

⁹⁷ According to the January 2010 exchange rate, 135 GEL equals to nearly €55.33.

⁹⁸ According to the January 2010 exchange rate, 70.8 GEL equals to nearly €29.01.

⁹⁹ According to the January 2010 exchange rate, 52.2 GEL equals to nearly €21.52.

densely populated settlement is a signal to economic hardship of IDPs and limitation of their social space, which surely causes their exclusion from local population and formation of closed social circle.

3.9.6. Street Children

The most comprehensive demographic and social-economic study about street children was conducted in 2007 (UNICEF, Save the children, USAID and Analysis and Consulting Team). The study was later published under the title "Don't Call Me a "Street Child" - Estimation and Characteristics of Urban Street Children in Georgia, 2009 (Wargan, K. and Dersham L., 2009).

'Street children' were defined as children 0 to 18 years of age (narrowed down to 8 to 18 years' age range for interviews) who were observed in the street. The authors, Katarzyna Wargan and Larry Dersham, divide street children into three main categories: "**Children of the street** - those who spend nights (sleep) in the streets or in places not meant for human habitation for a period of one month or more. They either do not have a family/caregiver, or have not had any contact with their family/caregiver for a period of one month or longer. They provide for themselves, and spend money to secure their own needs in their street surroundings. **Children on the street** - those who always, or most of the time, sleep at home but spend most of the daytime on the streets. They may have regular (daily) or irregular (less frequent than daily) contact with their family caregiver. They provide for themselves and usually bring at least a portion of their income back home to support their family/caregiver. **Children of street families** - those who spend nights (sleep) in the streets or in places not meant for human habitation together with their adult family members for a period of one month or more. They contribute to providing for their family by generating income on the streets" (Wargan, K. and Dersham L., 2009).

The above-mentioned study included four large urban centers in Georgia around which nearly 1049 street children were recorded. Based on expert estimation, it is assumed that there were 1600 street children all around Georgia in 2007. Most street children are boys between the ages of about 5 and 14 years old. They are mainly engaged in some kind of economic activity like begging (Wargan, K. and Dersham L., 2009). They mainly have one parent and/or close relatives alive; nevertheless, they spend most of the daytime on the streets

The factors which cause children to live on the street (during the daytime or permanently), are usually combined and include the social, economic, psychological and health level breakdown of families of street children. The study outcomes show that children may end up on the streets for several basic reasons apart from economic hardship. Family conflict is more significant compared to economic hardship: death of a parent (or parents), divorce, remarriage, alcoholism and violence in family - are all causal factors. Poverty is a regular contributing factor; however, it should be pointed out that households which are poor but have a complete family structure and a relatively less stressful family environment, mainly provide normal life for children. In addition to economic hardship and family problems, the Georgian social environment too has become relatively indifferent to the problems of children. Because of that, nowadays, Georgian society is not an adequate environment for regulating and controlling children's behavior. School should be part of an environment which supports children, however, most of street children do not attend school and those who attend face problems acquiring education. Often they do not have adequate items necessary for attending school (Wargan, K. and Dersham L., 2009).

The study proved that the families of street children suffer extreme poverty and social exclusion. Facing a complex and persistent set of problems, from widespread poverty to lack of housing, loss of a spouse, divorce or family conflicts, the families of street children often find it impossible to protect the children from internal and external shocks. With a perceived or actual lack of assistance from a wider family and community network, families often resort to coping strategies that do not create appropriate supportive conditions for their children. They tend to internalize their problems, to see their difficulties as pervasive and affecting all aspects of their lives, and to perceive adversity as permanent and unchangeable.

The fact that hundreds of poor and socially excluded children are on the streets in Georgia, means sustained social work action is urgently needed. The issues faced by street children and their families should be seen within a broader context of poverty reduction and social inclusion responses. An integrated and coordinated approach is needed to address the complexity of child, family and community-related factors that push children in Georgia to the streets or keep them there. Such policy and programmatic responses should view street children as individuals with rights, complex needs and personal strengths rather than mere welfare recipients. Families and communities need to be regarded as part of the solution rather than as part of the problem - policies and programmes should be oriented to supporting families and social networks in protecting the rights of the children.

First of all, the registration of street children must be regulated to provide the governmental authorities with detailed information. Street children must be aware of their own rights and assistance rendered to them. This would help safeguard equal access to assistance. Assistance should be also provided for street children's families. Special programmes should be developed for the employment of street children's parents and social security should be provided for those who cannot work. Besides, some extra programmes should be developed (education centers for street children, day care centers, special institutions, assistance provided by relatives) for keeping children at school during the daytime and for providing appropriate living conditions for them after lessons. Children must be protected from families where they become psychological or physical victims of alcoholism and violence. In addition, if children's reintegration with their families of origin is found to be impossible, they must be cared for in an appropriate, stable setting.

3.9.7. Children deprived of Parental care

According to the data provided by the National Statistical Service of Georgia, secondary sources indicate that in 2005, 86.4 percent of children in Georgia aged 0 to 17 years lived with both parents. 8.6 per cent lived with the mother only, 1.9 per cent lived with the father (National Statistics Office of Georgia, National Centre for Disease Control of Georgia and UNICEF, 2008). 4.9 percent of children have suffered the death of one or both parents. 2.9 percent children were found to not live with either of their biological parents, corresponding to about 30,000 children in 2008. Not to live with either biological parent was found to be more common in urban areas (3.4 percent) than in rural areas (2.4 percent) and more common in the richest quintile (3.5 percent) than in the poorest quintile (2.2 percent) (UNICEF, 2009).

According to the UNICEF definition, *children deprived of parental care* are children who cannot remain with their parents during shorter or longer periods of time because of parental death, illness, imprisonment, abandonment, poverty or inadequate parenting (UNICEF, 2009). Such children are among the most vulnerable groups of children in Georgian society.

Most children deprived of parental care are taken care of by other family members or relatives. However, Georgia also has a network of institutions for children inherited from the Soviet system, when care for institutionalized children and training for their employment were fully provided by the government. Since Georgia gained independence, the situation in these institutions has deteriorated, largely because of chronic underfunding. At the same time, the trend of providing special institutions for children deprived of parental care has shifted towards de-institutionalization and gradual integration into mainstream society.

In 2008, the system of institutions for children consisted of 43 traditional institutions addressing various groups of children including children with physical and mental disabilities, orphans, social orphans and other children deprived of parental care. These institutions included 10 boarding schools for children with special educational needs, 2 boarding schools for children with antisocial behavior and/or in conflict with

law, 2 residential institutions for children with disabilities, and 29 other residential institutions including 2 infant homes for children 0-5 years old (UNICEF, 2009).

Statistics about the children living in institutions is not accurate as databases are not updated to take into account changes in the number of children in institutions. According to the Committee on the Rights of the Children, 5200 children were registered at institutions in 2004. This figure fell to 2300 in 2008. The decrease in the number of children deprived of parental care living in institutions must be regarded as a result of the ongoing de-institutionalization reforms; however, the abovementioned committee believes that in addition, 1200 children live in shelters founded by NGOs, private structures and church groups.

Despite the decreasing number of children deprived of parental care living in institutions, according to the UNICEF, the rate of admission of children deprived of parental care to institutions increased by 10 percent in 2004-2007 (in 2004 the number of new admissions was 789; this figure increased to 946 in 2006). However, the number of new admissions in proportion to the total child population has been rather low compared to most other CEF countries although higher than in neighboring Armenia and Azerbaijan. In addition, according to more recent Georgian data, the number of new admissions had decreased in 2007-2008. Looking at the 2004-2007 Baseline Data Analysis again, it was found that the number of children admitted with an unknown geographical origin had increased more than 7 times between 2004-2007 with the majority being street children (48 percent) or abandoned infants (22 percent) (UNICEF, 2009).

Social exclusion of children deprived of parental care is preconditioned by the fact that they are not educated in natural social environment. No matter how much sound is the environment at the institutions, these children will still always have feeling of exclusion from society. The most appropriate policy to be implemented for them is to develop the deinstitutionalization programmes for reunion the children deprived of parental care with their families.

3.10 Conclusions and recommendations

As the data provided in this chapter shows, since 2004, according to most methodologies of poverty measuring, poverty has gradually reduced in Georgia along with social inequality. The depth and severity of poverty have also decreased. This was caused by the improvement of economic development indicators of the country, granting of targeted public assistance, increase in state pensions and higher salaries. Due to international assistance, the August war of 2008 and the world financial crisis did not negatively affect poverty reduction in Georgia.

The distribution of poverty indicators differs from social group to social group. In Georgia, poverty is concentrated in low-income households: rural households, households involved in subsistence agriculture, unemployed and self-employed households, households with many members, households with many children. As for ethnic minorities, poverty is concentrated among ethnic Azeri.

For years, pensioners have been included in the poverty risk group, however, since 2006, the risk of poverty of this group has significantly reduced due to the increase in state pensions and allocation of targeted social assistance. Since 2003 inequality increased between the urban and rural areas in terms of poverty. The difference was also obvious between the towns and cities due to different employment structures.

The state policy of poverty reduction targets the following major issues: creation of effective, transparent public service; improvement of business climate; attraction of private capital; improvement of investment and entrepreneurial environment; development of infrastructure and targeted improvement of social assistance system.

The state's policy of poverty reduction is two-pronged: a drive for economic development, which is vital for poverty reduction, and a simultaneous focus on programs of targeted social assistance. On the effectiveness of this two-pronged approach is reflected by the reduction of the poverty level. However, it is also worth mentioning that although targeted social assistance has lifted vulnerable groups slightly above poverty threshold, economic conditions have not improved to the extent that these groups can rise to attain medium social level of living.

Recently certain programs have been launched for socially excluded groups (national minorities, eco-migrants, IDPs, disabled persons, street children, children deprived of parental care). The non-governmental sector is also actively involved in improvement of economic status of these groups; however, because of specificities of each group it is necessary to implement a more effective long-term policy. In the future, the following directions should be included in state measures implemented for poverty reduction:

- The National Statistics Office of Georgia should draw up a unified and refined methodology for measuring poverty. Methodology for calculation of the subsistence minimum ought to be improved and brought closer to the products actually consumed by population and to their prices. Besides, proportion of the food basket and non-food items which makes the subsistence minimum, should be revised. Methodology of determining the population expenditure should be improved. Expenses of the population should be measured according to a subsistence minimum and the absolute line of poverty and extreme poverty should be defined. Non-monetary indicators such as 'severe material deprivation' could contribute for presenting a more complete picture of poverty and social exclusion.
- The most effective way for poverty reduction would be the increased employment. In this case it is necessary to focus on the people engaged in the subsistence agriculture, who have revenues in the form of natural products. Despite the International Labor Organization (ILO) considers any form of occupation to be the employment; the government should focus on the full-time employment, which would become equal to the subsistence minimum in terms of monetary criteria.
- The social assistance system should work by a policy of targeted distribution of assistance, but as is mentioned in the second chapter's recommendations, it is necessary to involve local self-governing bodies in this process and to monitor assistance programs.
 - Social infrastructure should be equally developed in urban and rural areas (water and gas supply, network of health care institutions, improvement of education level, etc.)
 - As research proves, poverty is the most urgent problem for the rural population. The state should contribute to development of medium sized and large farms in order to allow the population involved in subsistence agriculture to find paid employment and increase its income. It is also necessary to privatize agricultural land which is currently state property. In addition, land rent should be imposed to increase the motivation of the rural population to cultivate agricultural land.
 - Because social exclusion is not just the result of poverty, it is necessary to develop a policy of inclusion for each socially excluded group which meets its specific needs. For example, ethnic minorities should be encouraged to study the state language by way of a liberal policy; Roma people should be targeted and supplied with valid and legal documents; a targeted assistance policy for IDPs which takes into account their real economic conditions should be followed; Social exclusion of IDPs will decrease if they are moved from densely populated settlements to private settlements as it will contribute to their integration with local population
 - an employment program for disabled people should be developed, as should infrastructure which facilitates their social inclusion; timely settlement of eco-emigrants into safe places should be ensured and they should be provided with 'start package'; institutional provision for homeless and orphaned children and their involvement in inclusive education should be improved. To support the economic and social development of abandoned children's birth families is also

important in order to aid the reintegration process and to create normal living circumstances. Different services should be offered to families - for example 'day centre' services could create a good balance between state and family provision for childcare

- The state should pursue the course of tax liberalization which will contribute to the improvement of business environment and the creation of new jobs.

Annex 3.1 Methodological notes: Indicators of poverty in Georgia

In general, poverty is measured according to three indicators calculated in relation to the above mentioned poverty thresholds:

- ✓ Poverty level
- ✓ Poverty gap
- ✓ Severity of poverty

The so-called FGT (Foster, Greer and Thorbecke) is used for calculation of poverty indicators:

FGT indices of poverty is presented in the following formula:

$$FGT_{\alpha}(y, z) = \frac{1}{N} \sum_{y_i < z} \left(\frac{z - y_i}{z} \right)^{\alpha}$$

Where N is total number of people, z – poverty level, y_i – i-type consumption expenses per equivalent adult with consideration of cohabitation effect.

For $\alpha=0$, FGT is a poverty level (P_0), for $\alpha=1$ it is poverty depth (P_1), and for $\alpha=2$ it is poverty severity (P_2).

Poverty level is a share of poor people in the whole number of population:

$$P_0 = \frac{q}{N}$$

Where q is a number of people beyond the poverty level and N is a total number of population.

The poverty depth shows the average distance of poor people from the poverty level. In particular, P_1 can be presented in the following way:

$$P_1 = I \cdot P_0,$$

where

$$I = \frac{z - \mu_z}{z}$$

is a share of average distance of poor people from the poverty level. I is called a coefficient of poverty depth.

Poverty severity (squared poverty gap) takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those poor people who are further away from the poverty line.

