

National Human Development Report Georgia, 2000

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Georgia 2000

Foreword A

by Mr. Gia Arsenishvili, State Minister of Georgia

Foreword B

by Mr. Marco Borsotti, UN Resident Coordinator and UNDP Resident Representative

Aknowldgements

by Mr. Gabriel Labbate and Mr. Alexander G. Tvalchrelidze

Introduction

Chapter 1

Life, Liberty, and Security of Person

Chapter 2

Georgian Society and Access to Social Rights

Chapter 3

Access to Health Care

Chapter 4

Access to Education

Chapter 5

Concluding Remarks: Shadow Economy and Access to Human Rights

Annexes

Foreword A

I am honored to have been asked to introduce this National Human Development Report 2000 to both its Georgian and international readers. It is a special pleasure because this year's Report focuses on a very important topic: the protection of the Georgian population's social rights. Today, Georgia is trying hard to earn its place among democratic societies after its recent release from the fetters of totalitarianism. In this difficult, historical path, it is essential to promote civil society and civil ideology. Only the self-consciousness of citizens, only their civil ideology, and only the indisputable protection of human rights can help to implement our efforts and make our planned reforms irrevocable. This is the reason why it is so important for us to have international institutions especially one of the UN Agencies objectively assessing the situation.

The Georgian Constitution is the first and incontestable warrantee of human rights protection in the country. This document, our nation's most important, recognizes all principles of human rights protection, the Universal Declaration of Human Rights, international treaties, agreements, or optional memoranda included. Chapter One of the Report makes much of the fact that shortly after Georgia adopted its Constitution, we joined all international agreements concerning human rights protection. Such actions of the Georgian Government have already brought results. For example, the freedom of speech and mass media rights are unconditionally accepted in Georgia. Another remarkable step we must acknowledge is the creation of the Ombudsman's institution in Georgia. From an institutional perspective we can say that Georgian legislation complies with all principles of a democratic state.

However, I must admit that we face difficulties with the actual implementing of human rights. The National Human Development Report 2000 indicates that economic hardship is undoubtedly responsible for the serious problems existing in the sphere of social rights. The Government is willing, but currently unable, to create the necessary preconditions for state welfare and offer the relevant levels of health care, education, and employment to every citizen of Georgia. In this regard, the shadow economy and corruption are major obstacles to the Government's ability to fulfill its objective. The Report objectively appraises the existing reality, and, more importantly, describes the development prospects of the Georgian State, civil society, and civil self-consciousness.

We have a long way to go before achieving our strategic goals. The support of the international community is vital for Georgia. This support convinces us that we will manage to overcome our difficulties, which are typical in the formation of any state, and that very soon we will achieve sustainable levels of development and civil welfare.

Prof. Gia Arsenishvili
State Minister of Georgia

Foreword B

The *National Human Development Report 2000* discusses the Georgian population's access to a selected number of human rights as set forth in the Universal Declaration signed more than 50 years ago. Georgia's endorsement of the Universal Declaration of Human Rights has been a crucial step. The next one is to implement the existing public policy that will ensure the access to these rights by the population.

Of the former Soviet Republics, Georgia has been one of the leading countries in providing its population with access to human rights. Georgia is to be given recognition for its achievements in the democratization process of the political, social, and economic aspects of its development. The country's commitment to a free press and respect of political rights have been remarkable in a region of the world not yet known for ensuring respect of such rights to their full extent.

But while it is essential to highlight these achievements, it has become necessary to state that the full range of human rights embodied in the Universal Declaration, which includes (among others) the right to access education and health care services, can only be provided if additional efforts are made to strengthen and improve the efficiency of governance. Ensuring that the population can access the full range of human rights depends on the efficiency of local institutions, which in turn affect the government's capacity to develop sound social and economic policies as well as the government's capacity to implement those policies. This determines the country's capacity to fulfill its commitments to the Universal Declaration of Human Rights.

The National Human Development Report 2000 emphasizes the importance of establishing the necessary incentives to encourage Georgians to join the formal economy. While the impressive growth of the informal sector has provided a lifeline to many, in the long run the provision of human rights requires a strong and formal economy. Otherwise, much needed government revenues will be difficult to obtain. A big challenge ahead lies in continuing the reforms in those institutions that would encourage and promote business in the formal sector.

I remain optimistic on the chances to successfully build a Georgian society that can benefit from the full range of agreed values of the Universal Declaration of Human Rights. I wish success to the readers of this National Human Development Report 2000 in contributing to the positive development of building a prosperous society in Georgia. And in particular, I wish success to the young readers who will need to play a crucial role in ensuring the success of this change process.

Marco Borsotti
UN Resident Coordinator
UNDP Resident Representative

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In addition, many others contribute generously to this report. Among them were:

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This report is intended to encourage discussion about policy in Georgia rather than provide definite solutions. We are thankful to UNDP for the freedom of thought given to all of us involved in preparing this NHDR. As in previous years, **Mr. Marco Borsotti** has been the responsible for this supportive working environment. The only boundaries imposed on this report have been those derived by lack of supporting data or inconclusive results. Opinions expressed are those of the editors and contributors, and are not official UNDP views.

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Introduction

"Human rights and human development share a common vision and a common purpose... Human rights and human development are both about securing basic freedoms. Human rights express the bold idea that all people have claims to social arrangements that secure freedom and a life of dignity. Human development is a process of enhancing human capacities".

The Universal Declaration of Human Rights, a document signed more than 50 years ago, comprises a set of simple and ambitious goals reaching across political, social and economic spheres. The range of issues embodied in the Declaration is wide and goes from the right to life and liberty to the right to access social security, from the prohibition of torture to the right to work and protection against unemployment, from the right of freedom of opinion to the right of a standard of living adequate for the health and well being of a man and his family.

No doubt the Universal Declaration of Human Rights was a bold document. It represented the wishes and hopes of a world genuinely, though momentarily, tired of wars and their miseries. Some of its articles are undoubtedly impossible to challenge and have passed the test of time, like the right to life, liberty, and security of person, or the right to stand equal to others in front of the law. Who could argue against these rights? Others, such as the right to work or the right to social security, may invite discussion. Although these are formal "rights" in a planned economy, Georgians have learnt they are not in a market system. Indeed, in a market economy full employment not only depends on successfully carrying out a complex set of interrelated policies, but also on external factors that may fall outside the country in question's control, for instance, an economic crisis elsewhere with negative local impacts. We will expand on this discussion in subsequent chapters.

The world has the awareness, the resources, and the capacity to comply fully with the Universal Declaration of Human Rights. At the country level, however, the situation differs widely from place to place. The different capacity of each country to meet the terms of the Universal Declaration of Human Rights is an idea that can also be found in some of its articles. For instance, the right to access social security is "in accordance with the organizations and resources of each state". If pensions are lost, therefore, between central and regional accounts, each pensioner's access to his/her proper compensation after a life of work will be less probable than in a country such as Sweden, where such leaks are unthinkable.

The same can be said with regard to the right to education or the right to appropriate health care. Their provision will also depend on the particular "organization" of each state. This is a proxy term for country's institutional capacity, such as its capacity to formulate appropriate laws and respect them. In turn, the resources at each government's disposal and their growth over time heavily depend on the particular "organizations" or institutions of the state. Weak institutions, such as an inefficient judicial system or a government with low levels of spending efficiency, are just examples of bad types of "organizations". These usually result in insufficient resources to secure the population's access to an array of human rights, for instance, education and health care.

Except for those rights associated with freedom in general, such as that of expression, and basic rights, such as that not to be subject to torture, a significant number of rights set forth in the Declaration and agreed upon by the signatory countries share much with "public goods". For example, one such public good is the proper maintenance of roads, and another, the maintenance of public order. People want to enjoy these services but the incentives to shirk do exist. That is, an individual may prefer to enjoy

well-maintained roads while avoiding paying his/her respective contribution in the form of a vehicle registration tax. The provision of public education or health care does not differ much from this example. People may want to enjoy the benefits of a proper public education system while avoiding, as much as possible, their respective contribution in terms of general taxes. People may want to have a proper police force in place, one that does not demand a bribe for everything it does. But to do so requires government capacity to pay adequate salaries, which is a function of people paying their respective share of taxes. Georgians are not alone in this respect. The incentive for people to shirk their respective contributions to the provision of public goods is an issue that has spawned a wealth of literature.

Thus the provision of a significant array of human rights depends on the characteristics of local institutions, which in turn affect the government's capacity to develop and carry out sound social and economic policies. These determine the country's capacity to fulfill its commitments to the Declaration of Human Rights.

Countries cannot fulfill all rights simultaneously. A refusal to establish priorities runs the risk of turning the human rights approach into something of a wish list. This report assesses the Georgian population's degree of access to a number of human rights as defined in the Universal Declaration. In particular, it analyzes those most affecting life expectancy, education and income. The decision to choose these areas is partly because they are the components that form the Human Development Index. It is also partly our own choice, because we believe the selected components provide a fair picture of the present situation in Georgia regarding human rights.

The report shows that the picture is not simple. Basic contradictions emerge between the existence of a poor economic performance and slowly improving living conditions; between schools in appalling conditions and a high combined primary, secondary, and tertiary enrollment; between a moribund health care system and a high life expectancy. This report attempts to explain these apparent contradictions.

We begin in **Chapter 1** by describing the population's access to political and civil rights. Since the breakup of the Soviet Union, Georgia has come far in its efforts to install a functioning democracy and to ensure the respect of civil and political rights. With the exception of the Baltic States, the country is a leader in the areas of press freedom and in judicial reforms. Much remains to be done, however. The measures have barely reached the population outside Tbilisi and other big towns and the state law enforcement bodies still show a worrying tendency to disregard civil and political rights.

Chapter 2 introduces the concept of the Human Development Index (HDI) and Georgia's ranking in the HDI. The country's relatively acceptable HDI score is largely a result of its good scores on the life expectancy and education indices. The index for income, which is the third component of the HDI, however lags behind the life expectancy and education indices. The chapter goes over some of the most important factors that affect Georgians' capacity to obtain income. The chapter finds that average incomes have been growing despite the economic crisis that has engulfed the country since 1998 and today are above minimal subsistence levels. Average income, however, is just half the story. For a large proportion of the population, incomes continue to be meager and below subsistence levels. A second surprising finding is that equality of income shows a tendency to improve largely as a result of contributions from the informal or shadow economy. This gives us cause for concern. A flourishing informal economy contradicts the government's capacity to provide public goods such as a bribe-free police or an efficient judicial system.

Chapter 3 looks at access to health care services. Georgia shows a remarkably good figure for the life

expectancy at birth index against a general backdrop of a crumbling health care system, which has been de-facto privatized via an impressive system of informal payments in public hospitals and clinics. We find that the distribution of total household expenses in health care is highly unequal and reflects the general population's remarkably different levels of access to these services. We are concerned that the current benign figure for the life expectancy index is unsustainable in the long run given the dismal health care service available to the general public.

Chapter 4 repeats the same analysis for the education sector. Again, we see that Georgia exhibits world class figures for combined primary, secondary and tertiary enrollment. The quality of education, however, remains a serious concern: one that has already been reported in other analyses and studies published by international organizations and the Georgian government. The chapter finds that access to primary and secondary education appears to have little value in the pursuit of social recognition and income. For Georgians, tertiary education is what really matters. But an informal system of tutors and payments dominates access to higher education. This works against those in the lower strata of the population or those lacking the proper social and clan contacts.

Chapter 5 summarizes the contents of the report and introduces a discussion about the significance of the clan structure in Georgian society, weak institutions, and the government's capacity to guarantee the whole population's access to human rights. Perhaps not surprisingly, we conclude that Georgia's challenge to ensure its population can adequately access those human rights outlined in the Universal Declaration totally depends on the state's capacity to adopt the appropriate "organizational" structures and methods that will give government employees and citizens alike the incentive to remain in the formal economy, obey existing laws, and contribute their fair share towards increasing the government's capacity to provide public goods.

Chapter 1

Life, Liberty, and Security of Person

The right to life, liberty and security of person is enshrined in Article 3 of the Declaration of Human Rights. Few things, if any, depend more on these rights than the existence of a democratic society and strong democratic institutions. On this front, Georgia has achieved much and deserves praise for its efforts to build a free and secure society at the heart of one of the world's most troubled regions.

It is not the first time, however, that Georgia has embarked on a democratic path and shown respect for human rights. In the Constitution of the First Georgian Republic, adopted in 1921, the Georgian nation included several rights in its fundamental law that later were to be adopted by the Universal Declaration of Human Rights. These are:

- Equal access of the overall population to land and property;
- Freedom of unions, political parties, demonstrations, and meetings;
- Freedom of opinion, expression of opinion, mass media;
- Prohibition of torture, inhuman or degrading treatment or punishment;
- Equality before the law;
- Prohibition of arbitrary arrest, detention or exile.

These rights, which have become almost universally accepted today (although not universally achieved), were radical ideas at the beginning of the century. Equal access to land and property and the prohibition of arbitrary exile were indeed revolutionary concepts in a world still unfamiliar with the benefits of strong democracies. Georgia had embarked in a remarkable experiment with democratic principles and ideals.

The experiment, however, was to be shortlived. Shortly after the Constitution was adopted, the "red flag fluttered upon Tbilisi", as Ordjonikidze's famous cable of February 26, 1921 to Stalin read. The following decades were difficult for democrats and many paid for their efforts to combine the communist experiment with a greater degree of civil and political freedom with their lives or exile. The communist system failed to provide its citizens with the right to free expression, liberty, or freedom of movement among many others. Instead, it attempted to compensate for the lack of those rights by undertaking vast industrialization programs, by committing the government to providing universal housing, and by making the establishment of world class educational and health care systems a state priority.

Discontent about the lack of civic and political rights remained despite material improvements across the Soviet Union. In Georgia's case, the fight for human rights became subordinated to the idea of national independence. This, in turn, may help to explain the relatively low number of Georgians who participated in the Russian dissident movement. What initially appeared to be the subordination of one goal to another, became an open conflict of priorities during the 'Perestroika' period and the first years of state sovereignty. These years were characterized by an unresolved conflict between ideas of national independence and the protection of human rights. One can recall, for example, the well-known Georgian philosopher Mr. Merab Mamardashvili writing in late 1990: "A single language acceptable for governing structures without altering their nature, is a language of pure national statehood, a language of leadership and a pure race."

The idea of national independence, the deserved status for a nation that had fought long and hard for it, was being equated with extreme nationalism.

Unfortunately, calls of this kind found a sympathetic ear in the person of Mr. Zviad Gamsakhurdia, Georgia's first president after the Soviet debacle, a man who elevated nationalism to the status of a fundamental state pillar and who provided fertile ground for severe ethnic problems to take root. Extreme nationalism paid off neither for Mr. Gamsakhurdia, who had to abandon power nine months after being proclaimed president, nor for Georgia, which found itself immersed in tragic armed conflicts in Abkhazia and South Ossetia.

The notion of human rights began to separate itself from that of nationalism when Mr. Eduard Shevardnadze became president of Georgia. On April 20, 1992, Mr. Shevardnadze established the State Committee for Human Rights' Protection, a necessary first step for a country unaccustomed to the existence of such government bodies. On October 4, 1994, via a Special Decree of the Head of the State, Mr. Shevardnadze enlarged this Committee's powers, giving it the responsibility to develop practical measures to ensure the implementation of UN documents, international conventions, pacts and their facultative protocols on human rights (History of human rights in Georgia. Parliament of Georgia, Tbilisi, 1998).

The adoption of the Constitution on August 24, 1995, was an event of primary importance because it provided ample and solid grounds for future legislative activities in the area of human rights. In particular, Chapter Two, "Citizenship of Georgia: Fundamental Human Rights and Freedoms", became the mainstay for the overall structure of laws securing human rights and civic freedoms to develop properly. Article 6.2 even declares that Georgian legislation must correspond to universally recognized principles, and that international treaties and agreements take precedence over domestic normative acts. Georgian policy-makers took the matter seriously and from 1993, when Georgia joined the UN, the Government signed and Parliament ratified an impressive array of international conventions, pacts, treaties and facultative protocols in the field of human rights (*Vano Imnaishvili*, Legal aspects of human rights in Georgia, Centre for Strategic Studies and Development, Berlin #26, 1999, in Georgian lang).