Poverty severity can be calculated from FGT formula in the following way:

$$P_2 = \frac{1}{N} \sum_{y_i < z} \left(\frac{z - y_i}{z} \right)^2$$

Table 3.A.1: The number of people with disabilities of different categories, amount of pension granted to them:

<i>Kind of pension</i>	<i>Amount of pension</i>
People with disabilities: World War II (I and II group - 129 GEL, III group - 80 GEL)	904
People with disabilities: April 9	144
People with disabilities: Defence of territorial integrity of Georgia (execution of duty) (I and II group - 84 GEL; III group - 70 GEL).	1,023
People with disabilities Military actions in the other state's territory (execution of duty) (I and II group - 84 GEL, III group - 70 GEL)	88
People with disabilities: Disabled child	5,443
People with disabilities: childhood disability	29,637
People with disabilities: World War II (secondary pensions with addition = 129 GEL)	619
People with disabilities: Military service during execution of duty (I and II group - 84 GEL; III group - 70 GEL).	1,320
People with disabilities: Liquidation of the results of Chernobyl nuclear power station and other nuclear accidents	1,017
People with disabilities: Military service (I group - 55 GEL, II and II groups - 55 GEL)	1,216
People with disabilities: common disease (I group - 55 GEL, II and II groups - 55 GEL)	91,932
People with disabilities: employment injury (I group - 55 GEL, II and II groups - 55 GEL)	2,348
People with disabilities: A job to which a law 3XII 1795-Is-2002 does not expand (I group - 55 GEL, II and II groups - 55 GEL)	-
People with disabilities: Participant of defence of the other state's territorial integrity	539
People with disabilities: Participant of defence of territorial integrity of Georgia	2,583
People with disabilities: Participant of April 9 peace action	3
People with disabilities: A spouse of victim to political repression	67
People with disabilities: A child (children) of victim to political repression	1,005
People with disabilities: Participation in liquidation of Chernobyl nuclear power station accident and other military or civil nuclear accidents	44
People with disabilities	139,932

Source: (National Statistics Office of Georgia, 2010)

Table 3.A.2 The region-based distribution of people with disabilities

<i>Region</i>	<i>people with disabilities</i>
Tbilisi city	28,987
Guria	5,120
Ratcha - Lechkhumi and Kvemo Svanetia	2,066
Kakheti	11,552
Imereti	30,063
Mtskheta-Mtianeti	3,097
Samegrelo - Zemo Svaneti	15,518
Samtskhe-Javakheti	5,737
Kvemo Kartli	9,977
Shida Kartli	12,899
Autonomous Republic of Adzharia	14,916
Zemo Abkhazia	-
In total	139,932

Source: (National Statistics Office of Georgia, 2010)

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Chapter 4. The Pension System

4.1. An overall review of the situation in the post-Soviet period

After gaining independence in the 1990s, Georgia inherited from the Soviet system a compulsory pension scheme (a person's pension on retirement depended on his/her salary), operating on the basis of a defined benefit principle and funded on the PAYG basis, according to the solidarity principle, from the payroll fund. (This implies the payment of pensions from the social contributions applied to salaries). The existing pension system provided old age, disability and survivors' pensions.

The system had the following characteristics:

- ✓ Pensions were provided at quite a young age (55 years for women and 60 years for men).
- ✓ The payment of a pension required minimal years of service (20 years for women and 25 years for men)
- ✓ Possibility of early retirement (privileged conditions for the receipt of pension)
- ✓ Motivation to replace salary with pension (For a person working on full pay, the pension constituted about 60% of salary)

The Georgian state was used this inherited system in the first half of the 1990s. Due to the economic crisis which started in that period, it found itself unable to pay pensions. At the end of 1994, the amount of pensions was reduced to the minimum and made up GEL 2.5¹⁰⁰ per month. This amount was purely symbolic and was naturally not considered a benefit contributing to pensioners' social protection.

In 1995, earnings-related and social pensions were replaced with a flat rate pension benefit. If, previously, the calculation of a pension depended on the years of service and the amount of salary paid during the last 12 months, after the introduction of the changes, this calculation was abolished and all pensions were replaced with flat rate pension. By the end of 1995, the maximum amount of pension was equal to GEL 6¹⁰¹.

From the beginning of 1996, the government made a decision to increase the pensionable age. The mandatory pensionable age was increased by 5 years in one year and became 60 instead of 55 for women and 65 instead of 60 for men. In 1998, privileges related to the allocation of pensions were abolished (i.e. the right to retire before the pensionable age).

It should be mentioned that in those years, despite introducing flat rate pensions and increasing the pensionable age by 5 years, the payment of pension related arrears was a permanent problem.

After 2004, the government began to increase state pensions gradually. The main goal of government was to bring the value of the state pension closer to the official subsistence minimum rate. The pension was increased on the basis of Georgian law on the state budget.

4.2. The current situation in the pension system

According to the existing legislation¹⁰², the state pension in Georgia is a monthly payment allocated to citizens permanently residing in the territory of Georgia, foreign citizens permanently living in Georgia for the last 10 years on a legal basis and certain categories of persons who are not citizens of Georgia.

State pensions are allocated on the following basis:

¹⁰⁰ At 1994 exchange rate it was USD 2,3

¹⁰¹ At 1995 exchange rate it was USD 4,7

¹⁰² Georgian law on state pension

- ✓ Reaching a certain age
- ✓ Disability status
- ✓ Breadwinner’s death (survivors’ pension)

A person becomes entitled to a pension if he or she meets any of the above-stated conditions.

If a pension is allocated on an age-related basis, the applicant is not required to meet any prerequisites except his/her old age. Pensions are allocated to women at the age of 60 and men - at the age of 65. If a person still receives a salary from the state budget, he/she is not entitled to state pension.

The disability pension is allocated to persons having the status of explicit and significant disability and to disabled children.

The pension based on breadwinner’s death is allocated to all the underage children of a deceased person who supported them until they reach the age of 18.

If there are two or more grounds for allocating a pension, then pension is allocated on one of these grounds according to the person’s choice. According to the corresponding legislation, state pensions are funded from the state budget.

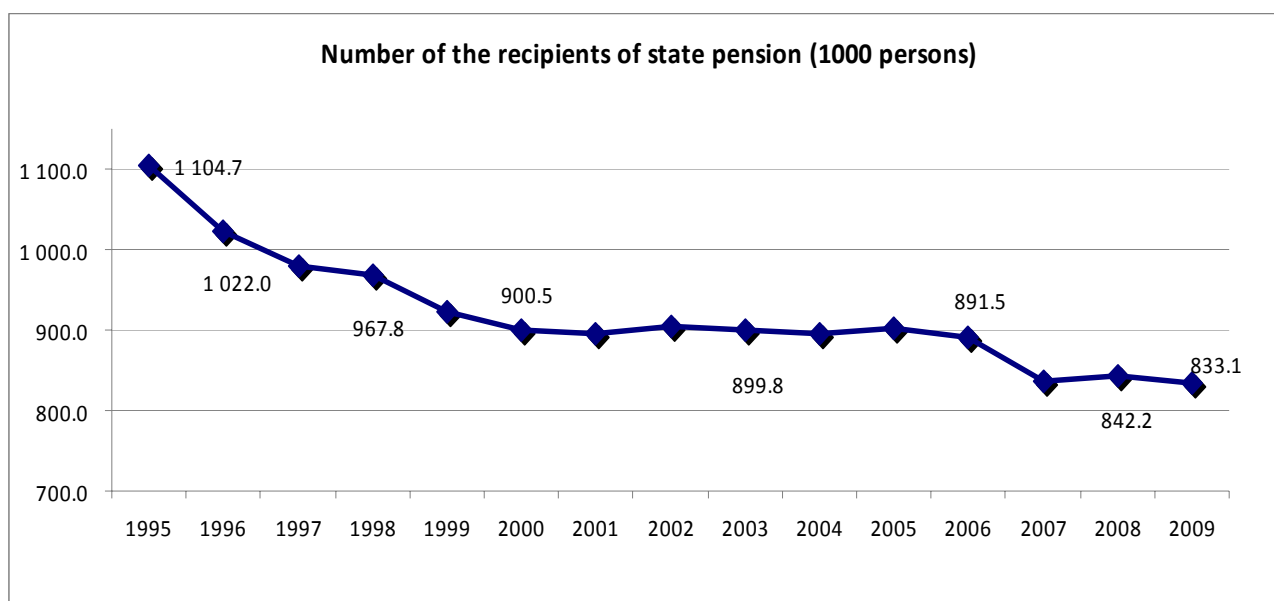
A request for the allocation of pension is submitted to the relevant body (Social Services Agency) together with all the required documents. The written request is submitted according to the applicant’s place of registration.

Applicants for state pension can make a request for a pension any time after the corresponding conditions for the allocation of a pension occur. The written request is submitted to the SSA’s territorial body, according to the applicant’s place of registration.

4.2.1. Coverage and adequacy of the pension system

At the end of 2009, 19% of the country’s population was in receipt of state pensions of different categories. See below the dynamics of the absolute number of pensioners by years.

Figure 4.2.1



Source: SSA: <http://ssa.gov.ge>

The figure shows that the number of pensioners steadily decreased between 1995 and 2000, but also in 2007. The drop could be explained, in the first place, by the increase of the pensionable age by 5 years in 1996 and, also, by the deterioration of pension provision. During this period, the amount of the state pension was so small and unreasonable that a certain part of population did not even apply for it. The table 4.2.1 below shows distribution of state pension beneficiaries by number and percentage for different categories of pension.

Table 4.2.1 Distribution of pensioners by categories (1000 persons)

	<i>Number of pensioners</i>	<i>Percentage</i>
Old age pension	658.1	79.0
Disability pension	139.4	16.7
Survivors' pension	35.7	4.3
Total number of the recipients of state pension	833.1	100.0

Source: SSA: <http://ssa.gov.ge>

Because of the terms of state pension allocation on the one hand and gender-based distribution of population on the other hand, the majority of state pension beneficiaries were women.

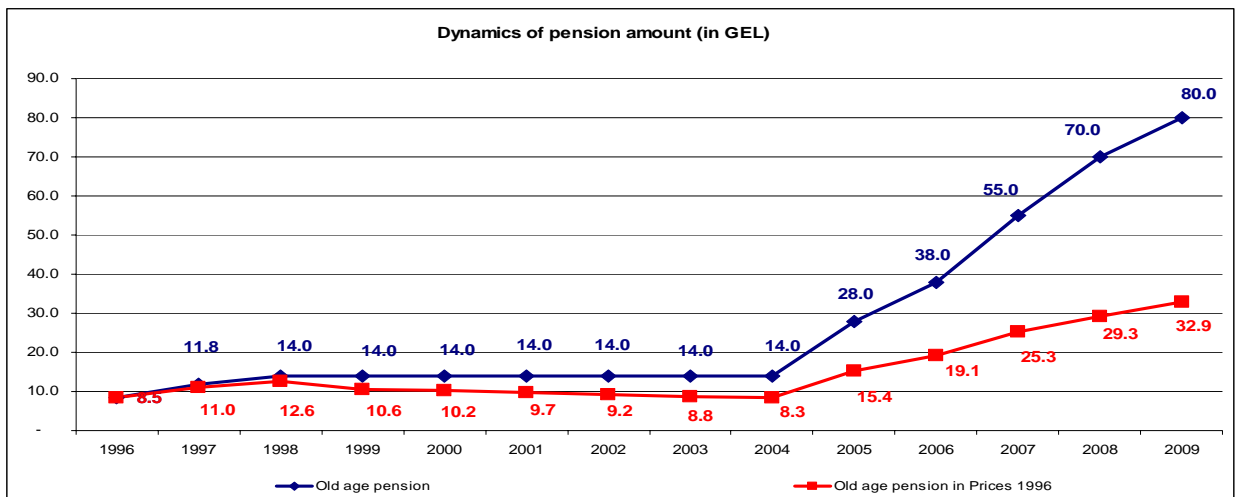
Table 4.2.2 Distribution of population and beneficiaries of state pension by gender (percentage)

		<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Population	Woman	52.7	52.7	52.6	52.6
	Man	47.3	47.3	47.4	47.4
Population of 60 + years age	Woman	60.4	60.5	60.5	60.6
	Man	39.6	39.5	39.5	39.4
Beneficiary of state pension	Woman	64.2	64.6	65.1	65.4
	Man	35.8	35.4	34.9	34.6

Source: SSA: <http://ssa.gov.ge> and National Statistics Office of Georgia <http://geostat.ge>

In Georgia, the minimal amount of pension is determined by national legislation. As stated above, under the 2009 Georgian Law on the State Budget, the amount of the old age pension was defined as 80 GEL (34,3 EU). The Figure below shows the evolution of state pension by years.

Figure 4.2.2¹⁰³ Nominal and actual change of old age pension



In 1995, the year of introduction of flat pensions in Georgia, the maximum amount of pension benefit, whether work related or social pension, was equal to GEL 6¹⁰⁴. By the end of 1996, the maximum amount was increased to 8.5 GEL¹⁰⁵ and by 1998 reached 14 GEL¹⁰⁶.

Up to 2005, in addition to common flat pensions (work related and social pensions), some categories of pensioners (war invalids, victims of repression, etc) representing 13.5% of pensioners in total, received additional benefits. According to the legislation current at the time, the amount on top of the flat pension was to be financed from the central budget. However, this turned out to be impossible to manage and the “privileged” share above GEL 14 (the flat pension rate at the time) was financed through social contributions. The “privileged” pensions mostly ranged between GEL 18 and 45. However, judges received pensions equaling their salary at time of retirement and the “privileged” pension of the former members of the Parliament of Georgia exceeded GEL 480.

Since 2005, the allocation of pension to the majority of pensioners of these types of groups has been regulated by the Law on State Compensation and State Academic Scholarship. Data on pensioners of this category is provided in table 4.2.6 and table 4.2.7.

In 2005 flat rate pensions were increased from GEL 14 (€6.2) to GEL 28 (€12.4). In 2006, they were additionally increased by GEL 10. Furthermore, in 2007, the Georgian government issued a decree on “Defining the increment of state pension payable according to the years of service at the retirement age.” This provides for benefit increments taking into account the length of the pensioner’s employment period. Pensioners with up to 5 years of service get an additional GEL 2 (€0.9), pensioners with 5-15 years of service GEL 4 (€1.7), those with 15-25 years of service GEL 7 (€3.1) and those with 25 and more years of service GEL 10 (€4.2).

By the end of 2009, the old age pension without the increment for the years of service made up GEL 80 (€34,3), the disability pension - GEL 70 (€30,0) and the survivors’ pension - GEL 55 (€23,6). The table below (table 4.2.3) presents the average amount of the old age pension including long service bonus.

Among the recipients of state pension there are pensioners who fall under an additional categories: II world war veterans with severe disability and persons with a severe disability resulting from the

⁷ Consumer price index is used as deflator <http://geostat.ge>

¹⁰⁴ At 1995 exchange rate it was USD 4.7

¹⁰⁵ At 1996 exchange rate it was USD 6.7

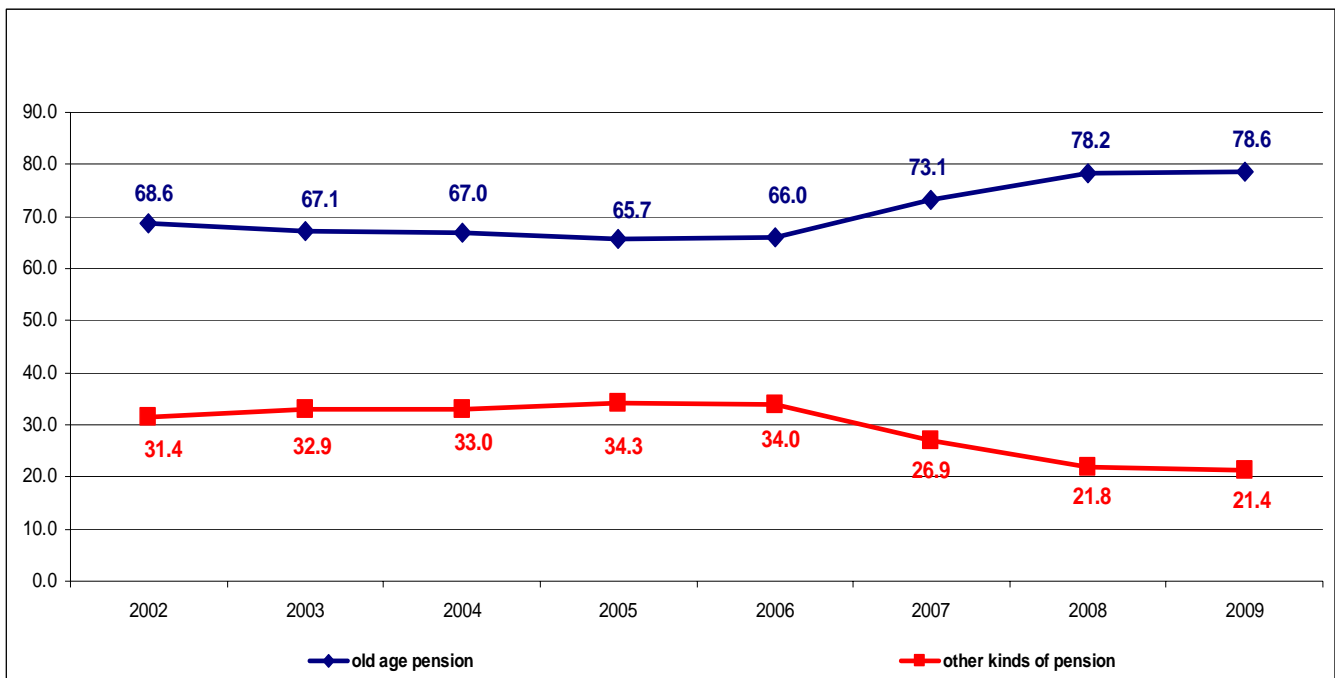
¹⁰⁶ At 1998 exchange rate it was USD 10.1

participation in military actions for the restoration of the country’s integrity, its freedom and independence and, secondly, from the participation in military actions taking place on the territory of another country. The amount of their pension makes up GEL 129 (1315 pensioners) and 84 (1392 pensioners), respectively (Source: SSA: <http://ssa.gov.ge>).

Since 2007, the absolute majority of recipients of old age pension (85.6 %) received the increment for the years of service, and more than a half (57.8 %) received additional GEL 10 (€4.2) in the form of long-service bonus.

Up to 2007, the amount of the old-age pension was equal to the amount of the disability pension. In 2007, the disability pension increased to 55 GEL (€24.1). In 2008 and 2009 it increased to 65 GEL (€29.7) and 70 GEL (€30.0) respectively. Because of the amount of the disability pension compared to the amount of the old-age pension since 2007 old pensioners receiving the disability pension were encouraged to change the category of pension they received and to become old-age pensioners. This replacement is presented on the following figure:

Figure 4.2.3 Percentage of old age pension and Disability pension



Source: SSA: <http://ssa.gov.ge>

After establishing of the long-service bonus, the average income received from the old age pension and its increment, constitute GEL 87.4 (€37.5). This means that the replacement rate in relation to the country’s average salary (GEL 572.5 = €245.6) constitutes about 15.2%. However, one should also mention that for Georgia, the replacement rate is only the average statistical value and it does not apply to of the majority of the population of pensionable age. That is because of the fact that 62% of population of pension age is unemployed, 34% is self-employed, the absolute majority of which is involved in agriculture in rural areas and only 4% of population of pension age is employed.

See the data about replacement rate in relation to the country’s average salary in the table below.

Table 4.2.3 Change of replacement rate

	2004	2005	2006	2007	2008	2009
Average salary of employees (GEL)	156.6	204.2	277.9	368.1	534.9	572.5
Average salary of employees (EUR)	65.8	90.4	124.7	161.0	244.4	245.6
Old age pension (GEL)	14.0	28.0	38.0	55.0	70.0	80.0
Old age pension (EUR)	5.9	12.4	17.0	24.1	32.0	34.3
Old age pension including increment (GEL)	14.0	28.0	38.0	62.5	77.6	87.4
Old age pension including increment (EUR)	5.9	12.4	17.0	27.3	35.5	37.5
Replacement rate in relation to old age pension (percentage)	8.9	13.7	13.7	14.9	13.1	14.0
Replacement rate in relation to old age pension including increment (percentage)	8.9	13.7	13.7	17.0	14.5	15.2

Source: (National Statistics Office of Georgia <http://geostat.ge>; SSA <http://ssa.gov.ge>)

From this perspective, an apparent disparity is observed around the country in terms of gender. By the end of 2009, the replacement rate was almost double for women than for men. This reflects the fact that there exists a large gender gap in remuneration.

Table 4.2.4. Change of replacement rate by gender

	2004	2005	2006	2007	2008	2009
Average salary of employee (<i>man</i>) (GEL)	200.8	267.9	362.0	475.6	678.4	722.9
Average salary of employee (<i>man</i>) (EUR)	84.3	118.5	162.4	208.1	310.0	310.2
Average salary of employee (<i>woman</i>) (GEL)	108.3	131.1	177.6	240.2	367.7	405.2
Average salary of employee (<i>woman</i>) (EUR)	45.5	58.0	79.7	105.1	168.0	173.9
Old age pension including increment (<i>man</i>) (GEL)	14.0	28.0	38.0	63.8	78.7	88.3
Old age pension including increment (<i>man</i>) (EUR)	5.9	12.4	17.0	27.9	36.0	37.9
Old age pension including increment (<i>woman</i>) (GEL)	14.0	28.0	38.0	61.9	77.1	87.1
Old age pension including increment (<i>woman</i>) (EUR)	5.9	12.4	17.0	27.1	35.2	37.4
Replacement rate in relation to old age pension including increment (<i>man</i>) (percentage)	7.0	10.5	10.5	13.4	11.6	12.2
Replacement rate in relation to old age pension including increment (<i>woman</i>) (percentage)	12.9	21.4	21.4	25.7	21.0	21.5

Source: (National Statistics Office of Georgia <http://geostat.ge>; SSA <http://ssa.gov.ge>)

According to the official information of the National Statistics Office of Georgia¹⁰⁷, in 2009, the monthly subsistence minimum of a middle-aged man who was fit to work, was equal to GEL 129.0 (€55.3) on average, whereas the average consumer's subsistence minimum equaled to GEL 114.3 (€49.0).

In 2004, the old age pension constituted 16.6 % of the subsistence minimum of a man who was fit for work and 18.7 % of the average consumer's subsistence minimum. In 2009, an old-age pension was equal to 67.8% and 76.5% of both categories of minimum, respectively. The table below shows the dynamics of the average value of the old-age pension in relation to the subsistence minimum.

Table 4.2.5. Comparison of state pension to subsistence minimum

	2004	2005	2006	2007	2008	2009
Subsistence minimum of the man fit for work (GEL)	84.3	95.8	106.5	118.6	127.9	129.0
Subsistence minimum of the man fit for work (EUR)	35.4	42.4	47.8	51.9	58.4	55.3
Subsistence minimum of average consumer (GEL)	74.7	84.9	94.4	105	113.3	114.3
Subsistence minimum of average consumer (EUR)	31.4	37.6	42.4	45.9	51.8	49.0
Old age pension (GEL)	14.0	28.0	38.0	55.0	70.0	80.0
Old age pension (EUR)	5.9	12.4	17.0	24.1	32.0	34.3
Old age pension including increment (GEL)	14.0	28.0	38.0	62.5	77.6	87.4
Old age pension including increment (EUR)	5.9	12.4	17.0	27.3	35.5	37.5
Percentage of old age pension in relation to subsistence minimum of the man fit for work	16.6	29.2	35.7	46.4	54.7	62.0
Percentage of old age pension in relation to subsistence minimum of average consumer	18.7	33.0	40.3	52.4	61.8	70.0
Percentage of average old age pension in relation to subsistence minimum of the man fit for work	16.6	29.2	35.7	52.7	60.7	67.8
Percentage of old age pension in relation to average subsistence minimum of average consumer	18.7	33.0	40.3	59.5	68.5	76.5

Source: (National Statistics Office of Georgia <http://geostat.ge>; SSA <http://ssa.gov.ge>)

¹⁰⁷ <http://www.geostat.ge>

According to the legislation currently in effect, certain categories of Georgian citizens receive so-called state compensation and state scholarship, regulated by the Georgian law on State Compensations and State Academic Stipends. Before the adoption of the given law, this category of pensioners was considered privileged (they received a bigger pension). In accordance with the law referred to above, a state compensation is a monthly state payment received by certain categories of citizens on a legally determined basis. As for a state scholarship, it is a monthly state payment allocated to an academic for his/her cash security by a legally established rule and for a legally determined amount.

State compensation and state scholarships are allocated on the following basis:

- ✓ Expiration of legally established term of service¹⁰⁸;
- ✓ Reaching 65 years age;
- ✓ Being officially identified as a disabled person;
- ✓ Breadwinner's death.

This group of pensioners includes MPs of the Georgian Parliament, members of the Georgian Constitutional Court, judges of Georgia's Supreme Court and common courts, the chairman of the Chamber of Control and his deputies, service personnel (military, police, financial police, security, prosecutor's office), high ranking diplomats, staff of the Parliament's offices, academics, staff of the civic aviation. According to this law, the amount of the compensation/scholarship is individually calculated for staff of certain categories. In addition, the amount of any scholarship must not exceed 560 GEL (€240.3). It should be also mentioned that for a quite small group of state compensation beneficiaries¹⁰⁹, including members of the Georgian Constitutional Court and judges of Georgia's Supreme Court, the benefit is calculated in accordance with the Georgian law on "Guarantees of social protection of members of Georgian Constitutional Court" legislation on "Supreme court of Georgia". According to these laws, a pension of GEL 1200 (€514.9) is awarded to members of the Constitutional Court. For judges of the Supreme Court, the benefit equals to the full amount of salary. The benefit is terminated for a citizen who prefers to receive a state pension.

By the end of 2009, 25078 persons received state compensation and state scholarship and their average benefit from this system made up GEL 139.6 (€58.7). See in the following table the dynamics of the discussed payments in recent years:

Table 4.2.6. Number of beneficiaries of state compensation and state scholarship and amount of benefit

	2006	2007	2008	2009
Number of beneficiaries of state compensation/scholarship	33448	31416	26937	25078
Average benefit (GEL)	125.2	122.7	135.7	139.6
Average benefit (EUR)	56.2	53.7	62.0	59.9
Average benefit In Prices 1996 (GEL)	62.9	56.4	56.7	57.4
Average benefit In Prices 1996 (EUR)	28.2	24.7	25.9	24.6

Source: SSA: <http://ssa.gov.ge>

¹⁰⁸ Different departments have the laws on long-service term for beneficiaries of this benefit, e.g., for MPs it is 4 years; for judges it is 10 years, etc.

¹⁰⁹ By the end of 2009 this group included 48 persons

The following table shows distribution of the abovementioned beneficiaries by categories, representatives of which are entitled to both state compensation and state scholarship.

Table 4.2.7. Quantity of beneficiaries of state compensation and state scholarship in 2006-2009 according to certain departments

	2006	2007	2008	2009
Department	Quantity			
Staff of Department of Defense	9 538	8 372	6 675	5 902
Staff of Ministry of Home Affairs	16 620	14 894	12 893	12 569
Representative of security field	1 970	1 749	1 604	1 569
Prosecutors	222	208	198	190
Former MPs	561	543	630	638
Former officials of parliament	5	35	40	39
Families of former high ranking politicians	3	3	3	3
Former high ranking diplomats	3	8	8	9
Former members of Constitutional Court	8	8	9	9
Former judges of Supreme Court	42	41	40	39
Former judges of common court	21	29	28	28
Former officials of Chamber of Control	-	4	4	4
Staff of civil aviation	281	388	481	511
Academics/scholarships	4 174	5 134	4 324	3 568
Total	33 448	31 416	26 937	25 078

Source: SSA: <http://ssa.gov.ge>

As the absolute majority of beneficiaries are staff of the department of defense, the number of women included in beneficiaries is very small. By the end of 2009 this showing made up 29.2%.

It should be noted that in 2009, the average amount of compensation and scholarships in equivalent values was reduced in comparison with 2006, while the old-age pension in equivalent values increased almost two times during the same period. This again proves that during this period the highest priority was the category of normal state old-age pension. It was believed that increasing the pension was a guarantee of better protection for old-age pensioners against poverty.

As was already mentioned, the state pension in Georgia is in essence a social protection benefit. The data discussed above shows that since 2005, the amount allocated for funding state pensions has increased 2.3 times (Table 4.2.9). However, the amount of state pensions in Georgia is still much lower than the subsistence minimum showed in official data. Currently, development of an adequate pension system in Georgia would require further increases in the amount of the flat pension. In these terms, the main goal of the Georgian government is to bring the amount of pension close to subsistence minimum.

Pensions in Georgia are considered a tool to guarantee the social protection of poor people. However this idea does not reflect reality because the majority of pensioners live in households which are not at all poor. Therefore the conception behind the Georgian pension system and its aim to relieve poverty is somewhat faulty and is an inadequate mechanism for helping those who are truly poor.

Table 4.2.8. Percentage-based distribution of population of pension and non-pension age in different welfare groups

	The poorest 20%	2	3	4	The wealthiest 20%	In total
Population of non-pension age	20.4	20.5	20.0	19.6	19.5	100.0
Population of pension age	17.2	19.1	20.0	21.1	22.6	100.0

Source: (National Statistics Office of Georgia. HBS .)

4.2.2. *Incoming pensions from abroad*

The governments of Georgia, the Russian Federation, Ukraine and Uzbekistan have signed an agreement guaranteeing rights in the field of citizens' pensions. It means that citizens of Georgia, Ukraine and Uzbekistan as well as their family members are pensioned under the legislation of the state in which they permanently reside.

In accordance with this agreement if a pensioner moves state the pension is granted to them under the legislation of their new state of residence. The pension paid to them in the new state from the month after the payment of a pension in their previous state of residence at is cancelled.

According to the agreement between the governments of Georgia and Russian Federation, valid since 2002, if the legislation of a pensioner's new state residence does not provide for pensioning, the state, from which the pensioner has arrived, shall continue paying the pension until the right of pensioning is introduced in the new state of residence.

Unfortunately, data about pensioners covered by these agreement could not be found.