Table 1.1.: International Conventions and Treaties Ratified by Georgia

Source: Parliament of Georgia.

Convention/Treaty	Georgian Legal Act
Universal Declaration of Human Rights	Resolution by the Supreme Council of the Georgian Republic, 09.15.1991
Helsinki Final Act of OSCE	Resolution by the Supreme Council of the Georgian Republic, 09.15.1991
Vienna Final Document of OSCE	Resolution by the Supreme Council of the Georgian Republic, 09.15.1991
UN Convention on Preliminary Measures Against Genocide Crimes and Punishment for Genocide	Resolution by the Georgian Parliament, 05.18.1993
Vienna Convention on Legal Heritage of State Property, State Archives and State Arrears	Resolution by the Georgian Parliament, 06.09.1993

August 12, 1949 Geneva Convention on Fate Improvement of Injured and Deceased in Acting Armies	Resolution by the Georgian Parliament, 07.20.1993
August 12, 1949 Geneva Convention on Fate Improvement of Injured and Deceased in Military Flats and Marine Accidents	Resolution by the Georgian Parliament, 07.20.1993
August 12, 1949 Geneva Convention on Treatment of War Prisoners	Resolution by the Georgian Parliament, 07.20.1993
August 12, 1949 Geneva Convention on Protection of Population in Wars	Resolution by the Georgian Parliament, 07.20.1993
Additional Protocol # 1 to August 12, 1949 Geneva Convention on Protection of Victims of Non-International Armed Conflicts	Resolution by the Georgian Parliament, 07.20.1993
Additional Protocol # 2 to August 12, 1949 Geneva Convention on Protection of Victims of Non-International Armed Conflicts	Resolution by the Georgian Parliament, 07.20.1993
International Convention on Brand Mark	Resolution of Chamber of Ministers, 11.15. 93
International Convention on Protection of Human Life in Sea	Resolution of Chamber of Ministers, 11.15. 93
International Convention on Sailors Training, Certification and Watch Keeping	Resolution of Chamber of Ministers, 11.15. 93
International Pact on Civil and Political Rights, 12.16.1966	Resolution by the Georgian Parliament, 01.25.1994
Facultative Protocol to International Pact on Civil and Political Rights, 12.16.1966	Resolution by the Georgian Parliament, 01.25.1994
International Pact on Economic, Social and Cultural Rights, 12.16.1966	Resolution by the Georgian Parliament, 01.25.1994
Convention on Children's Rights	Resolution by the Georgian Parliament, 04.21.1994
Convention on Canceling All Forms of Discrimination Against Women	Resolution by the Georgian Parliament, 09.22.1994
International Convention Against Torture, Other Violent, Inhuman or Humiliating Actions and Punishment	Resolution by the Georgian Parliament, 09.22.1994
Convention on Forced and Obligatory Labor	Resolution by the Georgian Parliament, 02.22.1995
Convention on Annual Paid Holidays	Resolution by the Georgian Parliament, 02.22.1995
Convention on Inapplicability of Prescription to Military Crimes and Crimes Against Humanity	Resolution by the Georgian Parliament, 02.24.1995

Hague International Convention on Civil Aspects of Kidnapping Children in the World	Resolution by the Georgian Parliament, 02.22.1995
International Convention on Discrimination in the Fields of Labor and Employment	Resolution by the Georgian Parliament, 05.04.1995
International Convention on Professional Orientation and Professional Training in the Field of Development of Human Resources	Resolution by the Georgian Parliament, 05.04.1995
Convention on Legal Advice and Legal Relations in Civil, Domestic and Criminal Cases	Resolution by the Georgian Parliament, 01.04.1996
Convention on Prohibition or Limitation of Usage of Those Varieties of Ordinary Weapons, Which Bring Extensive Injuries or Have Indefinite Action	Resolution by the Georgian Parliament, 04.02.1996
1957 Geneva Convention of the International Labor Organization on Canceling of Forced Labor	Resolution by the Georgian Parliament, 05.16.1996
1964 Geneva Convention of the International Labor Organization on Employment Policy	Resolution by the Georgian Parliament, 05.16.1996
1973 Geneva Convention of the International Labor Organization on Minimum Age for Employment	Resolution by the Georgian Parliament, 05.16.1996
Convention on Principles of Rights Using on Organization and Performing of Collective Negotiations	Resolution by the Georgian Parliament, 05.29.1996
Convention on Equal Remuneration for Labor of Equal Cost for Males and Females	Resolution by the Georgian Parliament, 05.29.1996
1962 Geneva Convention on Objectives and Normatives of Social Policy	Resolution by the Georgian Parliament, 10.16.1996
European Cultural Convention	Resolution by the Georgian Parliament, 04.16.1997
1983 Convention of European Council on Transfer of Condemned Persons	Resolution by the Georgian Parliament, 10.17.1997
Second Facultative Protocol on Canceling of Execution to the International Pact on Civil and Political Rights	Resolution by the Georgian Parliament, 03.02.1999
Charter of the European Council	Resolution by the Georgian Parliament, 04.02.1999
International Convention on Liquidation of All Forms of Race Discrimination	Resolution by the Georgian Parliament, 04.16.1999
Convention and Protocol on the Refugees Status	Resolution by the Georgian Parliament, 05.28.1999
Convention on Acknowledgement of Qualification Related to Higher Education in European Regions	Resolution by the Georgian Parliament, 06.23.1999

In addition to ratifying conventions and treaties, the Parliament established its own Commission on Human Rights and, in conjunction with the Government, created the Public Defender's (Ombudsman) Office. The Parliamentary Commission deals with legislative matters and has forwarded a number of important laws under discussion today to Parliament, such as the law on Freedom of Information, on Religious Issues and On Lawyers' Business. The Commission is responsible for analyzing all draft laws and for assessing how these laws correspond to international principles of human rights' protection.

As well as its legislative activities, the Commission also monitors other executive institutions in charge of ensuring that human rights are respected throughout the territory of Georgia. One of these institutions is the Office of the Public Defender (Ombudsman), which has slowly but steadily risen in national importance. A relatively new institution in Georgia, Parliament elected the first Ombudsman in October 1997 and the second in June 2000. The Ombudsman Office comprises two main departments:

The Department for Civil and Political Rights, which takes care of:

- Human civil and political rights;
- Rights of political organizations and public unions;
- Human rights in law enforcement and security bodies and the Ministry of Defense.

The Department for Social and Economic Rights, which takes care of:

- Rights of IDPs;
- Rights of women and children;
- Human rights in sectors of education, science, culture, health care, sport, social welfare, economy, civil legal relations.

The list above should suggest that the Ombudsman's job is not easy and touches on sensitive and difficult subjects, such as ensuring that law enforcement units and security bodies at the Ministry of Defense respect civic and human rights. Table 1.2 contains information on activities covered by the Ombudsman Office in 1998 and 1999.

Table 1.2: Activities of the Ombudsman Office in 1998 and 1999

Type of Activities	Number in	
	1998	1999
1. Notifications and demands:	2,406	2,343
1.1. Notifications	1,236	1,335
1.1.1. From Tbilisi, including	838	1,006
To the Department for Civil and Political Rights	273	310
To the Department for Social and Economic Rights	287	331

Other	147	143
2. Content of notifications		
2.1. Concerning decisions of Courts of Justice, including	170	715
Problems related to the Ministry of the Interior	160	199
Problems related to the Prosecutor's Office	73	108
Problems related to the Penitential system	234	234
Labor legislation problems	114	95
Housing problems	217	291
Social welfare problems	160	143
IDPs' problems	29	62
2.2. Other	243	203
3. Sent from different organizations	32	65
4. Amount of people received by the Ombudsman Office	1,170	1,449
5. Classification of cases according to notifications		
Current cases controlled by the Ombudsman Office	73	65
Positively solved	59	26
Closed	943	1,099
6. Sent to corresponding organizations for execution	627	287
7. Recommendations by the Ombudsman Office, including	131	59
Positively solved	65	26

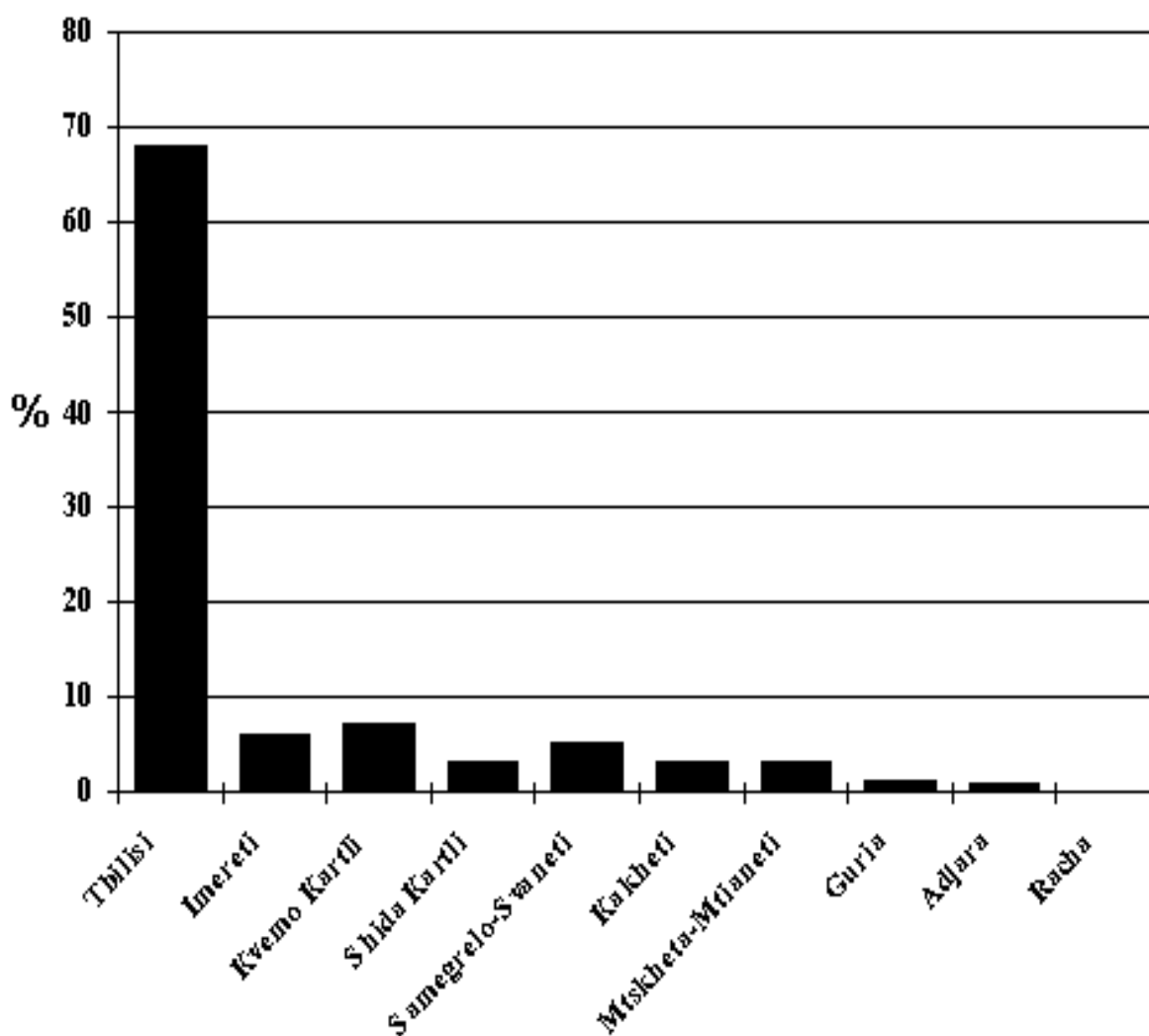
Source: Protection of human rights and freedoms in Georgia in 1998, Annual Report of the Public Defender of Georgia: Tbilisi, 1999 (in Georgian); Protection of human rights and freedoms in Georgia in 1999, Annual Report of the Public Defender of Georgia: Tbilisi, 2000 (in Georgian).

Table 1.2 above shows that the notifications and demands managed by the Ombudsman did not vary significantly between 1998 and 1999. It also shows an increase in the number of people that visited the Ombudsman. This reflects a greater public awareness about its existence. At the same time, the number of

cases resolved positively decreased, in absolute terms, in 1999. By this, we mean that the Ombudsman considers a citizen's claim to have solid legal grounds and is undertaking actions to find an acceptable solution. The number of cases resolved positively is half that of 1998, a substantial decrease. This is rather strange. We would expect the number of cases resolved positively to increase, at least partially, as more people access the Office's services.

More importantly, most of the Ombudsman Office's activities take place in Tbilisi (70% in 1999). Its activity in the rest of the country is fairly limited (see Fig. 1.1). This does not, of course, mean that human rights are mostly violated in Tbilisi. On the contrary. Just as electricity supply is much worse in the regions than in Tbilisi, existing data indicates that the violation of civic and political rights is more serious in the provinces than in the capital. The Ombudsman Office should not be blamed for this lack of activity outside Tbilisi; it lacks the resources to act properly in the rest of the country. The enforcement of human rights across the country depends on strong institutions, which, in turn, depend on the government's ability to endow them with enough resources to function properly. To a large extent, the Ombudsman is a public good in a country with little capacity to provide for this type of good.

Fig. 1.1. Citizen's Complaints to the Ombudsman Office by Regions - 1999



Source: Protection of human rights and freedoms in Georgia in 1998, Annual Report of the Public Defender of Georgia: Tbilisi, 1999 (in Georgian); Protection of human rights and freedoms in Georgia in 1999, Annual Report of the Public Defender of Georgia: Tbilisi, 2000 (in Georgian).

The Ombudsman is not the only office or institution with limited capacity to enforce what current laws dictate. The judicial system appears to be worse when its efficiency is measured in terms of the percentage of cases effectively ruled, as experts in the field recommend (*Catherine English and Adam Staplton, The human rights handbook. A practical guide to monitoring human rights, Human Rights Centre, University of Essex, 1995.*). Using this unit of analysis, the performance of the Georgian courts proves unsatisfactory. According to the Center for Social Studies, in 1996 the Georgian Courts of Justice reached 17,976 decisions but only 3,989 (or 22%) were executed. In 1997, 6,913, decisions had not yet been executed and by the end of 1999 – 7,228. A closer look at the court records shows the execution percentage to be very low for cases concerning labor disputes. A surprising number of citizens and organizations appear to be above the law. For years such people manage to avoid complying with court decisions.

Those unlucky enough to be caught breaking the law who are sent to prison face serious troubles. The human rights' situation in Georgian prisons has entered the public domain and several members of parliament have focused attention on ensuring some basic protection for prisoners. The media has helped to bring some of the most outrageous violations of human rights in prisons to the public's attention and systematically publishes data on prisoners' diseases and epidemics in prisons caused by difficult living conditions (*Ellen Tevdoradze, Georgia: situation in prisons, Media Caucasia, Azerbaijan, Armenia, Georgia: Democracy, Free Press, Human Rights, 1999, #4, september (in Russian); Gela Nikolaishvili, Georgian prisons, idid*). According to Ms. Tevdoradze and Mr. Nikolaishvili, one in every eleven prisoners has tuberculosis. The current state of Georgian hospitals gives an idea of the living conditions in Georgian prisons. Data from the Inspection of the Prosecutor's Office suggests prisons are overloaded and that the number of prisoners often exceeds the amount of beds available. Remarkably enough, even under these difficult conditions, the authorities have managed to reduce the number of murders in penitentiaries.

Box 1.1. Irresistible Windows

No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment
UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 5.

The windows at the Ministry of Interior and the Headquarters of the Tbilisi Police appear to have an irresistible attraction to some of those called in for questioning. Between 1997-1999, there were three instances of people falling from windows in the Ministry of Interior and a further three of people falling from windows in the Tbilisi Police Headquarters. Four out of these six criminal cases were closed without reaching a verdict. The fall of Mr. Tsotsolashvili is still being investigated and one case (the fall of Mr. Kolbaya from a window at the Headquarters of the Tbilisi Police on March 22, 1999) has been transferred to the Tbilisi District Court of Justice together with the indictment of two police officers in accordance to Part II of Article 187 of the Penal Code. The case was immediately returned to police for additional investigation due to "insufficient evidence". Without judging the weight of the amount of evidence available in each case, we are stunned that with the exception of Ms. Dursunova, all of the other people were invited to the police office "for a conversation", making the suicide explanation improbable.