4.2.3. *Sustainability of pension system*

According to the official information of the Social Service Agency, in 2009, the total amount transferred for funding pensions/scholarships equaled to GEL 854,2 (€366,5) million, which constituted 4,8% of GDP in Georgia. Over the course of recent years this amount and proportion evolved as follows:

Table 4.2.9. Comparison of GDP of Georgia to the expenses spent on funding the pensions

	2005	2006	2007	2008	2009
GDP in current prices (million GEL)	11620.9	13789.9	16993.8	19074.9	17948.6
GDP in current prices (million EUR)	5142.0	6186.6	7434.2	8715.6	7700.9
Monetary transfers for the payment of pensions and compensations/ scholarship (million GEL)	359.0	461.6	497.7	763.0	854.2
Monetary transfers for the payment of pensions and compensations/ scholarship (million EUR)	158.8	207.1	217.7	348.6	366.5
Percentage	3.1	3.3	2.9	4.0	4.8

Source: (National Statistics Office of Georgia <http://geostat.ge>; SSA <http://ssa.gov.ge>)

The stability of the state pension system is first of all dependent on the general economic status of the country. The economic development rate in Georgia as well as the visible improvement in fiscal discipline and tax collection during the last five years enabled the government to handle the obligations undertaken with regard to pensioners. Moreover, the government increased its obligations to the old population of by means of an actual increase in the pension amount/

Despite the significant reforms (which were painful for certain categories of the population) implemented during the mentioned period, the number of employed persons (taxpayers) has remained almost the same. Moreover, employment in formal sector has become more effective and better-paid. Accordingly, the amount paid to the budget by this segment has considerably increased.

Table 4.2.10. Coefficient of the provision of pension system from the employed persons

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Number of employed persons (1000 persons)	600.9	600.5	603.9	625.4	572.4	596.0
Number of old-age pensioners per employed person	1.0	1.0	1.0	1.0	1.2	1.1
Number of pensioners per employed person	1.5	1.5	1.5	1.3	1.5	1.4

Source: National Statistics Office of Georgia: <http://geostat.ge>

The ratio of the population over the age of 65 and population of 15-65 years age has remained the same.

Table 4.2.11. Demographic data and the coefficient of age dependency

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Quantity of population of 15_64 years age (1000 persons)	2866.2	2882.4	2960.4	2972.2	2984.2	3005.5	3058.0
Quantity of population of 65+ years age (1000 persons)	592.2	605	630.9	643.3	642.9	630.3	621.9
Coefficient of age dependency (65+/15-64)	0.21	0.21	0.21	0.22	0.22	0.21	0.20
Expected life interval at birth	75.1	77.6	78.5	79.4	79.0	77.7	73.8
Predicted data	<i>2020</i>	<i>2025</i>	<i>2030</i>	<i>2035</i>	<i>2040</i>	<i>2045</i>	<i>2050</i>
Quantity of population of 15_64 years age (1000 persons)	3388.8	3553.4	3539.7	3505.8	3459.5	3402.4	3320.7
Quantity of population of 65+ years age (1000 persons)	451.7	561.1	638.5	631.9	602.1	625.3	660.6
Coefficient of age dependency (65+/15-64)	0.13	0.16	0.18	0.18	0.17	0.18	0.20

Source: estimated on the basis of data provided by National Statistics Office of Georgia: <http://geostat.ge>

It should be noticed that if pension system and the form of its funding is not changed during the next decades, state expenses spent on funding the old-age pensioners will not change significantly.

Table 4.2.12. Birth rate growth in Georgia

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Quantity of the newborn s(1000 newborn infants)	47.6	46.6	46.2	49.6	46.5	47.8	49.3	56.6	63.4
Growth of birth rate in comparison with the previous year (%)	-2.5	-2.1	-0.9	7.3	-6.2	2.8	3.1	14.8	12.0
Birth-rate coefficient (per 1000 persons)	10.9	10.7	10.7	11.5	10.7	10.9	11.2	12.9	14.4

Source: National Statistics Office of Georgia: <http://geostat.ge>

As the data from Table 4.2.1 and Table 4.2.9 shows, during the last five years, the value of pension expenses increased due to the increase in the pension amount. During the next decades dependency of the pension age population (65+) on the non-pension age population (15-65) is less than existing rate. One can say that the general picture of the aging of the Georgian population is not alarming, especially as the birth rate grew very fast during the last two years.

Due to all these factors discussed above, if the present pension system is maintained, the government will not have to take drastic measures (change of pension age, decrease of pension amount, etc.) in order to meet its obligations under the pension scheme.

4.2.4. Challenges and reforms

At present donors' - international organizations/governments - activities in the field of pensions focus only on establishing a new system of registration of pensioners. This will enable the relevant state body to manage the system more effectively.

An official government plan for reforming the pension system does not exist yet. However, according to its representatives, the government is ready to discuss propositions on development of a private pension system.

It should be also pointed out that administration of existing pensions is partially carried out by the private sector. The population receives the amount allocated to them under the state pension scheme and the other social programmes from commercial banks.

As was already mentioned above, currently the old age pension is not related to contributions, working ability or the economic status of beneficiary. Because of that, the old-age pension is equivalent to social assistance. Unlike the targeted social assistance, this social programme has only old people as beneficiaries. This kind of system does not encourage capable citizens to work for a long time and hope for income ensured by state when they are old. On the other hand, the old-age pension is not sufficient to mitigate poverty among the elderly and the government should introduce extra benefits to achieve this outcome.

In the future a pension system based on individual contributions should be created. Any employed citizen would be able to make contributions to an individual account. If the younger generation is enabled to direct a part of its income to ensuring its welfare in old age in return for giving up its entitlement to the state pension, it would be much simpler for the state to handle the problem of poverty by more effective targeted assistance; on the other hand, it would make the old-age pension dependent on a person's income.

Currently, an employed person pays income tax, which equals to 20% (this tax includes a former social tax). Instead of going to the state budget, a part of this tax could be directed to private pension accounts.

After the creation of a private pension system, it would be appropriate to integrate those persons for whom the state pension is a benefit necessary for social protection (current essence of state pension), into the social programmes existing in the country¹¹⁰.

¹¹⁰ Refer to chapter about social programmes

Radical changes like this will always cause dissatisfaction some people. Pensioners and those close to pension age could evaluate this change as a violation of their rights. Therefore, during the transition stage (e.g., during the period when, according to estimations a citizen with average income could have accumulated through payments a contributory pension worth no less than the subsistence minimum) the private pensions system and the state (existing) pension system could coexist. After the transition period, the state should relinquish responsibility for paying pensions.

4.3. Conclusions and Recommendations

After gaining independence in the last decade of the previous century, the state pension provision dramatically deteriorated in Georgia. The pension amount was so small and symbolic that a certain part of the population did not even try to apply for it.

This situation in pension system was a reflection of the general economic situation and events in the management of the state ongoing at that time. The main economic indicators drastically decreased. Fiscal discipline and tax collection by the tax bodies deteriorated excessively. In consequence, the ability of the state to provide services was considerably reduced.

At the beginning of 1995, when the pension system was near disintegration, the government abolished differentiated pensions and replaced them with a “flat” pension (a common equal pension was allocated to all the pensioners disregarding their salaries while working, work experience or type of pension). In 1996, the government took a second measure which was unprecedented in transition-economy countries: the obligatory pension age was increased by five years– for women it was made 60 years age and for men – 65. In April 1998 all privileges related to early retirement were abolished.

Unfortunately, these reforms were not successful. Despite the reforms, payment of pensions to the population was always problematic.

This situation prevailed until 2004. Since 2004, the government began to gradually increase the pension. However, the essence of pension remained the same - it is, in effect, a social benefit. This social benefit is not a targeted and effective tool for performing its task (overcoming poverty) as the number of beneficiaries is limited due to limited age. Poverty is not a problem found exclusively among the elderly and not all old people are poor. Therefore, the amount spent on paying the pension is not enough to solve the problems it is supposed to address. For this reason the government had to create some more effective programmes for combat against poverty (refer to chapter 2).

The government should initiate pension reform to make the pension amount more substantial and to enable a person to ensure his/her old age while he/she is capable.

Besides, the following reforms should be implemented:

- A pension system based on individual contributions should be created;
- The younger generation should be enabled to direct a part of its income to ensuring its welfare at old age in return for giving up its entitlement to the state pension;
- Those people for whom the state pension serves as a subsistence support should be integrated into the social assistance programmes existing in the country;
- During the transition period, the private pension system and state pension system could coexist;
- After the transition period, the state should relinquish responsibility for paying pensions.

Future vision about the pension system¹¹¹

Considering the fact that the current flat rate pension system is not properly targeted and has a form of social benefit, part of the independent experts (including the author of this chapter) suggest the model of future pension system based on individual contribution. A pension system relied on individual contributions will be fare as it will be based on personal savings. Pension contributions will be voluntary for citizens regardless of their age. Any employed citizen will be able to make voluntary pension contributions to his/her individual account. If a citizen chooses private pension system, then the state will be exempted from obligation to provide him/her with old-age pension.

The amount of pension to be issued to the participants of pension system based on individual contributions will be determined by certain actual individual calculations. It will depend on fixed pension term and amount of pension contributions.

For example, let us discuss a version concerning what the result of private pension scheme can be for a citizen in exchange to refusing the state pension. It should be checked in case a citizen deposits money on an individual pension account, from which age s/he will be able to accumulate monthly revenue (while being on pension), the amount of which is no less than current flat-rate pension.

Let us assume that in case if a citizen starts to make contributions to his/her own individual account, and deposits 10% of his/her monthly revenue to the individual pension account, then the state will provide a 10% subsidy for the income tax.

It is planned to have an actual growth of GDP in the country by 6.5% in 2010, and by 5% in 2011. During the simulation it was assumed that the state economy will grow in subsequent years with the same rate as in 2011. It was also assumed that the annual interest rate of the money deposited on the individual pension accounts will be equal to the current interest rate for the deposits (actually, the interest rate for the money deposited on the pension accounts will be higher than the current interest rate for the deposits at commercial banks).

Consequently, if the state starts to shift gradually to the private pension system after 3-4 years, say, in 2015, then, considering the average salary in the country, 40 will be the maximum age of the citizen, who will be eligible to make contribution to individual pension account in order to get more pension (while being on pension) than the amount of current state pension (see Table 4.3.1.).

Table 4.3.1. Maximum age for starting the contribution, and amounts of accumulated pension

	Women	Men	Both
Average life expectancy at a pension age ¹¹²	20.5	13.1	17.5
Age of starting the contributions, when the monthly pension amount exceeds the state pension amount	36.	44	40
Amount of monthly pension (<i>GEL</i>)	81.2	85.2	82.4
Monthly pension of a 30-year old citizen after attaining a pension age (<i>GEL</i>)	169.0	471.6	279.6

¹¹¹ The future vision about the pension system is the author's personal proposal and is not linked to any official stakeholders in the country.

¹¹² DEMOGRAPHIC YEARBOOK OF GEORGIA2007. Institute of Demography and Sociology

Monthly pension of a 20-year old citizen after attaining the pension age (<i>GEL</i>)	573.7	1601.1	949.2
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Citizens, who will not get involved in the pension scheme based on individual contributions, will receive state pension in transition period.

State will cease issuing common state pension to citizens if at the moment of launching the pension system based on individual contributions, they have a foreseen (reasonable) term left till reaching the pension age. It is required for formation of pension fund which will be enough for receiving private pension matching with subsistence level.

Effects of private pension system for the state

As far as a private pension system is created, the pension system will not depend on state budget revenues. Accordingly, the budget expenses will reduce in a long period and responsibility for significant part of social expenses will be delegated to civil society. Social security system will improve and its effectiveness will increase.

Inculcation of the above mentioned pension system will assist with directing money to investment funds. It will also enable mobilization of long-term investments, expansion of financial services and attraction of new foreign investments to pension funds business.

There is a serious risk that the system of voluntary retirement savings would have a limited coverage and would leave a big number of older people without monetised income in the old age. Moreover, the European experience shows that many pension plan members (especially those with low financial education) find their pension income from funded schemes much lower than they had expected. It is thus essential to propose reasonable default options, e.g. life-cycle approach investment strategies where funded schemes are a major source of future income of pensioners, and then to give people some degree of choice.

In the long-term we can expect Georgia to age and this would give more political power to the representatives of the older electorate. As the system of voluntary pension savings creates risk of inadequate income for pensioners, pressure for ad hoc increases in social assistance/flat pensions might arise, requiring additional public expenditure.

An alternative to the voluntary savings scheme could be therefore introduced. In the medium-term the existing flat pension could be indexed in line with economic development (e.g. by means of an automatic indexation mechanism) while in the long-term the flat pension could be gradually replaced with an earnings-related state scheme. This would strengthen the link between contributions and benefits and would give people incentives to stay longer in official employment.

Annex 4.1. Stages in the formation of the pension system and the sources of funding

In 1991, the Republican Social Security Fund of the Georgian Republic was set up with the Ministry of Labor, Health and Social Affairs. One of its main objectives was the accumulation of compulsory social insurance contributions from enterprises and organizations with different forms of ownership and from the employed population to finance pensions. Pensions were paid by district social security services subordinate to the Ministry of Labor, Health and Social Affairs. From January 1, 1998, social security

services were transferred to the United Social Security and Medical Insurance Fund and from September of the same year, the collection of social security contributions became the function of the State Tax Inspection.

In 2000, the United Social Security and Medical Insurance Fund transformed into a legal entity of private law - State United Social Security Fund of Georgia. The Ministry of Labor, Health and Social Affairs (MoLHSA) was entrusted with the responsibility to supervise the Fund's activity. The Fund's main function was to allocate state pensions and benefits and transfer money (out of the allocated amount) to pay benefits and pensions. Pensions/benefits were financed through social contributions accumulated by the Tax Inspection and the subsidies and targeted transfers made from the central budget. The next reorganization of the Social Security Fund took place in 2002, as a result of which the State United Social Insurance Fund of Georgia (SUSIF) was formed and subordinated to the MoLHSA. One of its functions was the payment of pensions. From 2006, the SUSIF was fully financed from the state budget. In 2007, following the decree of the MoLHSA the Social Subsidies Agency (SSA) was set up as a legal entity of public law. The Agency was charged with the responsibility for administering the pension system. Currently, the pension system is administered by the Social Service Agency (SSA) a legal entity of public law, which acts on behalf of the Social Subsidies Agency. Under the existing legislation, the pension system is financed from the state budget.

In terms of pension provision, SSA has the following objectives:

- Allocation, payment, suspension, resumption, calculation and termination of pension;
- Registration of pensions;
- Monitoring and other kind of state supervision, detection of administrative offences in the field of pensions and responding to such offences in legally determined cases and by legally established rules;
- Keeping statistics, preparation of annual reports and spreading information;
- Acquiring information from appropriate institutions and organizations by rules determined by Georgian legislation for solving issues related to allocation, suspensions, resumption and termination of pension;
- Other rights and liabilities considered in regulations of Social Service Agency and in Georgian legislation.

Decisions made by Social Service Agency can be appealed by rules determined in Georgian legislation.