The way in which the penitentiary system is managed has often angered the Georgian Parliament. In collaboration with Government officials, the Parliament assessed a move to transfer responsibility for detention facilities from the Ministry of Interior to the Ministry of Justice. But under the current proposal,

personnel from the Ministry of Interior would predominantly continue to staff the detention facilities. In addition, the staff have demanded to have the right to carry out "operative investigative measures" in the penitentiary system to gather evidence for trials whenever needed.

Though the change in management appeared to address the need to ensure that prisoners enjoy a set of basic human rights, such as not to be beaten, the re-arrangement will not solve the problem of living conditions at Georgian prisons. Disastrous sanitary conditions and a low supply of food (among other factors) help to promote the spread of contagious diseases like tuberculosis. For living conditions in prisons to improve, the state must have the necessary resources to spend. Without additional resources to invest, the country will fall short of complying with its own "Law on Prisoners", approved on July 22, 1999, which stipulates the obligations and rights of detained persons. It is a well-intentioned law but its full execution will take considerable financial resources and equipment. If applied to its full extent, the law will ensure that prisoners receive justice without being subjected to cruel punishments. Some measures have already been taken: a colony for juvenile offenders has been established and is close to international standards. The colony has a school, a sports ground and a library. Each detainee has his/her own bed and his/her right to receive family visits is respected.

A second type of problems affecting human rights in the penitentiary system relates to cases of the illegal arrest of people or to the perpetual incarceration of those not proven guilty. According to Ms. Tevdoradze and Mr. Nikolaishvili, a large number of these cases are characterized by blackmail, brutal beating and torture. Even in the most outrageous cases, some employees of the law enforcement bodies appear to be above the law and responsibilities for wrongdoing could not be adjudicated (see Box 1.1). The failure to hold those in charge of enforcing the law accountable for their acts does little to improve the public's perception about the police. This institution, whose work is crucial for society to function properly, ranks in every opinion poll as one of the most corrupted and disliked. Reports about instance of police beatings, including of media representatives, are not unheard of ([Givi Targamadze, The word and the power: relation of media and low enforcement structures in Georgia, Media Caucasia, Azerbaijan, Armenia, Georgia: Democracy, Free Press, Human Rights, 1999, #2, April \(in Russian\)](#)).

Box 1.2. Women in Black

Everyone has the right to an effective remedy by the competent national tribunals for acts violating the fundamental rights granted him by the constitution or by law

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 8.

"Women in Black" are the mothers of young Georgian men who have been murdered. Over the years they have sought justice in all state bodies: from the General Prosecutor Office's to the office of the President. According to the Georgian media, the cases being pursued by these "Women in Black" are judicially impeccable and should have resulted in convictions. Often, these women courageously give the full name and address of the alleged murderer. It seems that the investigations have, as a rule, been badly carried out and that the murderers will never be punished.

The lack of qualifications among prosecutors and policemen in general accounts for the persistence of an old Soviet practice: citizens can be found guilty based on their testimonies rather than on tangible evidence. Scores of people suddenly decide to confess at offices of the Ministry of Interior. The practice is so widely accepted that the lawyers' Collegium, an entity that was formerly subordinated to the Ministry of Justice but whose current status is unknown, filed a suit against the Tbilisi municipality in early August, 1999, in an attempt to kill an innovative project supported by a number of NGOs. The project looks to post lawyers, municipality employees selected by competitive examination, at Tbilisi police stations. This legion of lawyers would advise detainees of their rights and obligations when in police custody ([In](#)

October of that same year, a court ruled that the Collegium lacked the legal status to file such a suit). The Collegium is not alone in its concerns about the unsolicited provision of information on human rights to detainees. In April 2000, another project by NGOs to monitor conditions in pre-trial detention in Tbilisi and to provide free legal services failed after the Ministry of Interior's staff denied monitors access. Several journalists and members of NGOs, including the Liberty Institute, suffered harassment and threats from individuals apparently linked to the Ministry of Interior's officials in an attempt to block the monitoring project.

Freedom of Press

While these incidents are regrettable and show that Georgia has some way to go until it sheds old Soviet habits for good, the fact that these same incidents have come to our attention denotes a remarkable progress towards freedom of the press. In fact, the publication of the contents of this NHDR 2000, not to mention the contents of the NHDR 1999, is only possible because citizens enjoys a significant degree of freedom to read and publish material. Perhaps with the exception of the Baltic countries, no other former Soviet republic can match the freedom of press observed in Georgia. That said, journalists still get beaten up and threats to independent minds are not uncommon (*Zurab Chaberashvili, Georgian mass media: questions and answers, Media Caucasia, Azerbaijan, Armenia, Georgia: Democracy, Free Press, Human Rights, 2000, #1, March (in Russian); Giga Bokeria, Givi Targamadze and Levan Ramishvili, Georgian mass media in the nineties: a step towards freedom, UNDP, Georgia, Tbilisi, 1997*). There is a long way to go until journalists feel as free to publish what they see fit as journalists are in western societies. But that should not obscure the remarkable achievements of the last seven years.

The press also has problems of its own for which the government is not responsible. The printed press is gradually losing its market share for news to television. The number of newspapers and other publications in Georgia of different political orientations is noteworthy. This diversity, however, comes at the expense of size, for most of these publications are small companies unable to benefit from economies of scale. Many are in financial difficulties. A process of consolidation in the press industry may be inevitable and we hope diversity will not suffer too badly. Television, on the other hand, has expanded its coverage and is on the way to becoming the main source of news for most Georgian citizens. Though, for many, television has already sold its soul to the "advertising dollars" and cheap, often illegal copies, of American thrillers and other entertaining programmes of dubious quality, it still provides a significant variety of films from all over the world (many of them Georgian) as well as news programs of superior informative value (*Here one could mentioned TV Company Rustavi-2's "60 Minutes" programme, which every Sunday manages to produce high quality investigative reports*).

Conclusions

Georgian legislation meets almost all of the Council of Europe's requirements concerning human rights' protection. The implementation of this legislation, however, leaves much to be desired and reflects a problem already discussed in the NHDR 1999. The Georgian government's capacity to implement public policy is far below its capacity to design economic and social policy or its capacity to approve laws.

Although Georgia has come a long way in the field of civic and political rights much more progress is

needed. There are still contradictions in the Georgian institutional machinery in charge of protecting citizens' rights. We see a modern Constitution, a well developed Civil Code and Code of Civil Procedures, improved court systems (mainly composed of certified judges) working in parallel to an ancient Prosecutor Office inherited from the Soviet System, and law enforcement bodies that are accused of being the main source of corrupt practices and civil rights' violations. We see a sincere will to improve the penitentiary system and a total lack of financial means to do so.

These contradictions can be resolved if Georgia continues its path towards strengthening its democratic institutions and its economic fundamentals in the pursuit of western standards of living. Part of the task ahead includes completing the process of redesigning the institutional machinery in charge of protecting Georgian citizens' rights. But it is not the only task. The full protection of human rights will require more than redesigned institutions, approved laws and the ratification of international conventions. The protection of civic and political rights will demand a significant improvement in the Government's capacity to provide a reasonable supply of public goods such as a functioning police, or an office of the Ombudsman covering the whole of Georgia, not just Tbilisi, or a court system with the authority and capacity to enforce its own rulings.

Chapter 2

Georgian Society and Access to Social Rights

Everyone has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond its control.

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 25

Civil and political rights are integral aspects of a society that claims to respect human rights. These rights benefit not only those citizens who choose to exercise them but also society as a whole, for the seed of change and improvement comes from debate, discussion, and challenges to established ideas. Yet civil and political rights can be better exercised and enjoyed when other, more terrestrial, needs such as eating or housing have been met. It is difficult for a person to enter the political debate when his thoughts focus on day-to-day concerns about how to make ends meet for himself and his family. The time spent on political activism, for instance, has an opportunity cost in terms of the time not spent on other activities, such as procuring enough food to meet household needs. Likewise, people may find the freedom to move in and outside the country irrelevant, a freedom that requires the purchase of a bus or air ticket, if they find it problematic to pay a simple visit to the hospital.

This chapter provides a snapshot of Georgian society and its access to an array of socially perceived rights such as housing, employment, and pensions. This chapter finds that on average the situation of the Georgian household is improving, albeit slowly, and this is reflected in a better figure for the Georgian Human Development Index (HDI). However, not everybody is doing better and the daily life of many is still full of uncertainties, privations, and miseries.

Changes in the Human Development Index

Despite the difficult situation of a significant portion of the population, the HDI for Georgia has continued to increase. In 1998, Georgia ranked 108 out of a total of 174 countries. In 1999, Georgia advanced to 85th position, a climb of 23 positions. This year, 2000, Georgia has advanced to 70th position, a further increase of 15 positions.

Georgia's relatively high position in the HDI index is the result of very good levels of combined primary, secondary, and tertiary enrolment ratios and a high life expectancy at birth, two of the three variables according to which the HDI is calculated (see Box 2.1). To a great extent, these are inheritances from the previous political system and reflect past Soviet standards of access to health and education services.

The high values obtained in the education and life expectancy components of the HDI are difficult to improve in the short term. Unless catastrophe strikes, life expectancy is not a variable that changes much from one year to the next; the same is true for education enrollment ratios. In the short term, improvements in Georgia's HDI ranking will need to come from improvements in income per capita (see components of the HDI in Box 2.1). Georgia's HDI rank has improved significantly in the last two years; does that mean income per capita has improved significantly as well?

Yes, but not as much as the HDI suggests. While the use of a refined methodology to discount income largely explains the 23 position difference in Georgia's HDI ranking between 1998 and 1999 (see Box 2.2), the difference in 15 positions between 1999 and 2000 originates in an updated estimate of Georgia's GDP per capita (**GDP is estimated at Purchasing Power Parity in US dollars (PPP US\$)**). The GDP per capita data used to estimate the HDI 2000 rank is based on the latest International Comparison Program (ICP) surveys. The surveys cover 118 countries, the largest number ever in a round of ICP surveys, and are performed by the World Bank. The ICP survey found that Georgians' income is greater than previously estimated.

In fact, Georgia's advance in the HDI ranking between 1999 and 2000 originates exclusively in the updated GDP per capita figure of the World Bank's ICP survey. If the HDI index is broken up by components, the combined primary, secondary and tertiary enrolment in Georgia and life expectancy have remained unchanged since 1999. Thus, the change in the estimation of Georgia's GDP per capita accounts for the entire jump of 15 places. The fact that the change in Georgia's HDI rank originates exclusively in revised figures of income per capita, and does not therefore originate from actual (real) changes on the ground, neither erodes the significance nor the meaning of the HDI. The new figures for GDP/capita produced by the ICP surveys will affect other measurements than the HDI, for instance those related to measuring poverty levels. The relative strength of Georgian statistics is a problem that also affects other indices. The IMF has been considering recalculating the figures for gross national product in view of perceived inconsistencies in the system of national accounts. We welcome these steps, because accurate statistics are necessary for determining and fine tuning public policies.

Table 2.1: Human Development Index Ranking: Top 120 Countries

1	Canada	31	Korea, Republic of	61	Malaysia	91	Ecuador
2	Norway	32	Brunei Darussalam	62	Russian Federation	92	Jordan
3	United States	33	Bahamas	63	Latvia	93	Armenia
4	Australia	34	Czech Republic	64	Romania	94	Albania

5	Iceland	35	Argentina	65	Venezuela	95	Samoa
6	Sweden	36	Kuwait	66	Fiji	96	Guyana
7	Belgium	37	Antigua and Barbuda	67	Suriname	97	Iran
8	Netherlands	38	Chile	68	Colombia	98	Kyrgyzstan
9	Japan	39	Uruguay	69	Macedonia	99	China
10	United Kingdom	40	Slovakia	70	Georgia	100	Turkmenistan
11	Finland	41	Bahrain	71	Mauritius	101	Tunisia
12	France	42	Qatar	72	Libya	102	Moldova
13	Switzerland	43	Hungary	73	Kazakhstan	103	South Africa
14	Germany	44	Poland	74	Brazil	104	El Salvador
15	Denmark	45	United States Emirates	75	Saudi Arabia	105	Cape Verde
16	Austria	46	Estonia	76	Thailand	106	Uzbekistan
17	Luxembourg	47	Saint Kitts and Nevis	77	Philippines	107	Algeria
18	Ireland	48	Costa Rica	78	Ukraine	108	Vietnam
19	Italy	49	Croatia	79	Saint Vincent	109	Indonesia
20	New Zealand	50	Trinidad and Tobago	80	Peru	110	Tajikistan
21	Spain	51	Dominica	81	Paraguay	111	Syria
22	Cyprus	52	Lithuania	82	Lebanon	112	Swaziland
23	Israel	53	Seychelles	83	Jamaica	113	Honduras
24	Singapore	54	Grenada	84	Sri Lanka	114	Bolivia
25	Greece	55	Mexico	85	Turkey	115	Namibia
26	Hong-Kong	56	Cuba	86	Oman	116	Nicaragua
27	Malta	57	Belarus	87	Dominican Republic	117	Mongolia
28	Portugal	58	Belize	88	Saint Lucia	118	Vanuatu
29	Slovenia	59	Panama	89	Maldives	119	Egypt
30	Barbados	60	Bulgaria	90	Azerbaijan	120	Guatemala

In total, 174 countries are ranked in terms of the HDI, with Canada at the top and Sierra Leone at the bottom. Those ranked up to 46th position are denominated to be of "high" development, while those ranked between 47th position and 139th are considered to be of "medium human development". The remainder is considered to belong to the "low human development" category.

Georgia, therefore, comes relatively high up the "middle human development" group. As mentioned before, Georgia's performance in the HDI ranking rests primarily on its indicators for combined primary, secondary and tertiary education and life expectancy; their values are comparable to those countries located in the "high human development" group. Income is the sole component that drags down Georgia's HDI.

Box 2.1: The Human Development Index

The Human Development Index is based on three indicators: longevity, as measured by life expectancy at birth; education, as measured as by a combination of adult literacy (66 percent); and the combined gross primary, secondary, and tertiary enrollment ratio (33 percent); and standard of living, as measured by Real GDP per capita at Purchasing Parity Prices in U.S. dollars.

There are fixed maximum and minimum values established for each of these indicators:

Life expectancy at birth:	25 years and 85 years
Adult literacy rate:	0 percent and 100 percent
Combined gross enrollment ratio:	0 percent and 100 percent
Real GDP per capita:	\$100 and \$40,000 at PPP(\$)

For any component of the HDI formula, the index can be computed according to the general formula:

$$\text{Index} = \frac{\text{Actual } x_i \text{ value} - \text{minimum } x_i \text{ value}}{\text{Maximum } x_i \text{ value} - \text{minimum } x_i \text{ value}}$$

For example, if the life expectancy at birth for Georgia is 65 years, the index of life expectancy would be:

$$\text{Index} = \frac{65 - 25}{85 - 25} = \frac{40}{60} = 0.667$$

Finally, the Human Development Index is an average of the life expectancy index, the adult literacy index, and the adjusted real GDP per capita (PPPS) index, and is derived by dividing the sum of these three indices by 3.

Box 2.2: Treatment of Income

Income enters into the HDI as a surrogate for those dimensions of human development that are reflected neither in a long and healthy life, nor in the level of knowledge a person attains. It is a proxy for a decent standard of living. The basic approach to the HDI's treatment of income has been driven by the fact that achieving a respectable level of human development does not require unlimited income. To reflect this, income has always been discounted in calculating the HDI. By "discounting" income, the HDI reflects the fact that the additional income for a rich individual is of less value than for a poor one. In other words, an additional \$50 dollars for an individual earning an income of \$50 is of much more value than the same additional amount (\$50) for an individual that is already earning \$500. How should it be discounted and at what level?

Last year a thorough review of the treatment of income in the HDI was undertaken based on the work of Anand and Sen (see source below). We suggest reading their paper for a detailed discussion of the rationale and refinements involved in the new manner of constructing the income index. For reasons of space, we will only introduce the new formula here. For readers interested in accessing the old formula, we recommend obtaining a copy of the 1998 NHDR (available at the UN office in Georgia).

To summarize, the 2000 HDI accounts for income according to the following formula:

$$W(y) = \frac{\log y - \log y_{\min}}{\log y_{\max} - \log y_{\min}}$$

There are several advantages to this formula. First, it does not discount income as severely as the previously used formula. Second, it discounts all income, not just the income above a certain level. Third, the asymptote starts quite late, so middle income countries are not penalized unduly. As income rises further in these countries, they will continue to receive recognition for their increasing income as a potential means for further human development.

The remainder of this chapter will look at a number of factors, including some strategies and bottlenecks, that affect the capacity of Georgians to ensure a "standard of living adequate for the health and well being of himself and his family". Because, in the short term, income is the variable that will most affect changes in the HDI, we decided to first describe (a) the sources and levels of income for different strata of the population. This is followed by (b) access to living conditions; (c) access to employment; (d) capacity to form labor unions; (e) access to land; (f) access to capital inherited from the Soviet System; and (g) access to social welfare and insurance. Because we believe that the high expectancy of life at birth and the high combined primary, secondary and tertiary education enrolment demand separate treatment, we discuss these topics in chapters 3 and 4 respectively.

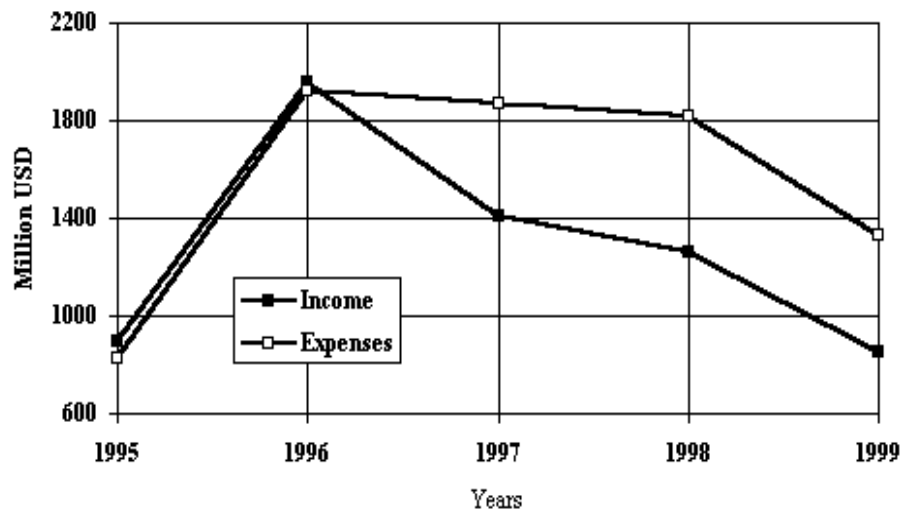
Income and Expenditures

Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity.

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 23.3

It is not easy to estimate the average income of a Georgian household. Several reasons account for this problem. Among them, is that approximately 25 percent of employees have an additional informal job, which makes their remuneration difficult to work out. In addition, about 78 percent of self-employed people work in agriculture and do not receive a regular monetary income. A considerable share of the Georgian economically active population is involved in the "informal economy" and does not easily declare its true income. Accordingly, official figures show a disparity between the Georgian population's total monetary income and expenses for the period 1995-1999.

Fig. 2.1. Total Monetary Income Versus Expenses of the Georgian Population in 1997-1999



Source: Budgetary Office of Parliament

The figure above shows that in 1995 and 1996, reported expenses match reported income but that from 1997, reported expenses regularly exceed reported income. The difference between the figures tends to increase. In 1997, the difference was 24.71 percent, in 1998 it was 30.88 percent and in 1999 it was 35.62 percent. In addition, one can see that from 1996 on, reported income and reported expenses decreased. This looks incongruent if one considers that in 1997 the economy was expanding fast and continued to expand, albeit much slower, even after the Russian crisis.

Several factors may help to explain the trend in Figure 2.1. The first could be a growing public reticence to report real income, perhaps stemming from the fear of a follow-up visit from the taxman. The second factor could be that the average household came to rely more and more on the expansion of the informal economy as its main source of income. In general, income from the informal economy is substantially more underreported than that from formal sources. The informal economy's importance as a source of income is anything but surprising if one takes into account formal salaries paid in different economic sectors. Table 2.2 describes employees' average monthly salaries according to different economic categories. The highest salaries are paid in international organizations or international firms while the lowest are in the health care and education sectors. At the same time, the tendency of real salaries to increase can be noted, though most remain below the poverty line. The difference in male and female wages can reach as much as 50 percent.

Table 2.2: Employees' Average Monthly Salaries According to Economic Categories

Economic Categories	1997			1998			1999		
	Thousand employees	%	Salary, GEL	Thousand employees	%	Salary, GEL	Thousand employees	%	Salary, GEL
Agriculture	55.8	7.5	32.8	53.3	7.1	41.4	42.6	5.8	50.6
Mining	78.0	10.1	61.6	76.1	10.1	77.9	90.1	12.1	84.0
Infrastructure	24.2	3.1	58.3	28.2	3.8	81.1	25.7	3.5	95.5
Construction	21.3	2.8	100.0	29.1	3.9	130.0	23.9	3.2	135.1
Trade & repair	67.4	8.8	63.4	65.5	8.8	85.0	76.6	10.3	109.8
Hotels & restaurants	-	-	-	9.1	1.2	84.3	9.0	1.2	93.4
Transport & communication	68.6	8.9	71.1	71.9	9.6	91.2	59.0	8.0	92.8
Financial mediators	-	-	-	9.8	1.3	96.7	12.1	1.6	138.1
Real estate	-	-	-	5.8	0.8	59.7	16.7	2.3	87.2
Public service & defense	89.5	11.6	66.4	89.0	11.9	77.7	94.1	12.7	83.5
Education	163.4	21.2	25.2	145.7	19.5	35.5	138.3	18.7	43.1
Health care	96.8	12.6	27.1	81.2	10.9	39.2	89.7	12.1	44.1
Culture, sport & other services	62.0	8.1	53.0	67.0	9.0	64.4	54.4	7.3	70.4
Other	29.8	3.9	54.2	7.8	1.0	82.1	4.1	0.6	91.2
International organizations	-	-	-	1.6	0.2	286.2	1.7	0.2	897.2
Not defined	12.8	1.7	79.6	6.0	0.8	63.6	2.8	0.4	192.3
Bulk	769.8	100.0	49.0	747.3	100.0	66.6	740.8	100.0	79.2

Source: Georgian households in 1997, Economical & Statistical Bulletin, Tbilisi, 1998; Georgian households in 1998-1999, Statistical Bulletin, Ed. J. Archvadze, Tbilisi, 2000.

Between 1997 and 1999, the State Department of Statistics (SDS) carried out a Household Survey, which included a comprehensive survey of different Georgian families' income sources and expenditures. Table 2.3 presents the reported average monthly income while Table 2.4 does the same for expenses. Even though the SDS surveys take into account both monetary and non-monetary income, the figures obtained are still less than estimated expenses. In Table 2.4, the data on households' expenses for the year 2000 comes from the household survey performed by GORBI. (SDS data for 2000 was not ready at the time of writing this report.)

Table 2.3: Structure of Average Monthly Income of Population per Household, GEL

Income	1997	1998	1999
Main Monetary income from:	94.2	103.2	104.0
- employed labor	32.9	40.9	41.6
- self employment	26.5	21.8	14.6
- selling of agricultural products	18.1	20.5	26.6
- hiring & managing real estates	0.2	0.6	1.2
- pensions, subsidies, etc.	8.3	9.4	7.8
- money received from abroad	1.5	4.1	5.4
- money encashed from friends	6.7	6.0	6.7
Other monetary resources from:	13.3	23.9	22.2
- property selling	6.0	10.1	6.4
- debts or usage of economies	7.3	13.8	15.8
Total monetary resources	107.4	127.1	126.2
Non monetary resources	40.1	35.3	40.8
Total resources	147.5	162.4	167.0

Source: SDS

Table 2.4: Structure of Average Monthly Expenses of Population per Household, GEL

Category of Expenses	Year			
	1997	1998	1999	2000
On food	92.6	103.1	110.6	95.3
On clothing	10.6	12.6	13.4	21.3
On energy & heating	12.0	13.1	12.7	9.2
On housing	15.6	21.1	23.9	9.4
On health care	6.0	5.4	7.2	14.2
On education	2.0	6.0	5.9	6.8
On leisure	1.5	6.9	6.1	15.1
On public transport	8.8	13.1	12.7	16.0
On car	20.0	43.1	53.0	55.6
Personal expenses	37.9	10.3	11.4	14.6
Transfers, saving & debts	30.1	17.1	13.5	19.8
TOTAL	237.1	251.8	270.4	277.3

Source: Data for years 1997, 1998, 1999 are from the State Department of Statistics;
Data for 2000 is from the GORBI Household Survey of Georgia.

If we exclude income derived from the illegal appropriation of goods (e.g. armed robbery), common sense would suggest that people couldn't consume more than the equivalent of their combined income. So, which is the approximate income of the Georgian population?

Without claiming to have an absolute answer, we have attempted to re-estimate average monthly income for the year 2000 using the data from the household survey performed by GORBI. First, we have obtained an estimate for the contribution from different sources of income to different households groups.

Table 2.5: Structure of Income of the Georgian Households (in %; year 2000)

Categories of Income	% of Households who Earn, GEL:										
	0-10	11-20	21-40	41-60	61-100	101-150	150-200	200-300	300-400	400-600	600-1000

Own earnings	1.50	4.65	9.29	16.34	20.54	12.14	11.39	13.04	3.15	4.35	2.55
Paid by State (salaries, pensions, subsidies)	2.82	28.47	25.60	13.91	16.93	5.85	2.82	0.30	0.24	0.10	
Renting of property	43.90		4.88	17.07	24.34	2.40		2.40	2.40	2.40	
Money received from relatives	16.77	14.29	11.18	25.46	13.66	2.48	6.83	4.97	1.86	1.86	
Money received from friends	55.00	22.50	12.50	2.50	2.50	2.50	2.38				
Interest from savings	70.83	8.33	12.50		4.17	4.17					
Other sources	78.26	8.70	4.34	8.70							

Source: GORBI

From the data used to construct Table 2.5 we can also estimate the total income per category and total average income. By doing so, it is possible to harmonize the Georgian population's income and expenses. Table 2.6 presents a revised income figure for the average Georgian household for the first half of 2000. This revised income figure is greater than the one reported for expenditures and allows the data for income and expenses provided by GORBI to pass a first test of consistency.

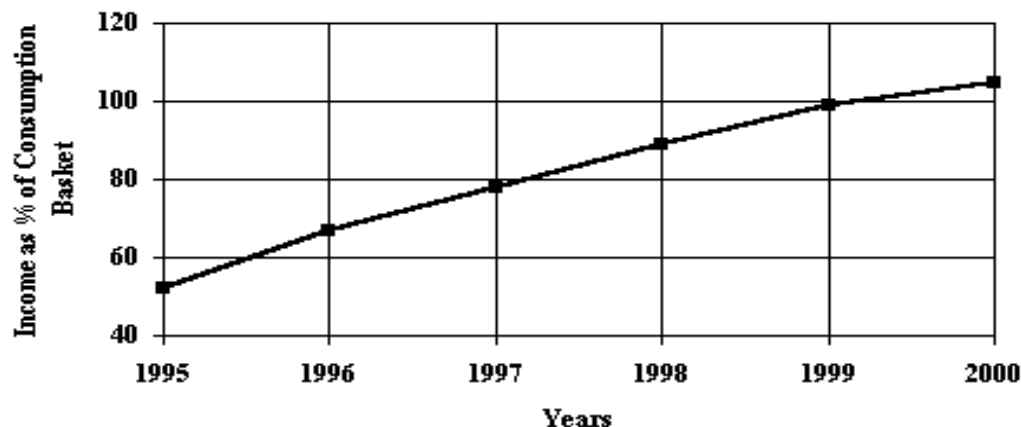
Table 2.6: Structure of Average Monthly Income of Population per Household, GEL

Category of Income	Amount, GEL
Own earnings	184.6
Paid by state (salaries, pensions, subsidies)	60.4
Hiring real estates	13.7
Money encashed from friends	3.2
Money encashed from relatives	8.7
Interest from saving	3.3
Other sources	9.1
Total	283.0

Source: own calculations based on data provided by the GORBI Household Survey of Georgia, Final Report, Tbilisi July 2000.

An interesting aspect of the revised figure for average monthly income is that it is above the minimum consumption basket. In addition, if figures for monthly average incomes for the period 1995-2000 are compared to the minimum consumption basket, one can see a steady improvement in the average Georgian's capacity to make ends meet.

Fig. 2.2. Income as a Percent of the Minimum Consumption Basket in 1995-2000



Source: Budgetary Office of Parliament; GORBI

To some extent, these numbers are paradoxical. Look at Figure 2.1 again, in particular data for the years 1998-2000. In an environment of economic and budgetary crisis, at a time when salaries and pensions were and are not being paid for months, when the Georgian Parliament adopts a "Law on Budget" sequestering more than 250 million GEL, and when thousands of lari are being misappropriated from social funds, the trend showing the increase in average income appears to continue at almost the same rate as in, for example, 1997, when the economy was growing at breakneck speed. These findings are in line with data derived from polling performed by GORBI. The data show that 54.6 percent of respondents answered that during the last 12 months their income had either increased or remained the same whereas 38.5 percent announced an increase in their expenses within that same period.

Of course, the situation is not the same for all strata of the population. We are presenting average figures and these may say little about the capacity of each particular household to attain the minimum consumption basket. Table 2.7 presents a breakdown with percentage of households for each category of income.

Table 2.7: Percentage of Georgian Households According to Income

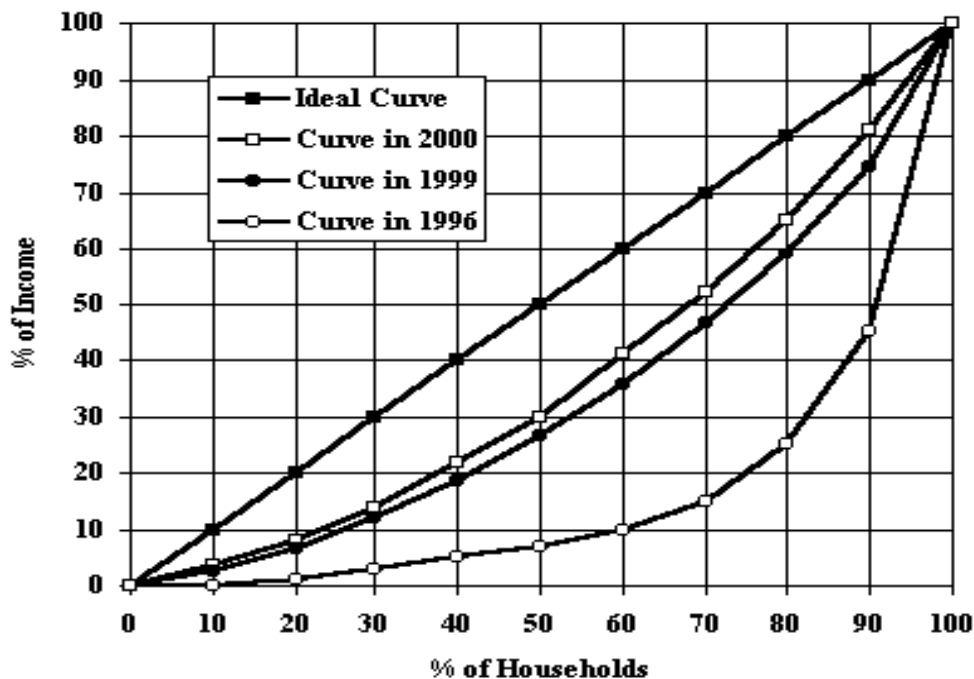
Income between, GEL	Percent of Households
0-10	6.4
11-50	14.9
51-100	16.5
100-200	18.7
200-400	21.6
400-600	15.4
600-800	2.5
800-1000	2.5
> 1000	1.5

Source: GORBI; 1999 State Budget; Budgetary Office of Parliament; SDS

Table 2.7 shows that approximately 6.5 percent of the Georgian population has almost no income. These are individuals who beg in the streets of Tbilisi, Batumi, etc and are highly marginalized. Equally disturbing is the fact that about 40 percent of the population is technically below the poverty line. Thus the average incomes reported in Figure 2.2 should be regarded with extreme caution when drawing conclusions. An average figure masks the fact that a significant proportion of the population has incomes below subsistence levels.