In pursuance to current legislation, the pension system (including state pensions as well as state compensation and state scholarship) is mainly funded from the state budget.

Annex 4.2. The legislative basis of the pension system

Before 2006, the pension system was partially regulated by legislation inherited from the Soviet period. Pension provision cases were dealt with using the following legislation: USSR law #1481-1 as of 15 May 1990; code of Georgian labor laws (Law #2086 IIs as of 9 June 1999, paragraphs 235 and 236); presidential decree #469 as of 11 August 1998 "On the improved arrangement of work reimbursement of the employees in the budgetary sector and additional measures directed at the social protection of the population", the Georgian law on the State Budget. Along with the listed documents the following legislation was effective in the relevant period: Georgian law as of 17 October 1995 "On the veterans of war and military forces"; Georgian law as of 16 October 1996 "On the provision of pensions to persons retired from military service, police and state security special services and their families"; Georgian law as of 27 December 1996 "On social protection of the families of the deceased, missed and wounded persons in the war for territorial integrity, freedom and independence of Georgia", Georgian law as of 12 December 1997 "On citizens of Georgia as victims of political repression and on social protection of

repressed persons”, Georgian law as of 30 April 1999 “On recognition of victims of the dissolution of Tbilisi peaceful demonstration on 9 April 1989 and the protection of their lives”; Georgian law as of 8 November “*On the social protection of participants of liquidation of emergencies at the Chernobyl nuclear power station and other civil and military nuclear objects and their families*”; Georgian law as of 3 December of 2002 “On compulsory life and health insurance of parliament members and the provision of pensions to the staff of the apparatus of the Parliament”; Georgian law “On social protection guarantees for the staff of Georgia’s Prosecutor’s office”, and other laws and legislative acts that jointly form the existing pensions legislation.

At present, the pension system is mainly regulated by the Georgian law on state pensions (effective from 2006) and the Georgian law on state compensations and state scholarship.

The Georgian law on state pensions regulates the grounds for the entitlement to state pension, defines the amount of the pension, defines the rules for its payment, suspension, renewal and termination and the relevant conditions; it also regulates different relations connected to the receipt of pension.

The Georgian law on state compensations and state scholarship defines social protection guarantees for Georgian citizens residing on the territory of Georgia (as a result of being in certain services, reaching a certain age, disability and death), defines the grounds for the provision of state compensations, their amount, the rules for their payment, suspension, and termination, the administering body and other relations connected to their provision.

According to the Georgian law on state pensions, the receipt of state compensations/ state scholarship under the Georgian law on state compensations and state scholarship, precludes the entitlement to state pension.

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Chapter 5: Health and Long-term Care

5.1. Background

5.1.1 Overview

After the disintegration of the USSR, the Georgian healthcare system developed differently to the healthcare systems in other former Soviet republics. All the post-Soviet republics inherited the well-known Semashko model applied in the Soviet-era healthcare sector. Since 1991, as a result of radical political and economic changes, healthcare system reorganization started in all the post-Soviet republics. In 2010, we can already see how different the nature of these changes were, how very different their causes and outcomes are. We can state with confidence that the route to change taken by Georgia is truly unique in terms of the scale of the given exercise (dismantling of the inherited system) as well as the choice of the type of change brought about.

In 1991 the healthcare system in Georgia was totally centralized. The State was the only owner, funder and manager of this system. It is worth mentioning, that the Soviet republics had no autonomy over their healthcare systems. Moscow was the centre for political decisions, planning and management. The healthcare ministries in the republics limited themselves to the execution of directives received from the centre.

The political and economic crisis which broke out in the country in 1991 was marked by civil confrontations and territorial conflicts. Given the critical deficit in human resources needed for the development and implementation of sectoral policy and the absence of new relations with western countries able to provide technical assistance, the introduction of major changes into the social field, especially in the technically complex healthcare system, became impossible. As a result, in the totally new post-Soviet environment, public management of the healthcare sector became fully paralyzed.

In 1991-1994, GDP reduced by 70% in Georgia, which had a dramatic effect on the healthcare system. The state budget was actually non-existent during these four years. Primary healthcare and hospitals were left without state funding. The amount of per capita public financing reduced from 130 USD in 1990 to about 0.45 USD¹¹³ in 1994.

The rapidly developing economic and social crisis caused an acute deficit of medical items and pharmaceutical products. Even when being treated in the city's central hospital patients had to buy medicines and other medical items on the black market at prices which were unaffordable for the majority of population. Because of unexpected and frequent power cuts, a number of cases of patients' death during surgery were recorded¹¹⁴. The only way to preserve mere existence of medical services at a minimal level was to have the public pay for them out of pocket.

In parallel with the introduction of the new national currency and the end of hyperinflation in 1996, the government started to allocate certain resources for the health sector. The amount of annual funding increased up to 5 USD per capita (Parliament of Georgia, 1996). It is clear that in real terms such a negligible amount of funding could not change the performance of the system, but having the authority to manage consolidated funds made the Ministry of Health a rather influential public agency in relations

¹¹³ Law of Georgia on the 1994 State Budget.

¹¹⁴ Health Reform and Hospital Financing in Georgia, Avtandil Jorbenadze, Akaki Zoidze, David Gzirirshvili, George Gotsadze <http://www.cmj.hr/1999/40/2/10234066.htm>;

with service providers. At this period the government developed the first national healthcare programmes under which political priorities were identified and funding of medical services begun.

In the same period (starting from 1995), institutional changes were introduced into the public management of healthcare. Policy development, monitoring of implementation and procurement of services were split between public agencies. A new quasi-independent organization emerged for procurement of health services. The legal status of state-owned service providers changed and some of them were privatized. The health ministry retained policy development, oversight and stewardship functions.

Privatizing some of the medical infrastructure, stripping medical personnel of civil servants' status and shifting to programmatic rather than guaranteed budgetary financing for each healthcare institution were important steps for the sector's liberalization. Although the privatization was a small-scale exercise, it pointed to the fact that political authorities deemed it impossible to preserve the Soviet healthcare model. It was also important for the authors of the reform to separate the responsibility for policy formulation and planning from service provision-related responsibilities. Indeed, all medical service providers were made no longer subordinate to the health ministry in 1999 and acquired the legal status of entities of private law (LTD and joint stock companies). The pharmacy and dental clinic network became fully privatized (Gamkrelidze, Atun, Gotsadze, & MacLehose, 2002).

Instead of the Ministry of Health, the State Healthcare Fund (set up in 1995) became fully responsible for the management of public funds. The Fund was financed through compulsory insurance contributions and central budget transfers intended to cover the deficit. In 1996, the State Medical Insurance Company (SMIC, which in 2002 merged with the State Pension Fund forming State United Social Insurance Fund - SUSIF) replaced the Healthcare Fund. The SMIC collected funds from employees and employers, with employers contributing 3% and employees 1% of salary. Transfers from general revenues of state budget were intended to cover expenditures for the unemployed, pensioners and children (Gamkrelidze, Atun, Gotsadze, & MacLehose, 2002).

The authors (the minister for health, his deputies and corresponding parliamentary committee members) of the reforms presumably hoped that in parallel with the improvement of the economic situation, the increase of employment and revenue growth, the amount of funding would also increase and a fully functioning compulsory health insurance system could be established in Georgia. An important selection of medical services, the so-called BBP (Basic Benefit Package) was supposed to be equally accessible for everyone or it was supposed to be free or subject to the co-payment of a small amount.

However, for various reasons it turned out to be impossible to implement the reforms in the way it was foreseen and planned at the end of the 1990s. These reasons included the permanent lack of budgetary income, the low level of tax collection and the small share of persons employed in formal sector as a percentage of the total work force as well as corruption in the public sector itself and lack of experience in administration. Nonetheless, the steps taken towards liberalization still created a fertile ground for a new wave of reforms initiated from 2005.

5.1.2. Development of healthcare legislation

The first healthcare laws adopted by Georgia since independence, namely the law on Drugs and Pharmaceutical Activity and the Law on Health, were adopted in 1997. The Law on Health determined citizens' rights to use medical services under the public healthcare programmes. It is worth mentioning that this law equalized public and private healthcare service providers. The Law focused on patients' rights and created legal guarantees for freedom of choice of providers. Furthermore, under this law the Ministry of Health was identified as the body implementing healthcare policy and regulating the healthcare sector. Its new functions included the supervision of service quality and the professional

qualification/accreditation of medical personnel and healthcare service providers through certification and licensing.

Georgia was the ninth country in the world to adopt a law on Patient's Rights. It turned out to be impossible to implement this law and there was no practical need of its existence. In general, there was such a situation in Georgia most legal decisions and actions taken could not be applied in reality. Legislative acts were adopted through translation of legal documents from developed western countries. This was very much welcomed by bureaucracy, as it was a way to expand its functions and created a fertile ground for corruption.

It is worth noting that no special law was needed to guarantee the patient's right to choose his/her service provider, as the choice of providers in the majority of cases was in any case the patient's decision, since patients themselves, rather than the public sector was and still is the main buyer and funder – through out-of-pocket payments – of healthcare services in Georgia. The share of state funding was so slim at that time that consumers were mostly not aware of it.

A peak in economic progress in 1997 was followed by economic stagnation. Corruption penetrated into all spheres of public life. The healthcare sector no exception in this respect. Unrealistic political promises also contributed to corruption in this sector. It had been announced that public healthcare programmes would cover 75-100% of expenses for treatment of cases included in Basic Benefit Package; however, in reality it constituted approximately 20-30% of the market price of services. As a result, the main part of the medical service cost was still covered by patients themselves and in legal terms this actually meant that service providers were receiving unofficial payments. Moreover, most potential and actual users of medical services were not even aware of the existence of state funding.

The established state of affairs had a strong negative effect and discredited even the positive aspects of the institutional changes introduced into the management system. Politicians and civil servants became hostages of political promises and it was impossible to ensure the transparency of the system even in the case of the existence of good will. Patients were confused by the fee-for-service funding arrangements – they never knew which expenses could be covered/reimbursed by the state and which they had to pay out of pocket and as a result paid the full amount (unofficially) out of pocket to medical personal and state funds were used by the administration of healthcare institutions to cover communal services like gas and electricity. The monitoring of budgetary resources transferred to service providers became a mere formality. Given the scarcity of state funding and poor administration of the system, the situation in state-owned inpatient and outpatient hospitals was deteriorating every year both financially and in terms of the quality of service.

Civil servants turned out to be skilful in the adjustment of regulatory requirements to corruption purposes; despite the fact that health facilities and personnel were no longer directly managed by governmental agencies, the newly established regulatory rules appeared to have a detrimental effect on competition and the scope of regulation increased so much that it became almost absurd. It became impossible to run a healthcare business without making deals with bureaucrats. The number of narrow medical specialties subject to mandatory state certification increased up to 73¹¹⁵, and the number of healthcare activities subject to licensing - to 312¹¹⁶. But there is something more important to mention than the number of medical specialties and healthcare activities subject to regulation. The insurmountable obstacle for enforcement of decent quality standards was that if actual proper checking of compliance with regulatory requirements had been carried out and the relevant measures defined by legislation taken, all medical units would lost their licenses and should have been closed down. It was clear for the authorities that this

¹¹⁵ Order of the Georgian Minister of Labor, Health and Social Affairs (Order #388 as of 1 November 2001).

¹¹⁶ Georgian law on the licensing of medical and pharmaceutical activity (as of 10 December 1997).

would leave the population without any medical services and create major political tension. Everyone realized that it was practically impossible to implement such measures.

It was also due to legal environment that the managers of the state-owned network of healthcare institutions and state bureaucracy were involved in corruption and were siphoning off the main share of public financial resources. In addition, all providers of healthcare services had to bribe a wide circle of state officials to retain their positions.

It could be said in conclusion that in the 1990s although the government carried out large-scale reforms including many daring initiatives, they did not have a tangible impact on the effectiveness of the healthcare system.

5.2. Current healthcare organization and financing

The next stage of the reforms started in 2004-2005, when, in parallel with economic reforms, the Georgian government launched social policy reform (See above in the chapter on social protection). Out of the economic reforms, the amendments made to the Tax Code in 2004 are worth mentioning in this context. The new tax code provided for the abolishment of insurance contributions and the introduction of a social tax (not earmarked) by its nature similar to other general budget revenues. From 2007 social tax was merged with income tax. Collection of all taxes became the function of the Ministry of Finance and its tax authority. The independent body (SUSIF) in charge of the collection and administration of social contributions was abolished. Because of social sector reform, it became technically clear how public resources should be channelled in order to finance the health-related needs of poor section of the Georgian population. There was a need for the creation of a policy which would better support the poor population's access to healthcare services. Another, no less important comparable task was to establish a healthcare funding mechanism minimizing public sector participation in procurement of healthcare services. As a result, the responsibility for one's own actions would lie with the user of the healthcare service.

Currently the health sector is regulated according to legislative and normative acts issued by the Parliament of Georgia, Georgian Government, Minister of Labour, Health and Social Affairs and local government. All the healthcare facilities, except for military hospitals and primary healthcare units of the penitentiary system, operate as legal entities of private law and are regulated by the Georgian Law on Entrepreneurship. Local governments do not directly participate in the administration and have no regulatory power over the health sector. Their role is limited to the development and financing of healthcare programmes within their own budgetary resources for local populations.

The legislation provides for doctors' mandatory certification and the licensing of hospitals and primary healthcare units. The amount of public funds allocated for health services and the terms of spending are determined by the annual state budget law and sub-legislation issued under this law. There is no required standard defined for the quality of healthcare services in Georgia. The Ministry recognizes the treatment standards developed by professional associations. However, these standards are not obligatory and have the status of recommendations.