Surprisingly enough, despite the economic crisis of the last two years, despite the glut of unpaid salaries and pensions, and despite the low salary levels, there is an apparent tendency for average income equality to improve. Figure 2.3 describes a Lorenz curve for the Georgian population. Some progress in real terms appears to take place from 1996. This means that in addition to average incomes rising, equality of income also tends to get better. But not for everybody. The lowest 6.5 percent is not gaining ground and, in fact, is apparently locked in a poverty trap.

Fig. 2.3. Lorenz Curve of Income Distribution



Source: NHDR 1996; GORBI: Budgetary Office of Parliament

All these tables and figures appear to convey a sense of inconsistency between reported income and expenses that decrease in an environment of economic boom, or between salaries below the poverty line and an apparent improvement in average living conditions. We believe the answer to these questions, however, lies in the informal economy's increasing importance as an income source for the average household. If so, then this could explain decreasing levels of reported expenses and income (because informal income is usually underreported) as well as the average household's apparent capacity to make ends meet, despite formal salary and pension arrears, or despite formal salaries falling below the poverty line. In addition, the informal economy appears to have grown significantly since 1997.

An expanding informal economy would also be in line with the long entrepreneurship tradition of Georgians in general, and their equally long tradition of distrusting the governing authorities in particular. Those with a profound skepticism about the benefits of government intervention may see these figures as proof that in Georgia the smaller the government the better since, in any case, it has little effect on the individual's capacity to pursue his/her own income. Though we sympathize with the idea of an efficient Georgian government, which ensures existing laws are respected, as well as with that of a government, which only intervenes in areas of the economy where the private sector will not supply an efficient level of goods or services, we are worried that the apparent rise of the Georgian informal economy harbingers the government's increased inability to provide public goods such as an efficient police force, an agile court system, a decent care health system and well-maintained schools. For all these things the government needs to collect taxes and exercise its authority. On this score, the growth of the informal economy will not do much to help. In fact, we note with concern that in many parts of Georgia the government's presence is almost a formality. We refer to places that seldom receive electricity in summer and no supply whatsoever in winter, places in which misappropriation of resources means salaries and pensions have not been paid for months (even years in some cases), and places in which neither the Ombudsman nor the justice system has much influence over how local conflicts are resolved.

In summary, in addition to reporting that the average situation of the Georgian household appears to be improving, the figures presented in this section also seem to suggest that the Georgian population, despite its government's poor managerial performance, manages to improve its living conditions. The informal, almost vibrant, economy is the lifeline providing relief to the average Georgian household. There is little to celebrate and cheer in this. The growth of the informal economy is a response to the costs of going formal. The Georgian citizen sees government structures, such as the police force or the courts, as hurdles threatening the viability of economic activities rather than as crucial structures to enforce contracts and minimize transaction costs. Similarly, the population sees requisites for undertaking formal economic activities, such as paying taxes, as vehicles for a chosen few to enrich themselves at the expense of the many, rather than as a source of income to enable the state to provide a range of crucial public goods. In the long run, a growing informal economy threatens the government's capacity to implement public policy. Neither the informal economy, nor the numerous clans that govern the informal sector, is anxious to provide such services as a decent health care system and public education, to ensure the rule of law works throughout Georgia, or to guarantee the provision of basic human rights.

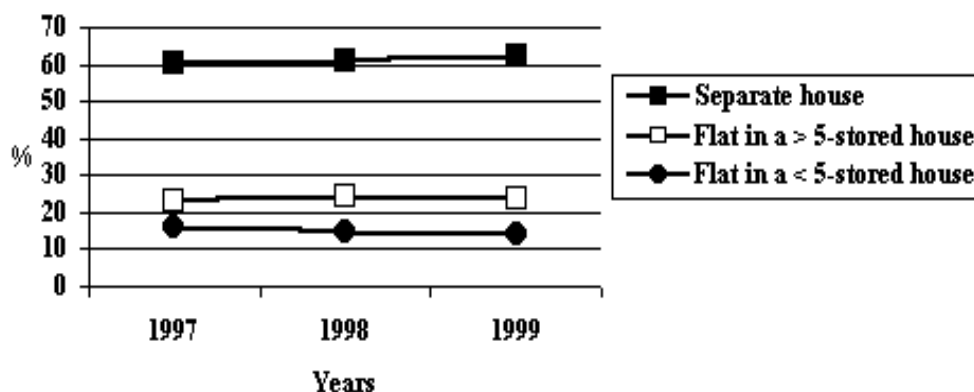
Access to Living Conditions

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing ...

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 25.

The Georgian population's living conditions are, on average, better than those in other CIS countries. Figure 2.4 indicates that over 60 percent of households own their homes. Housing is almost universal in Georgia.

Fig. 2.4. Living Conditions of the Georgian Population



Source: SDS

It is true that living conditions inside a significant number of these apartments or houses fall a long way short of standards taken for granted in western countries. Only about 50 percent of households have a telephone line and less than 50 percent have centralized or individual heating systems and are thus depend on kerosene and electric heaters (Table 2.8). Nevertheless, despite these shortcomings, it should be recognized that Georgia has managed to avoid the expansion of those "shantytowns" that have sprung up in almost all other post-communist countries of the CIS.

Table 2.8: Housing Commodities, percent
(I – Tbilisi; II – other towns; III – villages; IV – Georgia as a whole)

Commodities	1997				1998				1999			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Cold water supply	98.2	90.1	71.1	84.2	98.4	91.7	76.4	90.4	99.1	92.0	80.7	91.8
Hot water centralized supply	55.7	39.2	1.7	22.7	60.2	15.4	1.1	28.6	46.9	28.9	0.5	21.8
Water individual heating system	14.3	20.4	6.2	12.2	21.1	19.0	5.6	16.4	15.4	22.0	6.9	15.8
Electricity supply	96.8	97.6	97.7	97.4	98.5	97.8	98.4	97.9	98.1	98.0	98.4	98.1
Gas central supply	72.5	49.1	8.9	38.6	67.1	37.4	9.5	41.5	48.0	30.4	6.9	31.1
Gas individual supply	30.6	36.4	47.1	41.1	44.7	49.9	45.0	46.7	39.1	52.2	42.2	44.8
Heating central system	53.6	34.1	2.2	26.1	57.9	24.9	1.6	31.4	47.0	18.6	1.5	25.0
Heating individual system	14.2	20.9	25.6	23.0	17.4	27.6	25.1	23.1	12.0	29.3	26.9	22.2
Telephone	57.7	42.5	17.2	36.0	56.3	43.5	15.8	41.3	65.2	43.8	16.1	44.9

Source: SDS

Table 2.9 shows the average living space per household. More than 41 percent of householders have houses or flats bigger than 100 m², more than 50 percent of flats are over 80 m², and more than 65 percent are over 60 m². According to data collected by GORBI, 57.18 percent of householders live in their own flat whereas 42.82 percent share the flat with parents or live in a communal flat. A significant number of households owns a flat (90.8 percent), while 1.0 percent rent from the state and 0.9 percent from a private person. In addition, a remarkable number of households (25.7 percent) own a house other than the one in which they live (for summer or winter holidays).

Table 2.9: Average Living Space per Householder, percent
(I – Tbilisi; II – other towns; III – villages; IV – Georgia as a whole)

Flat Surface (m ²)	1997				1998				1999			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
< 20	13.3	14.6	4.3	9.7	3.7	2.5	0.4	1.8	3.2	1.9	0.5	1.5

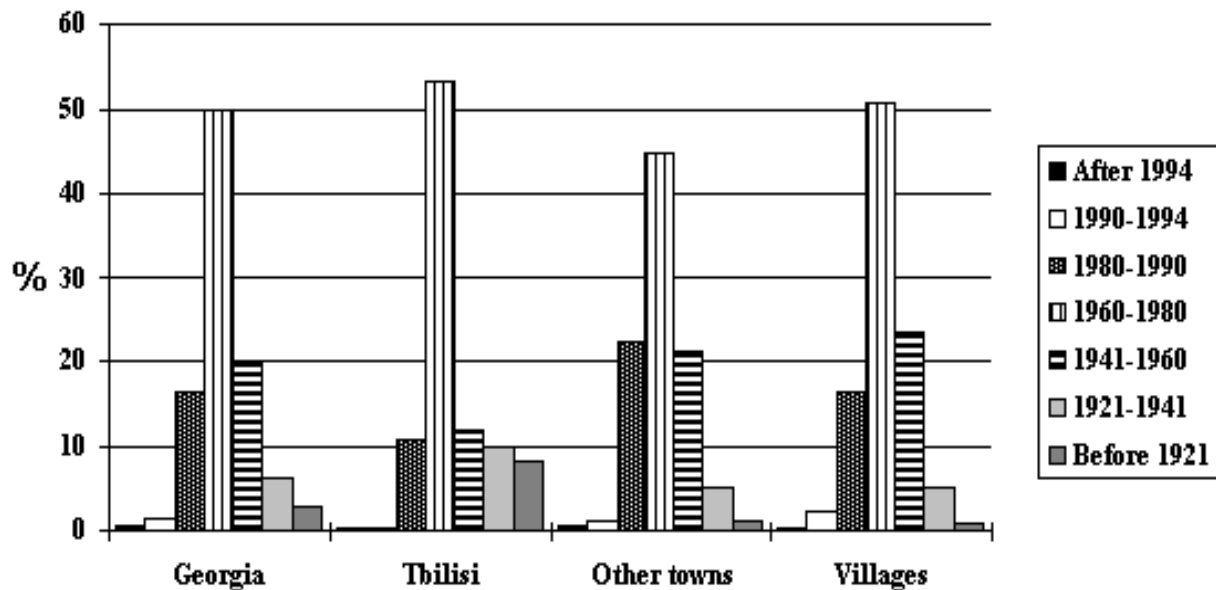
20-40	24.0	12.2	4.3	12.4	19.6	12.3	2.6	9.6	20.0	13.0	2.8	9.7
40-60	24.0	21.7	8.3	16.5	28.8	24.6	10.3	18.9	25.9	23.8	9.3	17.1
60-80	16.5	15.5	12.6	14.5	23.6	16.5	11.5	15.9	25.1	15.9	11.3	15.9
80-100	7.8	10.8	15.7	12.0	9.9	10.4	18.3	14.0	10.7	12.5	16.6	14.1
> 100	14.5	25.2	54.9	35.0	14.4	33.8	56.9	39.8	15.2	32.8	59.4	41.7

Source: SDS

The data show that while living conditions have a long way to go before they match those in advanced societies, the overall situation is much better than that seen in most third world countries. A house is an important asset to own and contributes heavily to human development. Homeless people and inhabitants of shantytowns are not social groups known by their high probability to survive the age of 40.

The remarkable level of housing in Georgia is an inheritance from the previous system. Such inheritance can be detected not only in observing the distinctively boring and ugly architecture of Soviet apartments, but also because little additional housing has been added since the Soviet Union's collapse. Most private investment in housing has gone on repairs inside houses and apartments, not on building new ones. Figure 2.5 describes construction data of flats and houses occupied by the Georgian population.

Fig. 2.5. Percentage of Housing Construction (1921-1999)



Source: SDS

Figure 2.5 shows that housing construction peaked in 1960-1980. This had nothing to do with an official preoccupation about needing to meet any goal of universal housing. Instead, in the early sixties, the First Secretary of the Georgian Communist Party, Mr. Vassiliy Mzhavanadze, and his obedient Central Committee decided to increase Tbilisi's population to over one million. The aim of this decision was to profit from the increase in material supply from Moscow to Soviet cities with over one million inhabitants (Among other things, Moscow provided funding for the construction of subway systems in cities above a million inhabitants). A program of massive apartment construction was started, which coincided with the campaign "to overtake and surpass the United States" led by Mr. Nikita Khrushchev, First Secretary of the USSR Communist Party. The massive construction of Georgian cities and towns sharply changed the ratio between urban and rural populations.

A visit to these satellite cities and towns will show the dreadful state of maintenance of most buildings. In the last decade, little, if anything has been spent on basic maintenance and many of these building are literally falling apart. As expected, families have chosen to invest their scarce savings on maintaining the interior of their apartments at the expense of maintaining the exterior. Judged on housing, Georgia does well mainly because of what it inherited from a previous system. But unless more work is done to maintain these building, sooner or later they will start to fall apart.

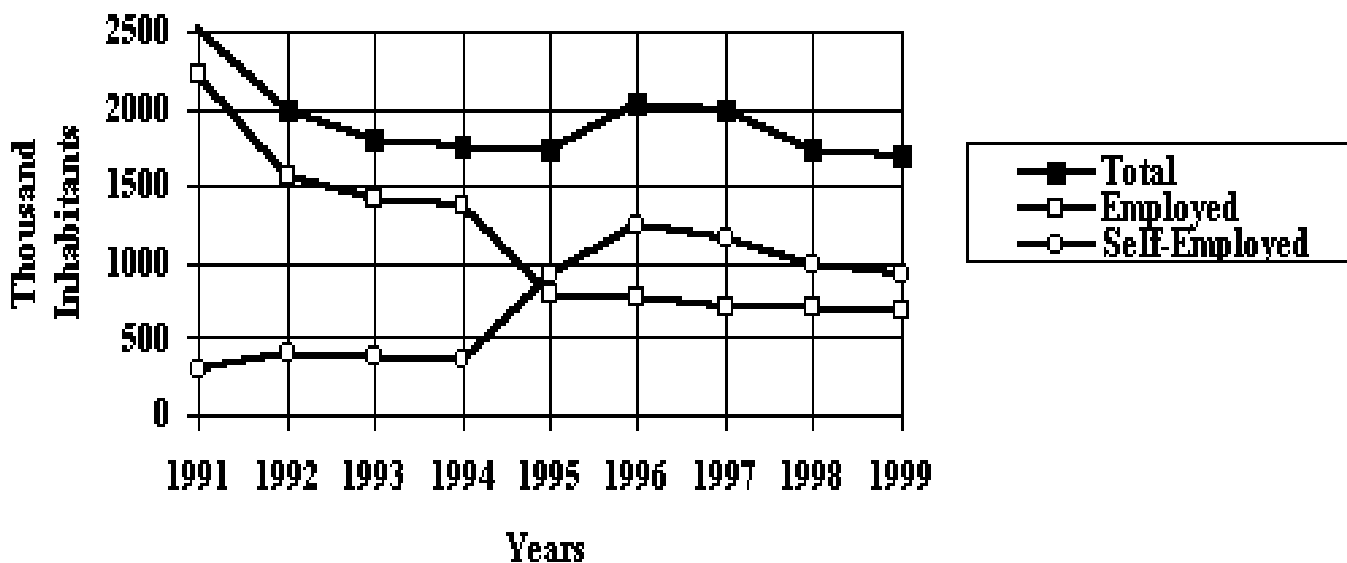
Employment

Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 23.

The social and economic changes that Georgian society has experienced in the last decade has entirely altered the employment structure (Fig. 2.6). Before the collapse of the USSR, the economically active segment of Georgian society represented an inseparable part of the Soviet state and, as such, comprised employees (remarkably, though ironically, this category included the Nomenklatura, which, according to Lenin's definition, was officially considered to be the "people's servants") and peasants working in kolkhozs, not working housewives, retired persons and students. The number of self-employed and unemployed people was low. Over the course of economic reforms, this has changed.