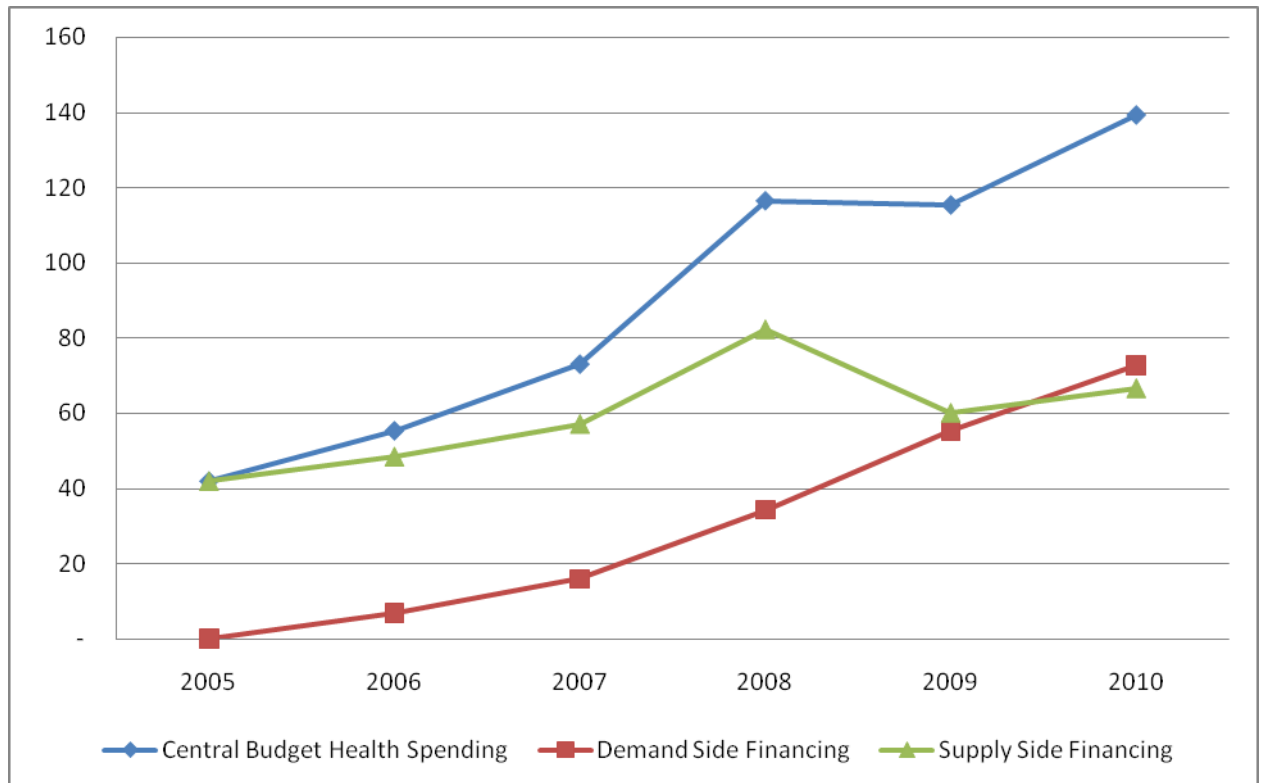
The dynamics of the funding of Georgia's healthcare sector clearly shows that from 1995, public expenditure per capita USD 0.8, increased about 65 times by 2009¹¹⁷ and constituted USD 51.5, which is still almost 2.5 times smaller than the public spending in 1990.

According to the recent national health accounts, the 2008 total health expenditure in Georgia made up €712 million, which constitutes 8.7% of respective year GDP. Out of this, public expenditure amounted

¹¹⁷ Georgian law on the 2009 state budget

€147 million (20.6%), rest of the world - €74 million (10.5%), and the biggest share €491 million (68.9%) was private spending (MoLHSA 2010).

Figure 5.1 Dynamics of central budget allocations for the healthcare sector (in MLN EUR)



Source: 2005-2010 Laws on State Budget.

The figure 5.1 above shows that in nominal terms the central government increased public financing of healthcare almost 3-and-a-half times over a five-year period. But in real terms as a share of GDP and total health spending the government funding has not changed. The financial composition of the health market has not changed. Health indicators - such as access, equity and quality are changing. Theoretically this could be the result of more public funding, or the improved performance of the healthcare industry. As public funding has remained almost constant as a share of spending, but the spending pattern in healthcare has changed (Georgia has shifted from provider financing to consumer financing) - the conclusion is that it is the spending pattern, not the amount that matters.

Table 5.1 Trends in health expenditure in Georgia, 2003–2007

	2003	2004	2005	2006	2007
GDP (current prices, EUR, millions)	1646.9	2152.1	2836.7	3482.1	4449.8
Total health expenditure (EUR, millions)	139.4	183.2	243.7	292.2	363.1
Public health expenditure (EUR, millions)	20.9	28.5	47.7	64.1	66.9
Private health expenditure (EUR, millions)	108.2	143.6	189.2	213.2	262.8
Donor aid (EUR, millions)	10.4	11.1	6.7	14.8	33.4
Total expenditure on health (THE) % GDP	8.50	8.50	8.60	8.40	8.20
General government expenditure on health (GGHE) % THE	15.00	15.50	19.60	21.90	18.40
Private expenditure on health (PvtHE) % THE	77.60	78.40	77.70	73.00	72.40
GGHE % General government expenditure	6.70	5.40	6.00	5.70	4.20
SUSIF/HeSPA* expenditure on health % GGHE	64.00	62.00	45.00	51.00	58.00
Out-of-pocket spending on health % PvtHE	99.50	99.00	99.00	98.80	97.90
Private pre-paid plans expenditure on health % PvtHE	0.50	1.00	1.00	1.20	2.10
Externally funded expenditure on health % THE	7.40	6.10	2.70	5.10	9.20

Source: (T. Chanturidze 2009)

5.2.1 Infrastructure

The almost two-decade-long crisis in the healthcare system naturally influenced infrastructure. The inherited infrastructure deteriorated rapidly due to underfunding. The private sector managed to find a minor market niche in which to generate profitable services and to renovate infrastructure (dental service nationwide, obstetrics and gynaecology, plastic surgery and other small clinics), whereas in the publicly owned hospital sector the number of beds decreased annually, debts accumulated and the amortization of capital was ignored. In many secondary care facilities the situation was even worse as IDPs were accommodated there. Fortunately, in recent years the government took actions to provide IDPs with compensations or alternative places of residence but the process is not yet finished.

The size of the primary healthcare network has stayed almost as in the immediate post-Soviet period. The overall number of hospitals has slightly decreased. The number of beds has greatly decreased. As shown in the table 5.2 below, the number of hospital and acute care hospital beds has decreased almost three fold.

Table 5.2 Dynamics of changes in the number of beds

Years	Hospital beds per 100000			Acute care hospital beds per 100000		
	Georgia	EU (average)	CIS (average)	Georgia	EU (average)	CIS (average)
1980	1017.08	896.16	1243.05	879.9	602.58	1022.56
1985	997.34	862.07	1260.89	865.6	571.55	1032.18
1990	979.75	808.84	1278.29	857.5	543.33	1052.18
1995	766.15	693.72	1129.89	679.7	484.97	951.99
2000	477.1	626.2	939.12	434.2	437.61	809.51
2005	391.96	572.2	856.01	384.3	399.12	723.7
2006	374.15	565.25	850.56	343.6	395.28	799.58
2007	331.9	564.81	844.82	291.5	-	797.06

Source: (World Health Organization Regional Office for Europe 2009)

The Hospital Development Master Plan was developed and enforced by the government from January 2007. The Master Plan called for the complete replacement of existing hospital infrastructure within a three-year period (2007-2009) by transferring full ownership rights from the state to the private sector through a tendering process. The Master Plan determined total hospital sector capacity; optimal location of inpatient facilities; the optimal number of hospital beds per facility (see Table 5.3); the types of hospital services and finally, conditions for the operation of hospitals (e.g. minimum standards for physical infrastructure and equipment). It was envisaged that hospitals would differ by size, with 15 and 25 beds in rayons, and up to 50 and 100 beds in regional centers and big cities. 50m² per bed in small hospitals and 75m² per bed in the larger referral hospitals are the estimates used for hospital network planning (T. Chanturidze 2009). To raise the interest of investors in attainment of hospitals in remote areas the highly valued property in large cities and in rayon centers has been mixed in tender lots.

Table 5.3 Government plan for opening the additional hospital beds

	Number of Beds
Short-term services	
Gynecology and Obstetrics	1036
General medicine, including:	
Internal medicine	1097
Infectious diseases	308
Pediatrics	676
Intensive care	343
Surgery	2458
Psychiatry and long-term care	1465
Tuberculosis	417
Total	7800

The government plan provides for the reduction of the overall number of beds and transfer of state property to investors in the form of existing hospitals. In response, the investor undertakes a responsibility to build a new facility and start the provision of healthcare services according to the government plan. The investor is responsible for maintenance of the organization for 7 years. After meeting this requirement, the investor has a right to become the unrestricted owner of the received property. It has to be emphasized that the state does not interfere in personnel optimization exercises initiated by the

investor during the period of transformation. Therefore, the investor is fully responsible for management of employee-employer relations in transition period.

Because of the August 2008 war with Russia and the global financial crisis, the economic growth of the country was adversely affected since the second half of 2008. Real estate values fell significantly and accordingly, the activity of investors decreased. General economic difficulties led to delay of hospital sector privatization and a risk of failure in enacting some of the agreements made with respect to it. In order to overcome political problems, the government implemented changes in the hospital sector privatization plan in spring, 2010. The new privatization plan was linked to medical insurance of poor population. Despite expansion in the scope of private insurance, a major part of insurance companies' income is earned by funds received through participation in the state programme. Because of that, private insurance companies responded to government's political initiative and took part in bidding announced by it.

The new plan provided for division of Georgian territory into 26 so-called medical districts and construction of modern hospitals of planned capacity in each medical district. Any company which wins a tender in any particular medical district will be granted a three-year contract to provide services for state-funded insured persons of the relevant medical district. In return, the company undertakes to construct the hospitals meeting the modern standards by December 1, 2011.

In total, within the mentioned period, the insurance companies will construct more than 1100 new hospital beds. Most of the hospital beds are in facilities left without investors in consequence of letdown of the plan of 2007.

Reforming the primary healthcare network was regarded as a priority of the health sector for a number of years. The plan existing before 2007 provided for the optimization of the network. The PHC Master Plan provided for the renovation of 217 organizations (there were 750 before) and the construction of new healthcare institutions to ensure 20-minute physical access. The construction and repairing of PHC facilities was started in two pilot regions. The projects were implemented by the EU and the World Bank. However, after government formulated health financing and secondary care development policies, it changed the approach having determined that the PHC project would be ineffective in a new environment. The government's plan was to privatize, similar to the way in which hospitals were to be privatised, out-patient hospitals and village PHCs and give their personnel privileges in the procurement exercise. However, the recent economic downturn impeded the privatization of the infrastructure in the PHC sector.

5.2.2 Personnel in the health sector

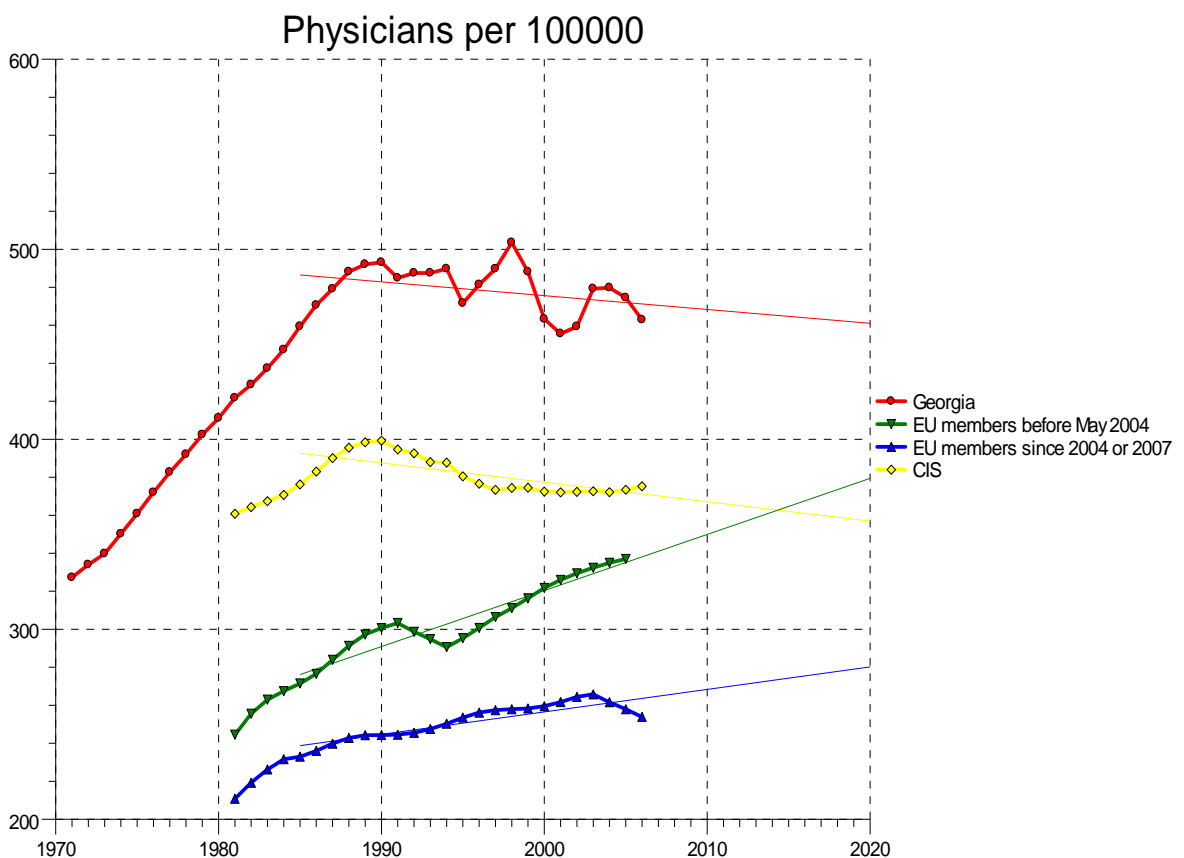
The state agencies divided the regulation and oversight of medical education mainly between the Ministry of Labour, Health and Social Affairs (MoLHSA) and Ministry of Education and Science, according to the area of control. The Ministry of Education is responsible for the operation of higher educational institutions and the Ministry of Health is responsible for post-graduate study. The Ministry of Health defines state professional postgraduate programmes during residency and arranges state certification exams.

There was only one higher education medical institution before 1991 in Georgia - the Tbilisi State Medical Institute. About 600-800 students were enrolled each year during the Soviet period. Radical changes to the state education system in 1990s, followed by the fact that in 2004 undergraduate medical education in Georgia was provided by 4 state and 69 private higher education institutions (with approximately 15,000 students), 22 of which were located in Tbilisi, has led to massive increases in the number of doctors being trained in Georgia (Oxford Policy Management 2007b). It is not surprising that the majority of graduates have not been able to find jobs and resorted to different sectors of employment.

After the 2005 introduction of a nationwide university entry examination for high school graduates and regulatory requirements for higher education institutions the number of medical schools and students decreased. However there are still three times more graduates than there are jobs. This can be explained by subsidies provided by the state to public educational institutions which makes medical education affordable enough for prospective students to consider – however, many find that when they graduate they cannot find jobs equivalent to minimum 8 years of investment in their professional studies.

According to the MoLHSA Statistical Department, in 2007, 19,951 doctors (in total, regardless of their specialism) were certified as professionals approved to carry out independent medical activity, which equated to 4.6 qualified doctors per 1000 inhabitants. Georgia traditionally had high levels of medical staffing, particularly doctors, even compared with other states of the former Soviet Union - a trend that has continued since independence. However, although there are a large number of trained doctors in the country, they are very unevenly distributed. There is a concentration of doctors in the capital city Tbilisi where there are approximately three times as many doctors as there are in regions. The data about real incomes of health professionals is unavailable unfortunately.