Fig. 2.6. Structure of Employment



Source: SDS

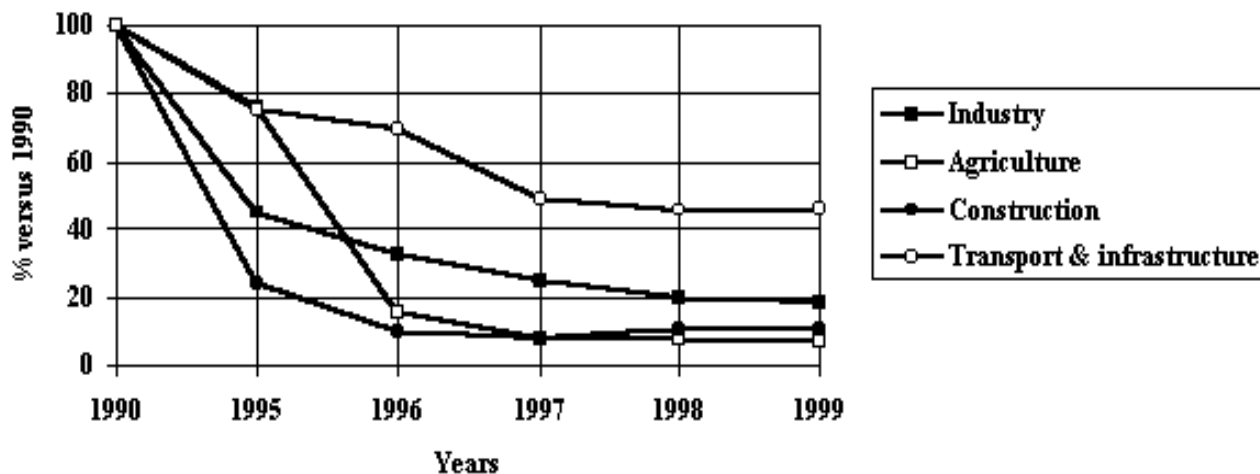
The percentage of employed males exceeds that of females by about 10 percent whereas the unemployment level is approximately the same (Fig. 2.7). This is because of the number of economically active females that choose to be housewives rather than to join the labor force. The official unemployment rate is high at 16.8 percent. According to GORBI, however, if only employment with a monetary remuneration is considered, the unemployment rate rises to as much as 25.6 percent. The more palatable official unemployment figure comes from considering employment with both monetary and non-monetary remuneration.

Fig. 2.7. Macroeconomic Structure of Employment According to Gender



The fall in formal employment opportunities that followed the collapse of the economy in early 1990 was brutal, particularly in the economy's main industrial branches. Figure 2.8 shows the changes in employment taking 1990 as a base year.

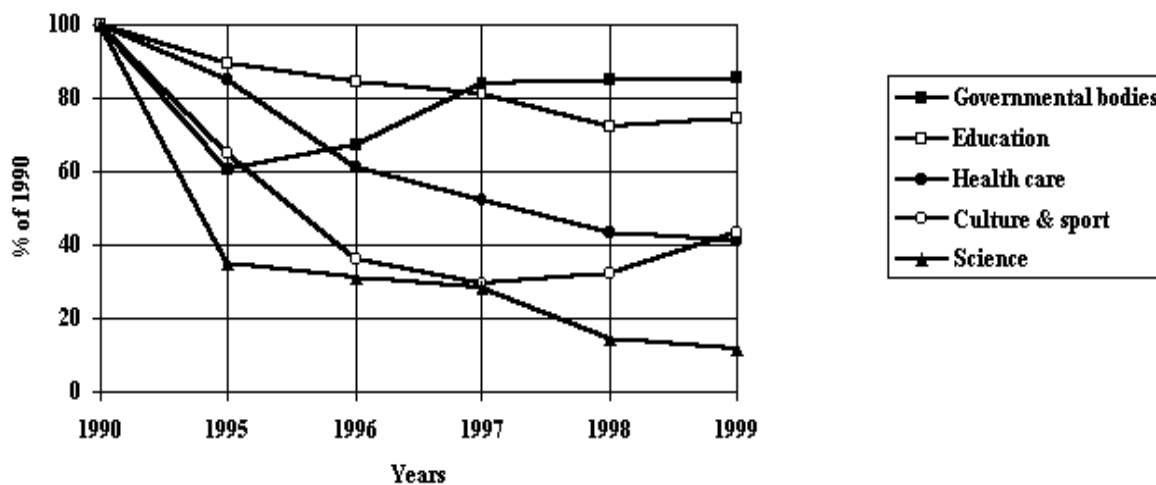
Fig. 2.8. Number of Employees in Main Industrial Branches



Source: Budgetary Office of Parliament

The sharp plunge of employment possibilities in the main industrial branches of the economy was accompanied by a similar trend in the non-industrial sectors. Figure 2.9 shows the changes over time in employment in the non-industrial sectors of the economy, taking 1990 as the base year. It is worth noting that the government managed to survive the slash better than any other non-industrial branch, even despite pressure from international financial organizations for the government to streamline itself, a condition of many international loans. Education, in turn, managed to retain the services of almost $\frac{3}{4}$ of its former employees.

Fig. 2.9. Number of Employees in Non-Industrial Branches



Source: Budgetary Office of Parliament

The squeeze in employment possibilities forced scores of Georgians to seek alternative ways of survival and many joined the ranks of the so-called self-employed. Table 2.10 shows both the distribution of the number of self-employed people between different economic sectors of business activity and the distribution according to gender. It is striking that over 78 percent of self-employed persons are engaged in agricultural activities. In addition, there appears to have been a shift from other sectors of employment to agriculture because this category is the only one to have grown since 1997.

Table 2.10: Distribution of Self-Employed People According to Economic Categories and Gender, as a percentage

Economic Categories	1997			1998			1999		
	Total	Female	Male	Total	Femal	Male	Total	Femal	Male
Agriculture	78.7	82.6	75.1	83.8	87.4	79.7	86.9	89.2	84.6
Mining	1.2	0.8	1.5	1.0	0.4	1.6	1.1	1.0	1.2
Construction	1.1	0.2	2.0	0.7	0.6	1.4	0.6	0.1	1.1
Trade & repair	13.4	11.7	15.0	9.7	8.1	11.2	7.9	7.6	8.2
Transport & communication	1.2	0.0	2.4	1.6	0.0	3.1	1.2	0.1	2.2
Culture, sport & other services	1.2	0.7	1.6	1.2	1.1	1.4	1.3	1.3	1.4
Other	2.0	2.5	1.6	1.4	1.8	1.0	0.6	0.3	0.8
Not defined	1.2	1.5	0.8	0.6	0.6	0.6	0.4	0.4	0.5

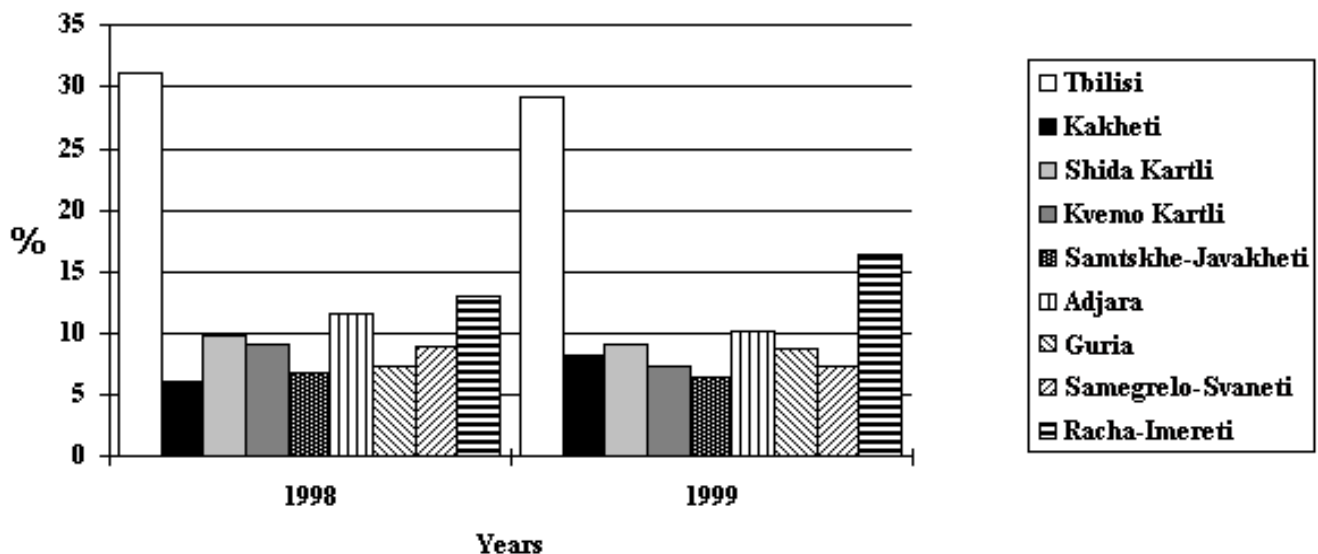
Source: SDS

To a large extent, the agricultural sector acts as a buffer against the negative consequences of reduced employment possibilities in other sectors of the economy. People tend to return to the family plot when employment in other sectors, particularly those with monetary remuneration, becomes unavailable. It shows the Georgian population's notable degree of flexibility and its ability to move and change jobs as favorable/unfavorable economic conditions emerge.

While agriculture has provided a lifeline to many that would otherwise have gone hungry, it is also a difficult and often unrewarding activity. Self-employment in agriculture covers people who predominantly work their own land plots and, as a rule, who receive only a small monetary income (from selling produce in open markets). For many, agricultural activities in Georgia traditionally had an auxiliary character, because most of the urban population owned small land plots that provided a non-monetary income. Agriculture's overwhelming contribution to the number of self-employed merely reflects the crisis in other sectors of the economy and the inherent difficulties of finding employment. Finally, the absence of monetary income for a large group of self-employed people contributes to the perpetuation of non-monetary economic relations in rural areas, areas in which a significant volume of goods and services are paid for with agricultural products. This feature prevents the capitalization of individuals' businesses and limits the range of goods and services available to farmers.

The importance of agriculture as a relief valve is also observed in the differences in unemployment levels between Tbilisi and the regions (Table 2.10). Unemployment has hit the most educated sectors of Georgian society particularly hard, as scores of physicists, engineers, biologists, doctors, and artists have painfully experienced.

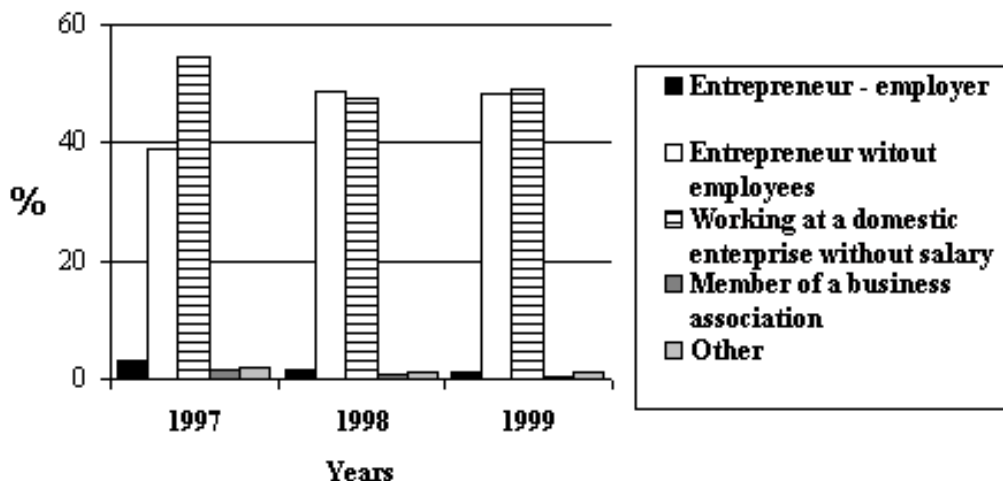
Fig. 2.10. Regional Structure of Unemployment



Source: SDS; United State Employment Fund

Figure 2.10 shows that unemployment levels are significantly higher in Tbilisi (about 30 percent of the economically active population) than in any other region. This is partly because a significant number of the former intelligentsia lives in the capital, as do hundreds of thousands of IDPs from Abkhazia. The latter can be found forming crowds at Tbilisi open markets, reselling simple goods like cigarettes, cheap clothes from wholesalers or food from peasants. They have created an informal "stock exchange" of unqualified labor on a per hour payment doing work like loading/unloading trucks or even just the simplest of housework.

Figure 2.11. Categories of Self-Employed People According to Their Social Status



Source: SDS

The employment structure also reflects the size of the informal economy and is consistent with findings from the previous section (income). The number of those who call themselves self-employed has overtaken the number in fixed employment by a large margin. The self-employed represent a group dominated by people mostly engaged in informal activities who often also "work" in formal jobs that pay no salaries (Fig. 2.11). When asked why they keep going to jobs that do not provide remuneration, the answer is invariably the need to maintain the network of relations associated to their jobs, "just in case opportunities arise in the future".

Access to Labor Unions

Everyone has the right to form and to join trade unions for the protection of his interests

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 23.4

Historians will not remember the last decade in terms of the power and influence of Georgian trade unions, which are a shadow of their former selves. Several factors account for their lack of presence in the country's daily political and economic life. The first one, of course, is that strong unions demand active sectors of the economy; few people will notice a strike in an idle or bankrupt firm. The second factor is that the growth of the informal sector has been fuelled by people formerly employed in unionized sectors of the economy, which in the Soviet Union constituted all sectors of the economy. The third factor is that the labor unions have been unable to depart or distinguish themselves from their Soviet counterparts. The average Georgian citizen finds it difficult to notice a real difference between Soviet trade unions and those of independent Georgia. The fourth and final factor has been an insatiable desire for property, which may seem surprising if we consider that the labor unions legally inherited all real estate and other tangible property that Soviet labor unions used to own in Georgian territory. The inheritance from the former Soviet labor unions came in the form of capital assets that initiated a savage fight for its control, resulting in scores of crossed legal claims that almost paralyzed the unions.

The recent history of trade unions in independent Georgia dates to June 29, 1990, when the Congress of the Georgian Trade Unions cancelled the Georgian Republican Council of Trade Unions and founded the Confederation of Independent Trade Unions ([I. Tugushi, Notes on Union of the Georgian trade unions, Tbilisi, July 2000 \(in Georgia\). This document has been kindly provided by the Chairmen of the Union](#)). This Confederation declared itself the legal successor and owner of all property that belonged to the (Soviet) Georgian Republican Council of Trade Unions. It also automatically "inherited" all of its members. Almost overnight, the Confederation became an important organization uniting the overall (or almost the overall) economically active population of Georgia as 28 unions joined up. While the Confederation may have managed to acquire the existing trade unions' property, it failed to gain the souls of its members, who remained indifferent to the maneuvers of their leaders. The Confederation soon sailed into troubled waters and on August 24, 1991, the Extraordinary Foundational Congress of the Georgian Trade Unions liquidated the Confederation, founded the newly Independent Georgian Trade Unions and declared itself the successor of all existing property ([This internal coup was engineered by Mr. Gamsakhurdia's government, who did not trust the Confederation leaders](#)). This time, however, not all the leaders dutifully lined up as expected and ten unions refused to join the new structure. With the fall of the Gamsakhurdia Presidency, the days of the Georgian Trade Union were numbered and 11 days later, on January 28, 1992, a new "unifying" Congress of Georgian Trade Unions was called. The congress resulted in the Union of Georgian Trade Unions.

Disputes surrounding tangible property continue today. From 1992-1994 the Georgian Government "appropriated" the Palace of Culture, the Methodological & Training Center and the Sanatorium "Nabeglavi", transferring ownership to several governmental agencies. Touched where it hurt most, leaders of the Union fought back and on July 15, 1998, obtained a Constitutional Court ruling canceling the government decision and restoring the previous status quo. The Ministry of

Defense, which by that time controlled the Palace of Culture, refused to leave highlighting, as mentioned in Chapter One, the easygoing attitude of some government employees to the justice system's rulings. The situation was further complicated by a court claim from Mr. Katsitadze, the former leader of the Independent Trade Unions, who is trying to get the 1992 congress cancelled and, of course, the restitution of all its tangible property with him as the plenipotentiary manager.

Meanwhile, the management of the Unions' property is in the hands of several entities founded by the Union of Georgian Trade Unions. For instance, "Kurortinvest", a Joint Stock Investment Company, manages the Resorts of the Georgian Trade Unions (foundation capital 11.4 million GEL plus 1.461 million GEL of auxiliary real estates). Unfortunately, Kurortinvest has been unable to attract investment for improving and running up the capital assets listed in Table 2.11.

Table 2.11: Tangible Property of Union of Georgian Trade Unions Managed By JSC "Kurortinvest"

Region or Rayon	TOTAL	Including			
		Sanatorium	Pensionate	Guest House	Polyclinics
Adjara	21	3	5	6	2
Borjomi	9	3	2	-	1
Tskhaltubo	12	9	-	-	2
Other	10	6	1	-	1
Total	52	21	8	6	6

Source: I. Tugushi, Notes on Union of the Georgian trade unions, Tbilisi, July 2000 (in Georgian).

Two other entities also manage labor union property. The first is the Sport Society "Shevardeni" (Falcon), which is in charge of 40 different units (worth 2.17 million GEL), including six stadiums, 14 sports complexes, nine wrestling halls, two swimming pools, two sports halls, two chess clubs, a shooting-range, an athletics hall, and a number of tennis courts. The second is "Kurortmsheni, Ltd.", a construction firm of trade unions with a foundation capital of 382,185 GEL. In addition, the Union itself manages five limited liability companies (an autoservice station, the restaurant "Phasis", "Polygraphist" and the tourist base in Tskhneti, "Kurortproekti"), three joint stock companies (the hotels "Bakhtioni", "Amirani", "Karishkhala") and other firms with a total foundation capital of 2.623 million GEL. Thus, as of July 1, 2000, the Union of Georgian Trade Unions directly or indirectly owned and managed tangible property and real estates worth 16.575 million GEL, the current value of the property inherited from the Soviet trade union system.

On paper, the might of the Union of Georgian Trade Unions knows few boundaries and includes the following organizations: (i) Adjara Republic Council of Adjara trade unions; (ii) Abkhazia Coordination Council of Abkhazia trade unions; trade unions of (iii) Aviation workers; (iv) Local industry & housing workers; (v) Architecture, construction & building material industry workers; (vi) Bank, financial and insurance companies' employees; (vii) Education employees; (viii) Geology, geodesy & cartography employees; (ix) Energy & electro-technical workers; (x) Trade and consumption cooperation workers; (xi) Defense & radio-electronic industry workers; (xii) Communication workers; (xiii) Resort & tourism workers; (xiv) Subway workers; (xv) Engineering industry workers; (xvi) Medical workers; (xvii) Light industry workers; (xviii) Metallurgy & mining industry workers; (xix) Academy of Sciences employees; (xx) Employees of small enterprises (xxi) Oil and gas industry workers; (xxii) Coal industry workers; (xxiii) Footballers; (xxiv) Journalist & mass media employees; (xxv) Railway workers; (xxvi) Sportsmen & sport employees; (xxvii) Autotransport & road workers; (xxviii) Mechanical engineering & agroindustry workers; (xxix) sailors; (xxx) Paper & wood processing workers; (xxxi) Army service & public associations employees; (xxxii) State aviation workers; (xxxiii) Agriculture & food industry workers; and (xxxiv) Chemical, medical industry & heating system workers.

In practice, however, the situation is different. The Union's structure is little more than a relic of ancient times because it unites trade unions of workers and employees of industries that either do not exist any more, or whose participation in the economy has sharply reduced, like in the state aviation and mechanical and engineering industries. In addition, Georgian trade unions have no power in Abkhazia.

The number of trade union members curiously coincides with number of employees registered by both the Tax Department and the Social Welfare system. Such a coincidence fuels the suspicions of those who claim that trade union membership is a formality, aimed at extracting payments through membership dues. In some cases, the allegations may have a point. No trade union meetings have been called in scientific institutions, universities, and other entities for the last ten years. Most of the population does not even know whether or not they belong to a trade union.

The Unions have also been unable to extend their reach to the scores of employed people in the new branches of business activity who often remain unprotected. Workers in cafés, restaurants or stores can be fired at any time without reimbursement, as he/she has no labor or employment contract. Another area in which unionization could make a difference is in international organizations, which usually pay local staff salaries five to ten times less than those of foreigners working in the same job. Our conclusion is that the current situation of the labor unions is cause for concern. While there are some labor union leaders who sincerely try and improve working conditions and terms, the Union of Georgian Trade Unions appears to be more submerged in disputes about property distribution and more dedicated to managing its assets than in commenting on Georgia's current process of socio-economic transformation. As a result, only 27.6 percent of the Georgian population trust trade unions, 61.3 percent do not trust them at all and 11.1 percent has no idea about their existence (*Georgian Lifestyle, GORBI, TBILISI, 2000*). Georgian trade unions exist in a virtual space isolated from current problems affecting the country, an inauspicious long-term strategy for organizations whose main goal ought to be the well-being of their members. In the new economy, Unions have a role that, if played with conviction and honesty, will earn them back the recognition of their member workers (*Like in the cases of Zestaphoni Ferroalloy Plant, Chaturmanganese Mines and Madneuli Metal Enrichment Plant. Trade unions participated in these conflicts and today the Trade Union of Metallurgy & Mining Industry is active and trusted by its members*).

Access to Land and Property

No one shall be arbitrarily deprived of his property

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 17.2

Access to property in general and land in particular has always been a touchy issue. The first decree signed by the government of the First Georgian Republic in 1918 was the "Decree on Private Property of Land" while the first decree signed by the Council of Red Commissars in 1921 was the "Decree on the Nationalization of Land". Land use rights constitute important criteria that distinguish a liberal economic system from a totalitarian one. Different property regimes also appear to influence productivity. In 1988, the state owned 87 percent of agricultural land, and it provided 16 percent of crop production, while the 13 percent of land that belonged to rural householders produced 84 percent of agricultural domestic produce.

The process of re-distributing collective 'kolkhoz' lands to rural and urban householders was implemented between 1990-1995. Georgia's recent laws on "Property of Agricultural Lands" and on "Land Property" accelerated the process of land privatization and transferred a significant portion of former state land to private individuals for nothing. Over 790,000 ha (or 26 percent of overall agricultural lands) have been privatized including 54 percent of high-quality arable land. Table 2.12 shows the structure of Georgia's Land Fund. The whole land fund accounts for 6.95 million ha but only 43.1 percent or 2,991,100 ha of this is agricultural.

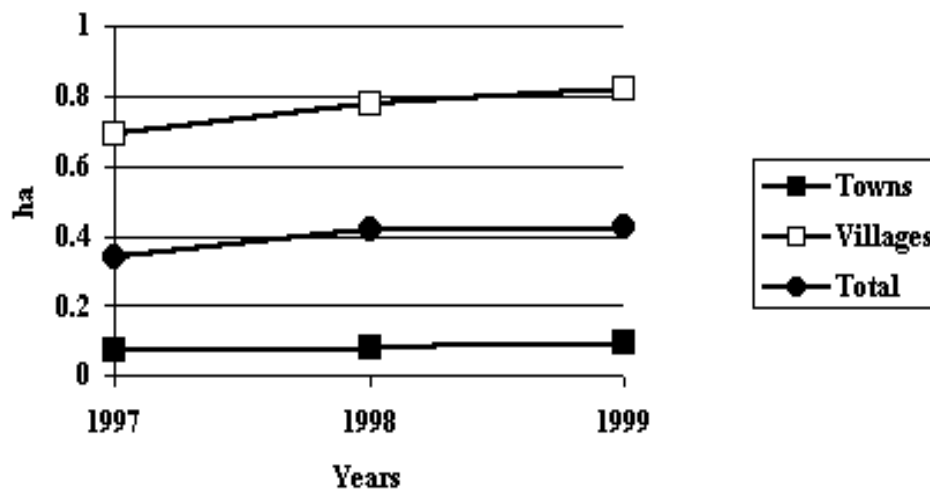
Table 2.12: Land Fund of Georgia

Types of Land	Distribution	
	Area, thousand ha	Percentage of total
TOTAL	6,949.4	100.0
Arable land	785.0	11.3
Perennial plantings	277.5	4.0
Pastures	1,928.6	27.8
Agricultural lands in total	2,991.1	43.1
Forests	2,006.6	28.8
Other	1,951.7	28.1

Source: Jeane Zonenashvili, Land resources of Georgia, Georgian Center for Strategic Studies and Development, 1998, Bulletin # 16, p. 24-43 (in Georgian)

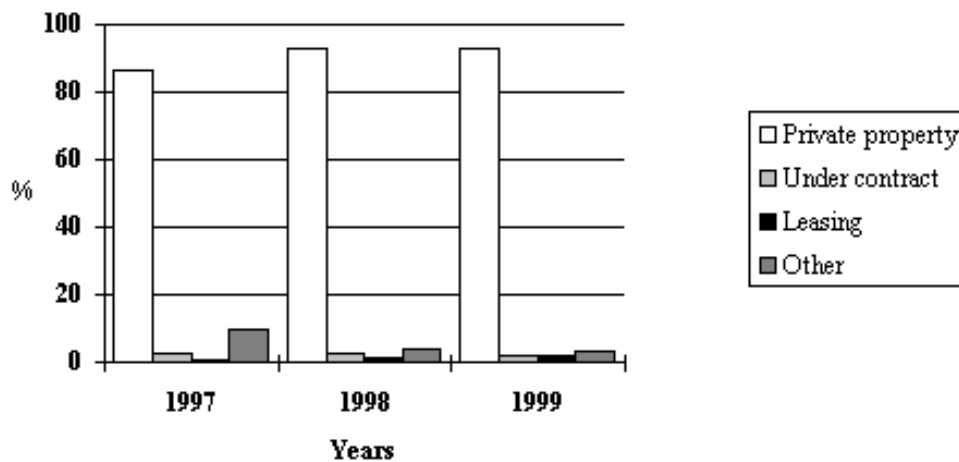
The average size of a given household's land plot, in either villages or towns, is not large. Figure 2.12 shows that there is a tendency for the average area of cultivated land to increase. Yet the tendency is weak. The explanation lies in the country's underdeveloped land markets.

Fig. 2.12. Average Area of Cultivated Land Plots per Household



Source: SDS

Fig 2.13. Distribution of Main Land Plots According to Property Rights



Source: SDS

Georgian agriculture's capacity to organize itself with minimal input from the government and to operate in an almost cashless environment helped the country to overcome the most tragic and difficult stages of the civil war without experiencing massive famine. Even at its most stretched, Georgian agriculture was able to supply markets with a basket of basic produce. According to USAID, however, the current private land plots are too small for profitable production ([Recent Development of Georgia's Agriculture, Report of the Strategic & International Studies, Washington D.C., 2000](#)). Consolidation may be needed. But a cashless environment and underdeveloped land markets are not helping the capitalization of farms, the consolidation of the sector, or investments in agriculture. In addition, cultural factors hinder the alternative option: setting up cooperatives which would benefit from economies of scale. In Georgia, the word "cooperative" still spells Soviet kolkhoz to a peasant. His/her bad experience from this type of production unit means that farmers prefer to enjoy any possible benefit to working alone than to join his/her property to any joint venture.

We will now briefly turn our attention to the privatization process of Georgian State assets. This is one of the last decade's most important pieces of public policy, because access to capital is an important tool in breaking the poverty trap and climbing the social ladder. Indeed, the World Bank, in its Poverty and Income Distribution study for Georgia, confirms that different capacities to access capital assets correlates to differences in poverty levels, a finding in line with what common sense would suggest.

To privatize state assets in a post-communist country is to seriously redistribute wealth, because previously everything belonged to the State and, at least in theory, the State belonged to the people. With the collapse of the Soviet Union, people should have been given back their corresponding share of State assets, yet results have been disappointing. Even more disappointing is the fact that international organizations have been unable to halt or to rectify what appears to have been a biased and unfair distribution of wealth generously peppered by outright misappropriation of state assets. And yet international organizations actively designed the privatization process, often making their financial assistance dependent on its implementation.

Thousands of pages have been written about the Georgian privatization process. The National Human Development Reports of 1995-1999 discuss the issue at length, as do nearly all the quarterly issues of the magazine *Georgian Economic Trends*. We are not interested in repeating here all that bulk of data. We will briefly describe the opportunities opened to help common citizens get back his/her portion of State assets, wealth that, in one way or another, he/she helped to create while working under the Soviet System.

Mr. Zviad Gamsakhurdia's government took the first important step in the privatization process. According to a Special Decree of the President, it declared Georgian householders who had forwarded the corresponding notification to be the owners of their flats in municipal buildings. From 1992 onwards, the privatization process in Georgia gathered steam by means of the "Law on Privatization of State-Owned Enterprises", a piece of legislation later saddled with more than 60 amendments issued to coincide with different economic swings. On May 30, 1997, the Parliament of Georgia adopted a new Civil Code and a new "Law on Privatization of State Property". The latter was legislation largely concerned with regulating the privatization of large enterprises.

Originally, the idea was that the population at large would participate in the privatization of medium- and large-sized enterprises via special voucher auctions. By 1997, about 87 percent out of a total of 5,310,414 vouchers had been distributed to the Georgian population. The voucher model of privatization called for vouchers to be exchanged for securities of state-owned enterprises that were being transformed into joint stock companies. By this process, vast segments of the population were supposed to end up owning shares in the enterprises.

These vouchers and securities were accumulated in special investment funds, intended as vehicles that would later foster the creation of a secondary security market. Yet these funds bought (or exchanged via vouchers) just 0.3 percent of shares in former state enterprises and, surprisingly enough, a significant portion of their investments went on unpromising enterprises that were waiting for the "Law on Bankruptcy" to be implemented. Many of these investment funds went the way of that described in Box 2.3.

Box 2.3. Pension Funds, Voucher, and Privatization

In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law
UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 29.

By the beginning of 1997 a number of pension funds has been registered at the Ministry of Justice. The main goal of these funds was to manage vouchers intended for pensioners, their exchange for securities of promising enterprises, the collection of dividends and their distribution among shareholder pensioners. These funds were very active in auctions obtaining control of enterprises by means of paying with vouchers. The results for the smallholders of privatization vouchers were disastrous because the State failed to protect them against evident fraud.

Pension Fund # 1 was registered in the Vake-Saburtalo Court of Justice as a *limited liability company*. Soon after this, all vouchers obtained by the fund were registered under the name of physical persons, not the fund. From the very beginning, Pension Fund # 1 appropriated vouchers belonging to pensioners and used them to support particular individuals and their shareholder rights on the board of joint stock companies. These affairs bore more resemblance to episodes from "The Godfather" interspersed with touches from "The Three Stooges" than the efficient and cold greed of Mr. Gecko in "Wall Street". Operations were often unsuccessful as pension funds had little idea about how to manage a firm. Internal and savage rivalries gave birth to management boards and these contributed modestly to ruin the newly acquired firms. Finally, outright mismanagement did the rest.

The Georgian population at large has seen little of these former state assets. By the end of the first stage of privatization (the second stage comprised selling state enterprises directly to actual investors), the Georgian population owned the same amount of tangible property as it had at the start of the process. When the second stage of privatization is taken into account, which among other things is characterized by scores of tenders with only one participant, the privatization process appears to have resulted in an unfair re-distribution of wealth of a magnitude not seen since the nationalization of property by the Red Commissars in 1921.

Access to Social Welfare & Insurance

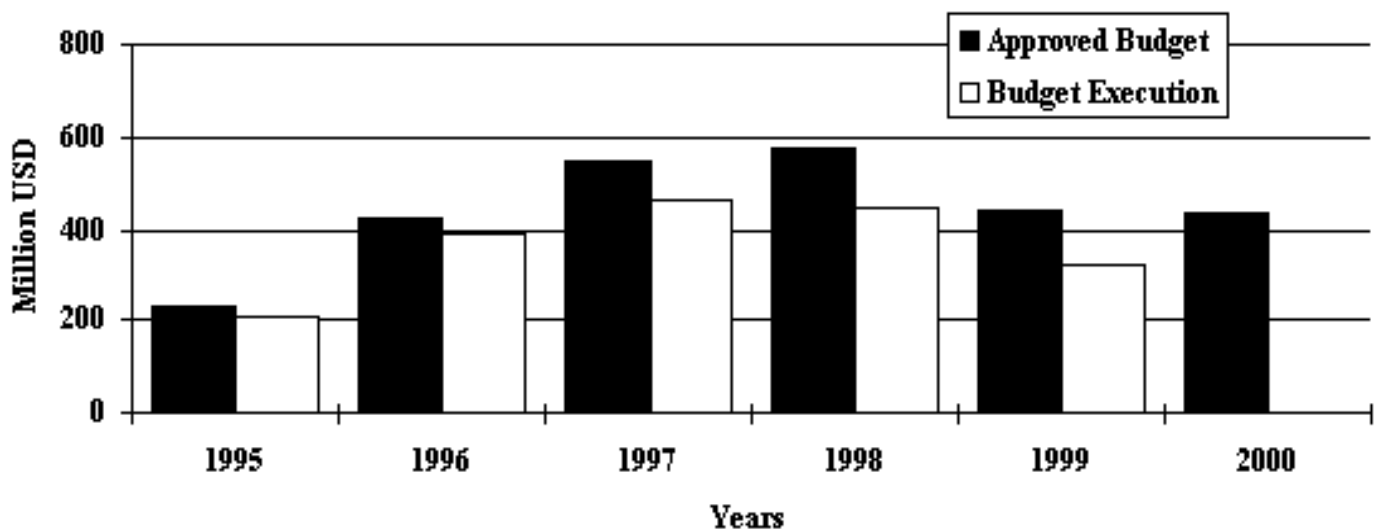
Everyone, as a member of society, has the right to social security...