Figure 5.2 Physicians per 100000 population in Georgia and other selected countries since 1990 to the latest available year

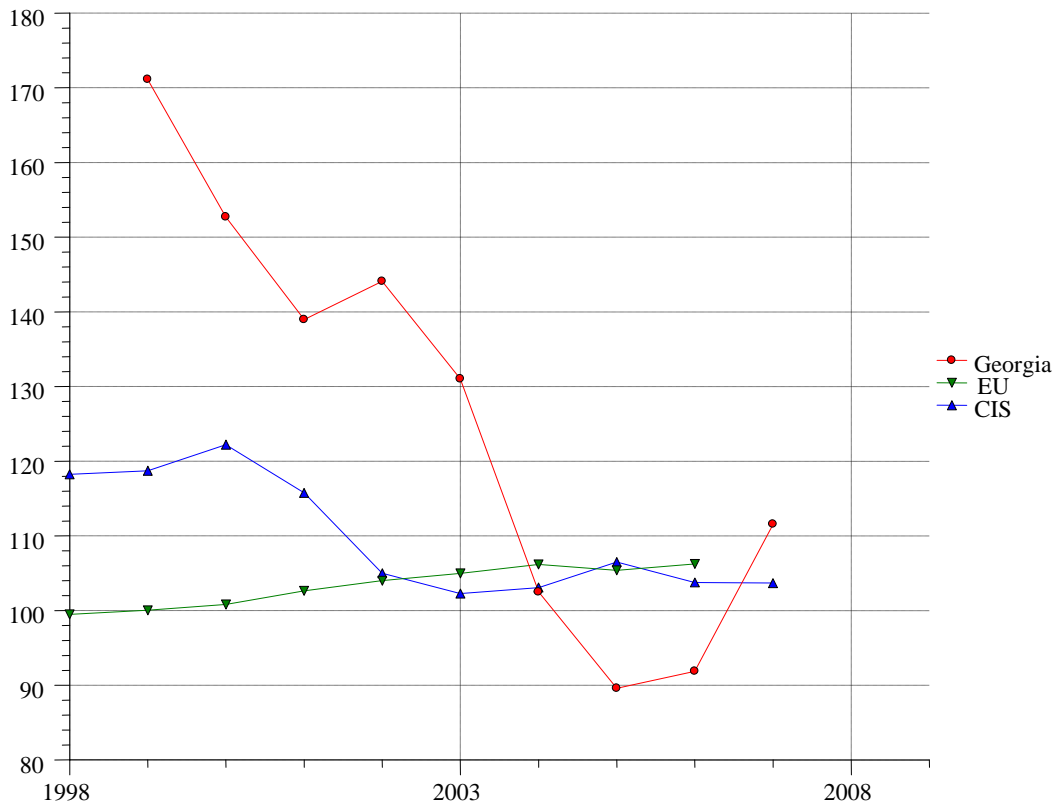


Source: WHO/Europe Health for All Database.

Reductions in the number of doctors coincided with the period of economic crisis. Due to economic conditions, doctors (especially young doctors) had to stop their medical activities. The number of people wishing to become medical professional also decreased. Despite the rigid regulatory requirements defined by legislation, it should be noted that judging by the liberal character of the sectoral reform, professional regulation should not be the government’s priority. Georgian legislation requires obtaining specialties in

order to start working. Therefore specialisations become major barrier to start independent practice. The specialisation is subject to tough regulation and significant tuition fee. After adoption of law on medical activities, government as the compensation for complicated life of future specialists undertook the responsibility to finance few residents in priority specialities. Since 2007, the government has stopped funding post-graduate medical training programs and the program is phasing out now. Notwithstanding as it is shown in figure 5.3 Georgia is not experiencing the any deficit of specialists.

Figure 5.3 Physicians, medical group of specialties (PP), per 100000

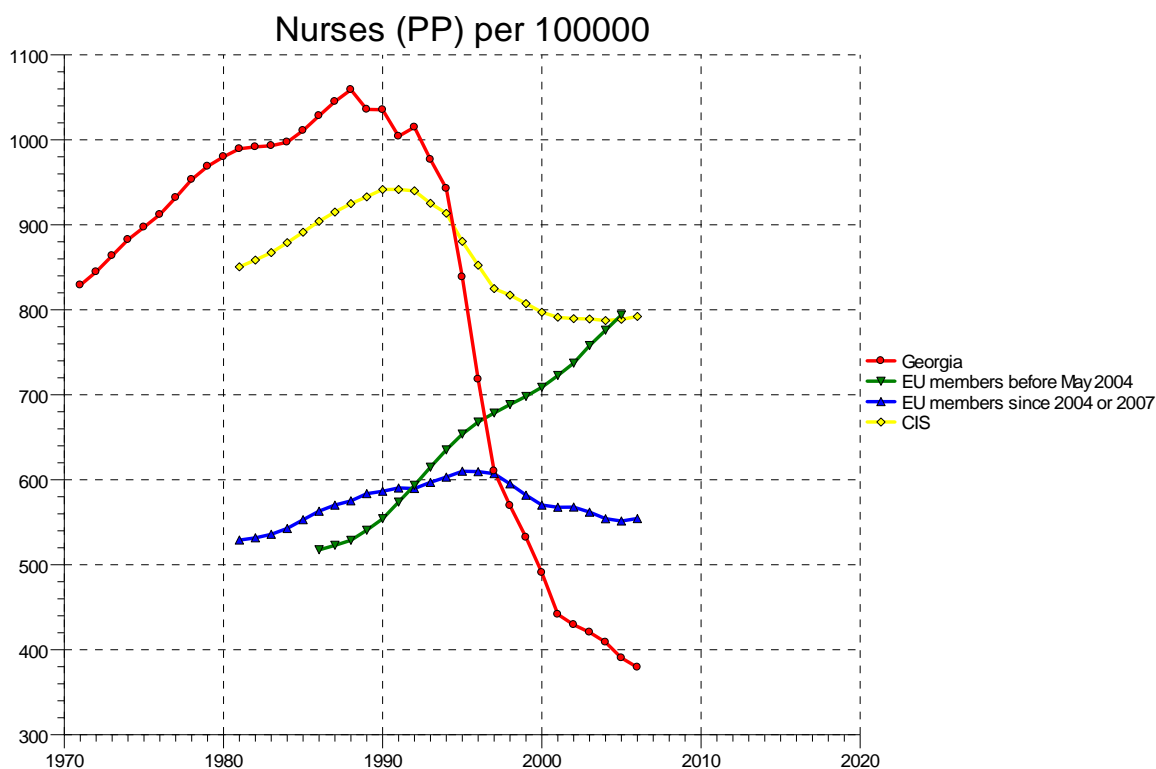


Source: WHO/Europe Health for All Database.

The number of mid-level medical staff has decreased dramatically since independence; there were 980 nurses per 100000 in 1990 and 360 in 2007. The number of nurses is the lowest among the post-Soviet countries. In comparison with Western-European countries, the imbalance between the number of doctors and nurses is high and, overall, the number of nurses in the country is low, reflecting the very low status of nurses (see Figure 5.4). The number of doctors as shown above historically was high – the natural result of a profession with high job security and high pay. But after demand fell and income decreased doctors took on the responsibilities of nurses as well.

In regular (economically healthy) situation nurses are cheaper than doctors and administrations are prone to employ nurses to lower the cost of services. But in the Georgian case doctors are ready to perform the functions of nurses in order to keep their jobs. Former hospital administrations do not care about how staffing composition affects service prices and so the number of nurses decreased more than number of doctors.

Figure 5.4 Nurses per 100000 population in Georgia and other selected countries since 1990 to latest available year



Source: WHO/Europe Health for All Database.

5.3. Access, equity and quality in health and long-term care

5.3.1 Access

According to a 2007 health service utilization and expenditure survey (MoLHSA, Department of Statistics, OPM, Curatio International Foundation, 2007), in terms of physical access, most people have access to a health facility within 30 minutes by their usual means of transport. In most cases this refers to taking a bus or walking. Even in rural areas, 72% of the population live within 30 minutes of the health facility that is the nearest and/or normally visited, although for a small fraction of the population travel times are much longer.

Most users reported that tests and medicines prescribed could be obtained at (or near) the place they were prescribed – around 85% in each case. An appreciable proportion of the population, however, reported that some services were unaffordable. Some 18% of people who reported that they were sick in the last 30 days said that they did not have a consultation because they couldn't afford it, and for around 12% of all consultations it was reported that prescribed medicines could not be afforded. The proportion reporting that services were unaffordable varies with the type of service, but it is generally higher in rural areas, with the exception of medicines where differences are small. The proportion reporting that they could not afford medicines was highest amongst the poor.

However, even among the richest fifth, 9% felt that medication was too expensive, suggesting some medicines may be difficult to afford, or judged not worth purchasing, even for the wealthiest part of the

population. Most users expected to pay for their consultation and only slightly over one third reported receiving a receipt which covered all the payments made.

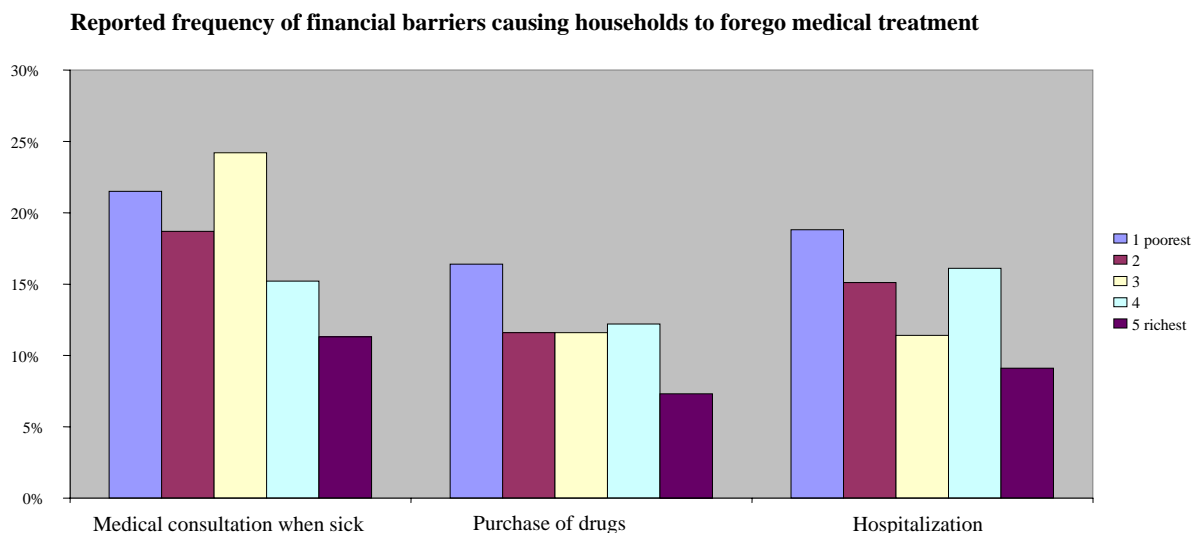
A crucial reform of the financing model was implemented in 1995 when Georgia shifted, for the first time, from direct budgetary funding of health facilities to programmatic financing. The conceptual meaning of these changes was the procurement of services based on fee-for-service principle and the occurrence of the first signs of market competition in the sector. The attempt to fund the sector through social insurance contributions seemed unrealistic given the fact that the share of the population employed in the formal sector constituted only 1/7 of the overall population and a household's average monthly income from hired employment made up USD 15 in 1997. The state budget law of 1997 allocated USD 38 million for health expenditure (about USD 8.8 per capita per year). Out of this allocation, the difference between revenues and expenses (USD 24 million) was to be covered by transfers from general budgetary revenues.

An important component of the recent health care reform is a crucial alteration in the funding model. 2006 was marked by a new initiative; after the implementation of the targeted social assistance (TSA) programme and identification of extremely poor, poor and vulnerable groups, the needy population started to receive additional primary and hospital services, namely services not included in Basic Benefit Package. In this period, the provision of these services was still the responsibility of the public purchaser of healthcare services – SUSIF, which purchased services on a fee-for-service method. Then from 2007, as part of the liberal economic and social reforms, the poor section of the population was provided with vouchers with which they could acquire private medical insurance. This enabled them to choose between those private medical insurance companies, which agreed to accept the owner's health voucher, based on the government's terms and at the defined price.

By the end of 2007, 245,000 needy families or 700,000 persons had been covered by state funded private medical insurance. In one year, the share of the population covered by private medical insurance increased from 2.3% of the country's population to 18% (Social Service Agency 2010). The share of poor population which is insured has been steadily increasing to 2010 and today 904,000 people (21% of population) are covered by state-funded insurance. It has to be mentioned that a large number of teachers, military personnel and public servants plus their family members are also covered by private medical insurance, but their health benefit can be considered as part of their salary and they are counted as owners of corporate rather than private insurance (about 250 000 insured) as they do not choose their own insurance provider. The number of insured people has also increased in the private corporate sector. At the present moment a total of 1600000 people are covered by health insurance (37% of population). The increase in insurance coverage from 2.3% to 37% during the 4 years of operation of the new funding mechanism may be considered a real achievement of the health reform.

A major reason underlying inequality in utilization is financial access to care. As a result, the poorest quintile is approximately twice as likely as the richest to forego care due to financial barriers. Figure 5.5 shows the reported frequency of financial barriers causing households to forego a medical consultation when sick, the purchase of prescribed drugs, and hospitalization when advised by a doctor. Although there is variability in the middle quintiles, the gap between the richest and poorest quintiles for all three indicators is clear, as the poorest quintile is approximately twice as likely as the rich to forego care due to financial barriers.

Figure 5.5 Financial Accesses to Healthcare, by Quintile



Source: (MoLHSA, Department of Statistics, OPM, Curatio international Foundation 2007)

Almost half (49%) of household expenditure on health is spent on drugs and medical supplies at retail pharmacies. A third (34%) is spent on hospital services and the remainder (17%) at outpatient facilities. (MoLHSA, Department of Statistics, OPM, Curatio international Foundation 2007). Overall 42% of all health expenses are attributed to pharmaceuticals. It is worth noting that to address the relatively high prices of pharmaceuticals Georgia in 2009 introduced new legislation opening the market to pharmaceuticals with marketing authorization in EU and OECD countries. Imported pharmaceuticals comprised about 90% of market and out of it 80% had been imported from developed countries. At the present moment importers of pharmaceuticals have to prove just that the product is authorized by a recognized drug regulatory agency. As the new regulation has been only recently introduced there are no factual data proving the effect of liberalization of pharmaceutical imports but major importers recently announced 20-40% reduction of prices pointing out the fact of increased competition between importers.

5.3.2 Quality

Due to the legal status of medical institutions, the Ministry of Labour, Health and Social Affairs has no right to fully monitor and control healthcare services offered by providers. The only possibility is to respond to the complaints of users dissatisfied with the quality of service. Relevant agency under MoLHSA can investigate the case and submit to Ministry for decision. The termination or abolishment of the certificate of approval of the service provider can be used as an administrative procedural sanction.

Since 2006, the Government has actively encouraged the development of protocols and guidelines for clinical practice. Different professional associations developed their own standards which MoLHSA has approved as the national clinical practice guidelines for a large number of specialties. These are presented in the form of recommendations, are not mandatory, and set a standard against which patients' complaints are considered. Protocols and guidelines are the instruments of quality control. The third party service purchaser is the most interested (and financially able to influence the providers) in terms of quality of service. In 2006 the public agency was the only big service purchaser and it was also interested in the quality of services. So it was understandable that the Ministry supported the development of quality standards.

Since the policy change which introduced privatisation of hospitals and channelling of public money through vouchers from solely one public purchaser to many private insurance companies the situation has changed. Now the insurance companies (payers) and investors who are building new hospitals and recruiting personal in new facilities should work on service quality standards.

In this light the old standards become rather questionable. The government should create the possibility for the new players to participate in the development of new regulatory instruments. Development of health insurance is important for the improvement of the quality of the healthcare service. It is becoming clearer all the time that administrative measures intended to uphold quality and standards are not enough and that a substantive improvement requires the participation of players for whom improved quality would lead to improved profits.

5.3.3 Equity

Medical Assistance Programme (MAP) is the most important initiative ensuring equal accessibility of healthcare services. The financing policy provides for state-funded insurance of the poor part of the population. Initially in 2006, just 12% of the healthcare budget was spent on the financing of target group (MoLHSA 2006). This indicator doubled in 2007 and by 2010 more than 50% of central budget allocations for the health sector have been directed at this target group (see Figure 5.1). However, the targeting exercise does not cover population groups who may become poor as a result of paying for health services, for example those related to chronic diseases. Evidence shows that the threat of catastrophic healthcare expenditure is a cause for serious concern in Georgia across all income brackets, but particularly for the poor. Private health expenditure increased from €43 to €98 per capita between 2001 and 2007. This rate of increase considerably exceeds the rate of inflation over the same period. This shows that there has been also a considerable growth in out-of-pocket expenditures on health, which has been driven mainly by increased expenditure on pharmaceuticals. Pharmaceuticals are not covered under the state sponsored private health insurance packages and have only limited cover under state health programmes.

5.3.4 Long-term care

Georgian legislation does not explicitly define what is considered as long-term care. This kind of care is provided to patients in mental hospitals and physically and mentally disabled people in special institutions. Long-term care institutions serve children with physical and mental problems. However, many of them stay at children's institutions even after reaching maturity since there is no other place to go. Through modest financial resources, the State funds social services provided by the private sector (mainly NGOs).

The State spends €1.9 million (2009) annually on disabled persons, the elderly and children deprived of parental care. Under this programme social service are provided to 750 beneficiaries in day centres and to 225 beneficiaries in residential institutions¹¹⁸.

There are 44 social care institutions for children in Georgia (orphanages, boarding schools, special education schools, rehabilitation centre, and specialized nursery schools) which serve about 4,800 children nationwide. Of these, 31 institutions serve children with disabilities. Children with intellectual disabilities can be found in all 44 institutions, as standard admittance procedures are not followed. It is not possible to specify the exact number of children with intellectual disabilities in these institutions due to poor record keeping. In 2007, there were 8 institutions in the country specifically for children with

¹¹⁸ Health and Social Programmes Agency
http://www.hespa.ge/files/114_169_998631_28_32_505632_ssmp03.pdf

intellectual disabilities: seven boarding schools and one special school in Tbilisi. Two homes (Senaki and Kaspi) served children with severe intellectual and physical disabilities, and there were two homes for infants with intellectual disabilities. There is a great variation in the quality of service provision in these facilities, which, to a large extent, depends on the management team of a facility, rather than on state regulation. There is a recognized need for child protection reforms that should promote placing children in small group homes, but also improving physical conditions at child care institutions, upgrading the competencies of staff, bringing innovative approaches to child education, and improving the supply of food and medicines (Clare O'Brien and Chanturidze Tata 2007).

It has to be noted that the state policy to replace care in long-term care institutions for children with alternative activities is very strongly supported by donors and the non-governmental sector. The policy focuses on prevention, reintegration of children into their families of origin and supports child fostering. Before 2000, organizations providing long term care to children were subordinated to the Ministry of Education. Later, ensuring social protection was defined as the main objective of the system and the organizations were put under the subordination of MoLHSA. At the end of 2009, all the state institutions providing services to both children and adults were united into a single subject of public law subordinated to MoLHSA. This change should ensure a better coordination of reform-related exercises carried out within the system.

5.4. Health outcomes

According to the main indicators, historically, the health status of Georgia's population was one of the best in the former Soviet Republics, despite being well behind the average European indicators. The reason for better health condition was relatively high living standards (just like in the Baltic Republics) and universal accessibility of healthcare services. According to recent data, these indicators have not changed much despite falling behind the average for Europe. It is important to note the trend that was observed in the 1990s. During the period of armed civil confrontation and territorial conflicts, the sharpest decrease in life expectancy in the previous 25 years was recorded and in 1993 constituted 68.9 years (64.4 males and 73.3 females). This indicator has been steadily improving since 1995.

Recent trends in Georgia's health indicators point to steady improvements. Table 5.2.1 shows the evolution of key health outcomes during 2000–2006. Life expectancy increased and infant and maternal mortality rates declined. In the last decade, the mortality rate increased to its maximum (11.3) in 2004. In 2008 it constituted 10.2. This indicator was higher for men (11.2), compared to women (8.5) (NCDC 2008).

The number of maternal deaths fell sharply between 2004 and 2006, but since such deaths were rare anyway, these numbers were very small (corresponding to the decline from 21 deaths to 11 deaths) and subject to measurement challenges. Thus, it is difficult to automatically attribute this kind of decline to specific changes in poverty or health system performance. In general, health outcomes reflect a wide array of determinants and tend to evolve more slowly than economic indicators, but the trend observed in Georgia is definitely positive. Future improvements may also be forthcoming in view of the increased rates of healthcare utilization, also shown in the table.

Table 5.4 Health Indicators

<i>Indicator</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	
Life Expectancy	71.3	71.5	71.5	72	71.4	73.1	n.a.	
	Male	67.5	68	68	69.1	67.8	69.3	n.a.
	Female	75	74.8	74.8	74.7	74.9	76.7	n.a.
<i>Health outcome indicators</i>	Infant Mortality Rate (per 1,000 live births)	22.6	22.9	23.8	24.8	23.8	19.7	n.a.
	Maternal Mortality (per 100,000 live births)	49.2	58.7	45.1	49.8	45.3	23.4	23
<i>Health system indicators</i>	Outpatient Contacts (per person per year)	1.4	1.5	1.6	1.8	2	2.1	2.2

Source: WHO/Europe Health for All Database.

Georgia's health outcome indicators are generally better than those prevailing elsewhere in the Commonwealth of Independent States (CIS) but fall short of those in the new European Union (EU) member states. Table 5.2.2 compares health outcomes and health system performance indicators in Georgia and other European countries. With the exception of infant mortality, which remains relatively high, all other health outcomes fall between those achieved in the CIS and EU-12. With respect to health system performance, however, Georgia lags far behind all regional groupings, with a low outpatient contact rate and high out-of-pocket formal and informal spending. Overall, the combination of better health outcomes (compared to the CIS) but worse system performance indicators is likely to be a reflection, at least in part, of the critical role of behavioural factors (for example, alcohol consumption or diet) in determining population health. It should not cast doubt on the considerable scope for further health system strengthening.

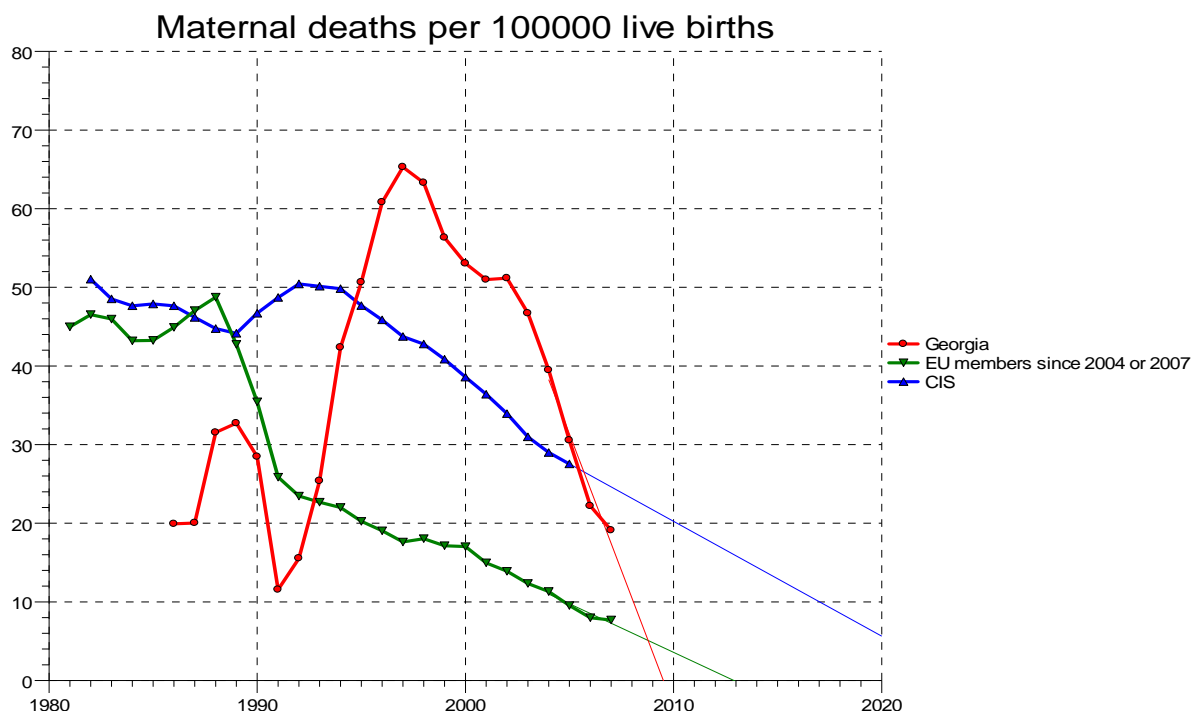
Table 5.5 Health outcome and system indicators (2006)

<i>Indicator</i>	<i>Georgia</i>	<i>EU-15</i> (W. Europe)	<i>EU-12</i> (E. Europe)	<i>CIS</i>	
<i>Health outcome indicators</i>	Life expectancy	73.1	79.7	74	67
	Infant mortality rate (per 1,000 live births)	19.7	4.3	8.3	13.4
	Maternal mortality (per 100,000 live births)	14.14	5.3	9	28.2
	Mortality due to diseases of the circulatory system (per 100,000)	545.1	238.7	523.4	773
<i>Health system indicators</i>	Outpatient contacts (per person per year)	2.2	6.5	7.8	8.6
	Out-of-pocket payment on health (% of total health expenditure)	72.1*	16	27.2	37.4

Source: WHO/Europe Health for All database, except * = Georgia National Health Accounts, 2006.

According to the National Centre for Disease Control and Public Health (NCDCPH), the maternal mortality rate increased by almost 20% between 1990 and 2000, from 41 to 49 maternal deaths per 100,000 live births. The peak rate occurred in 1997, when 70.6 maternal deaths per 100,000 live births were recorded. Using a three-year rolling average (as is standard for smaller populations), the maternal mortality rate fell from 51.5 in 2000-2002 to 40.3 in 2003-2005 (Chkhatrashvili, Chikovani et al. 2006) and according to last available data the lowest maternal death rate of 14.14 per 100 000 live births was recorded in 2008.

Figure 5.6



Source: WHO/Europe Health for All Database.

5.5. Conclusions and recommendations

Sustainable development of a system is mainly determined by sustainable maintenance of the chosen policy. It is crucial when reforming a system to make its operation and performance predictable for users and businesses. It is also extremely important that potential foreign and domestic investors believe in the sustainability of state policy. In terms of percentage of GDP, health expenditure of Georgia is equal to those of developed countries, but the system itself remains inefficient due to inefficient service production, poor quality and underdeveloped conflict resolution mechanisms. However, there are a lot of resources and technical means to improve health outcome. Every component of the healthcare system, whether it is provision of healthcare services or financing, significantly determines the quality of healthcare service offered to the population. The privatization of the state hospitals network is not finished and it is not clear how the primary healthcare network will be privatized. There are no policy discussions about development of tort legislation yet.

Before the August war in 2008 and the world economic crisis the value of real estate was the highest over the last twenty years and the government needed to exercise tough oversight over execution of investors' contractual obligations in the hospital sector rebuilding, but currently, the government needs to be more flexible and to show readiness to adapt to established circumstances.

Utilization of the resources allocated by the government for the purpose of redistribution of income must ensure equal financial accessibility of healthcare services for different sections of the population. Vouchers are now given to the poor section of the population to enable them to pay for healthcare services via insurance. This voucher financing has the same influence on quality of service provided as out-of-pocket fee-for-service and private insurance spending, as the poor population can spend the vouchers as they choose. Vouchers (as an income redistribution tool) can make healthcare equally accessible for different income groups without compromising service quality, however, unfortunately

more than 10% of health spending is still service provider direct financing and the voucher style spending makes up just about 10% of all health spending. The 10% spent on service provider direct financing is in effect “pro-rich” financing, making individual benefits given to the disadvantaged slim and coverage less, and at the same time making service providers inefficient.

As we have seen from this chapter, Georgia’s healthcare policy significantly differs from the policies pursued by neighbouring countries and the healthcare model differs significantly from widely adopted models in western countries. Therefore, it is natural that the completion of the initiatives which will provide evidence for the evaluation of both positive and negative aspects of the reform will mostly depend on the sustainability of the Georgian government’s policy. Before 2005 reform Georgia decided to follow the route of western development by just blindly copying fragments of health system institutions and regulations in a manner which was bureaucracy-driven, fragmented and inconsistent Georgia would have benefited more from following a free-market approach and using foreign technical assistance exclusively for policy implementation. Western orientation implies the promotion of economic and civil freedom, which, in addition to being value of paramount importance, is the best way to protect the healthcare market in its current embryonic stage from the state’s inefficient and harmful influence.

It is no less important that current and potential investors realize that in parallel to the general improvement of the business environment in Georgia, the health sector also gives confidence to businesses by simplifying regulations and not interfering in the market by subsidising providers selectively.

The development of the insurance industry will contribute to an improvement in the quality of service. The priority could be set out as follows: Instead of using direct state regulatory mechanisms, government have to look for other mechanisms through which health service users (for example the introduction of tort legislation), the insurance industry and providers will manage to solve conflicts in a court of arbitration without direct participation of the executive power.

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