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 22.

The population's access to social welfare and insurance depends overwhelmingly on the State's capacity to attain proper levels of tax collection and to ensure that resources collected are properly managed. Neither a strong informal economy nor crippling levels of mismanagement are factors that favor the local population's access to social welfare and insurance. A strong informal economy robs the State of crucial resources needed to properly endow the social welfare and employment funds, while mismanagement, of course, decreases the efficiency of how scarce government resources are spent.

The previous issue of the NHDR 1999 noted that budgetary revenues fell short of targets set for the period 1995-1998. This performance was repeated in 1999, as Figure 2.14 shows.

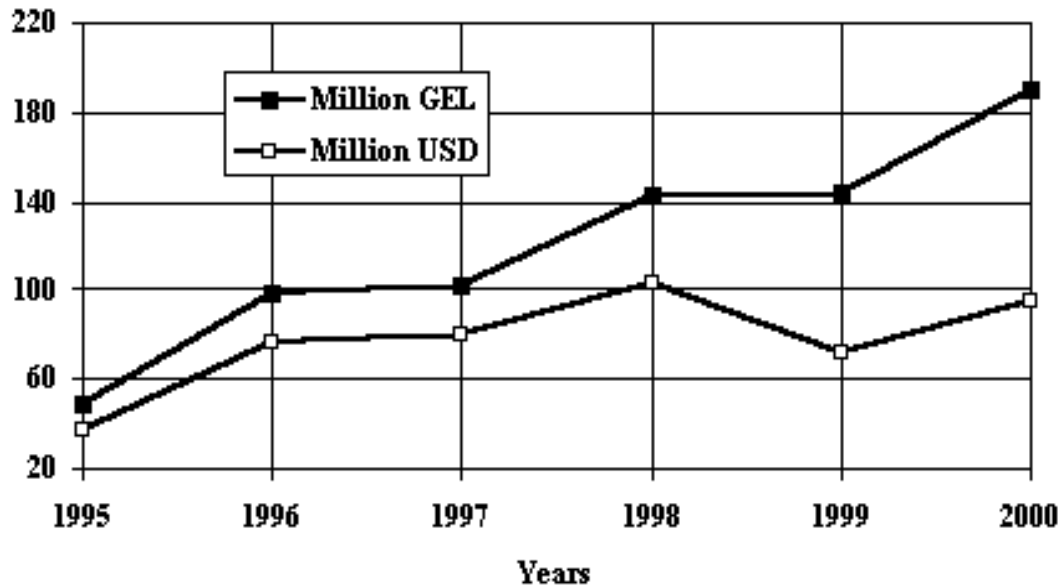
Fig. 2.14. Approved and Executed Revenues to the State Budget (in USD)



Source: NHDR-1999; The Law of Georgia on 2000 State Budget of Georgia; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000.

In real terms, the revenue goal for 1999 was set at almost the same level of revenues obtained in 1998. Yet even this exhibition of targeting prudence was insufficient and revenues in 1999 were again below the planned targets. The State Budget received 124.3 million USD less than in 1998. As with almost every other category of national budget spending, the Special State Funds suffered from the shortages in resources. They received approximately the same amount of Georgian laris as in 1998. If the devaluation of the Lari in late 1998 is taken into account, the figure received for 1999 is 30.84 million USD less than in 1998 (Fig. 2.15).

Fig. 2.15. Revenue to the Special State Funds



Source: NHDR-1999; The Law of Georgia on 2000 State Budget of Georgia; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000.

The overall execution of the Special State Funds was equal to 89.74 percent in 1999. The United Social Welfare Fund achieved an execution of 87.93 percent, the United Employment Fund of 95.05 percent and the State Road Fund of 96.03 percent. Table 2.13 shows the revenues expected and the revenues actually obtained in 1999, as well as those planned for the year 2000 for the three funds previously mentioned.

Table 2.13: Revenue to the Special State Funds of the Consolidated Budget
(Including payments by budgetary organizations)

Type of revenues	Amount, Thousand GEL			percent of Execution (in 1999)
	2000, Approved	1999, Approved	1999, Execution	
TOTAL	208,780	171,200	153,640	89.74
United Social Welfare Fund, including	151,280	132,300	116,331	87.93
Social tax of employers	142,980	126,300	111,858	88.56
Social tax of citizens	5,300	5,400	4,143	76.72
Other revenue	3,000	600	330	55.00
United Employment Fund, including	5,300	3,800	3,612	95.05
Social tax of employers	5,300	3,800	3,570	93.95
State Road Fund, including	52,200	35,100	33,697	96.03
Excise tax on vehicle gasoline	24,700	15,000	12,606	84.04
Tax on roads	10,000	7,000	7,193	102.76
Tax on vehicles	5,500	4,500	3,916	87.02
Tax on vehicles entering Georgia from abroad	10,500	7,500	8,246	109.95
Other revenue	1,500	1,100	1,736	157.82

Source: The Law of Georgia on 2000 State Budget of Georgia; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000

Since one of our interests in this section is the population's capacity to access unemployment benefits, we will direct our attention to the performance of the United Employment Fund (Table 2.14). A brief look at the official numbers provided shows that the fund received 3.6 million GEL in revenues. If this amount were to be distributed among the 344,600 unemployed (based on the WTO's "loose criterion"), the United Employment Fund would have been able to provide each unemployed person 10.48 GEL per year. Not a lot. But since the fund only has 10,900 people or 3.16 percent of those unemployed registered, the available resources could have allowed for each unemployed person to receive as much as 331.28 GEL per year or 27.61 GEL per month.

Table 2.14: Balance Sheet of the United Employment Fund

Categories	Amount, Thousand GEL			Percent of Execution
	2000, Approved	1999, Approved	1999, Execution	
Revenue, including	5,300.0	3,800.0	3,611.5	95.04
Social tax of employers	142,980.0	126,300.0	3,569.7	93.94
Difference on 01.01.1999	-	-	41.8	-
Expenditures, including	5,300.0	3,800.0	3,592.0	94.53
Subsidies to unemployed	1,800.0	1,000.0	948.9	94.89
Programme of temporary employment of unemployed	750.0	1,850.0	1,713.8	92.64
Co-financing of vocationally education	750.0	750.0	641.5	85.53
Promotion of employment	1,700.0	-	-	-
Costs of temporary public works	-	500.0	498.7	99.74
Organizational & administrative expenses	300.0	950.0	929.3	97.82

Source: The Law of Georgia on 2000 State Budget of Georgia; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000

However, only 948,900 GEL was spent on payments to unemployed people, an equivalent of 87.06 GEL per year or 7.25 GEL per month per registered individual. Organizational and administrative expenses were nearly as high as payments to unemployed people (948,900 versus 929,300 GEL). Considering the amount of people in each respective payroll, the United Employment Fund appears to provide incomparably greater benefits and working conditions to its managers (and possibly employees) than to the unemployed people on its books. This situation has been a subject of concern for the present authorities and the managerial expenses for 2000 have been cut to 300,000 GEL. We sincerely applaud any measure that can increase the efficiency of spending and thus increase the capacity of the United Employment Fund to reach the scores of unemployed Georgians who are in real need of a monetary supplement.

We will now turn our attention to the performance of the United Social Welfare Fund. Here, the situation is far from acceptable and measures aimed at increasing efficiency of spending, and therefore the population's access to welfare benefits, may require more than just keeping managerial expenses in check.

**Table 2.15: Balance Sheet of the United Social Welfare Fund
(Including payments by the budgetary organizations)**

Categories	Amount, Thousand GEL			Percent of Execution
	2000, Approved	1999, Approved	1999, Execution	
Revenue, including	189,430.0	177,300.0	166,113.4	93.69
Social tax of employers	142,980.0	126,300.0	111,858.1	88.56
Social tax of citizens	5,300.0	5,400.0	4,192.9	77.64
Other revenue	1,500.0	600.0	330.0	55.00
Transfer from the Central Budget	39,650.0	45,000.0	44,705.1	99.34
Difference on 01.01.1999	-	-	5,027.3	-
Expenditures, including	187,930.0	174,300.0	162,884.1	93.45
Pensions	175,249.0	159,440.0	148,537.9	93.16
Subsidies to temporary disable employees	2,900.0	5,940.0	5,900.0	99.33
Subsidies to IDPs for maternity	500.0	-	-	-
Reimbursement of electro-transport travel cost to group I invalids	420.0	420.0	334.4	79.62
State program on children social protection	-	1,000.0	1,000.0	100.00
Organizational & administrative expenses	4,861.0	4,000.0	4,000.0	100.00
Communication expenses	4,000.0	3,500.0	3,111.8	88.91

Source: The Law of Georgia on 2000 State Budget of Georgia; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000

While Table 2.15 shows that 148.5 million GEL was paid as pensions in 1999, the State Department of Statistics' official figure of registered pensioners who are entitled to welfare benefits is 900,000. Each pensioner should, on average, have received about 165 GEL for the year or 14 GEL per month. Which, indeed, is the

approximate level of pensions in Georgia. Taking these numbers into account, it defies comprehension why arrears in pensions increased in 1999 (see Table 2.16). The explanation for this puzzle, as was highlighted in an investigative TV program, appears to be beyond the power of arithmetic (see Box 2.5).

Box 2.4. "Dead Souls"

In a famous (though unfortunately unfinished) novel of Gogol ("Dead Souls"), the main character, a Mr. Chichikov, travels the Russian provinces signing contracts left, right and center to buy serfs that were already dead. These contracts were part of an innovative and temporarily profitable fraud scheme.

Mr. Chichikov appears to have his contemporary followers within the management of the Social Welfare Fund, as Mr. Akaki Gogichaishvili has suggested. Mr. Gogichaishvili is the leading reporter on "60 Minutes", a "Rustavi-2" TV program made up of independent journalistic investigations on sensitive issues, including corruption and mismanagement of government funds. Each Sunday, at 9 p.m., Mr. Gogichaishvili and his team present their findings to the public. With regard to the management of the Social Welfare Fund these were definitely troubling.

According to "60 Minutes", the Ministry of Social Welfare, in close collaboration with the Post Bank, paid a significant number of pensions to people who, on the day of payment, were already dead. The total amount of these illegal payments was equal to 25 percent of the total money allocated to be spent on pensions. The sum of payments to the Dead Souls closely matches the increase in payment arrears.

This alleged fraud convinced the President that the situation regarding the management of social welfare funds was extremely serious and demanded radical actions. The Ministry of Social Welfare was the first casualty and was abolished in the Spring of 2000. The Prosecutor's Office has yet to start investigating this matter.

Finally, Table 2.15 shows that the executed subsidies to temporarily disabled employees was 5.9 million GEL or 99 percent of the planned target, an excellent performance that was even improved in terms of organizational expenditures, which amounted to 4 million GEL and were 100 percent executed. If "Communication expenses" are also taken into account, operational expenses amount to 4.4 percent of total expenditures, a relatively acceptable percentage, though above the 2.4 percent allowed by law (Indeed, 4-4 percent in optional costs is a target that most projects of international organizations fail to meet. The Georgian law, however, is even tougher and demands costs be kept to 2.4).

Table 2.16 describes the officially registered arrears in so-called "protected articles" of the State Budget. A protected article is a prioritized budget item. Expenses in "non-protected" budget lines are dependent on first securing enough resources to cover the expenses in all protected articles. In short, the government is supposed to refrain from spending in, for example, management expenses or buying new vehicles, until all protected articles have been paid in full. Reality, however, indicates otherwise.

Table 2.16: Arrears of the 1998-1999 State Budget in Protected Articles

Item	1998		1999		January 1, 2000	
	Million GEL	%	Million GEL	%	Million GEL	%
Remuneration for labor, including	23.9	18.9	29.1	24.3	53.0	21.5
Salaries	14.1	11.1	14.6	12.2	28.7	11.7
Social taxes	6.2	4.9	9.1	7.6	15.3	6.2
Pensions	53.0	41.9	24.6	20.6	77.6	31.5
Pensions for law enforcement staff	0.1	0.1	6.0	5.0	6.1	2.5
Transfers to local budgets	8.3	6.6	12.2	10.2	20.5	8.3
State Medical Insurance Company			8.6	7.2	8.6	3.5
Health care program	14.3	11.3	6.8	5.7	21.1	8.6
State Program for disabled citizens			0.7	0.6	0.7	0.3
Interest rate of National Bank			0.006	0.0	0.006	0.0
Salaries to IDPs			7.3	6.1	7.3	3.0
Subsidies	3.5	2.8	2.9	2.5	6.4	2.6
Expenditures on food	16.7	13.2	11.0	9.2	27.7	11.2
Stipends and other dues	0.7	0.5	1.2	1.0	1.9	0.8
TOTAL	126.6	100.0	119.7	100.0	246.3	100.0

Source: Report on execution of the 1999 State Budget, Budgetary Office of Parliament, Tbilisi, 2000 (in Georgian).

Arrears in pensions continue to grow unchecked. Total official arrears in pensions were 53 million GEL by the end of 1998, and with the addition of a further 24.6 million GEL in 1999, amounted to 77.6 million GEL by January 1, 2000. The total arrears for all protected articles reached 246.3 million GEL. During the 1999 fiscal year, arrears increased by a staggering 105.8 percent.

The situation regarding the management of the employment and welfare funds has been chaotic. Those worst affected have been the poorest and most vulnerable members of society, for whom even the meager supplements provided by these funds can make the difference between having something to eat and not. We are happy to see that the newly reformed Ministry of Health Care and Social Welfare is apparently trying to improve the current situation. As a first step it has changed all managers of the United Employment Fund and United Social Welfare Fund. Second, the Ministry appointed a special Council of Trustees and Group of Experts to find alternatives to improve how resources are managed. Third, the Ministry appears genuinely interested in cooperating with different

international organizations like Counterpart International, USAID, and the World Bank to reform the social welfare funds. Fourth, some measures have been introduced to increase the population's confidence in how these funds are managed. Among them we notice a project to appoint controllers elected by the population to all social welfare departments. The newly hired managers have already introduced a new computer system to register pensioners, which has increased transparency. The system quickly revealed several tens of thousands of Gogol's "dead souls". Finally, officials in the Ministry are considering the possibility of replacing the existing social welfare system with one of state insurance. Corresponding draft laws have been forwarded to the Parliament.

These measures are precautionary, measures intended to minimize the occurrence of mismanagement and corruption. No doubt they are very much needed. But the existence of low corruption levels relies on that of a judicial system capable of acting efficiently and relatively fast in the event of illegal activities. A fully functioning and independent court system would discourage most of those in managerial positions in the welfare and social funds to misappropriate public money because efficient, clean and agile courts would introduce the novel idea that corrupt activities can and will be swiftly punished.

Conclusions

This chapter has looked at what appears at first sight to be conflicting data. We have observed that if monetary and non-monetary income is taken into account, the average Georgian household's total income has been improving over time. To our surprise, we have also observed that equality in income distribution not only improves when non-monetary income is accounted for but that it appears to have improved since 1996. These tendencies are being observed in an environment of salaries below the poverty line, increasing arrears in pensions and salaries, and in the presence of welfare and pension funds that provide little more than a meager monetary supplement to a fraction of those in need.

Looking at the structure of employment, we find that the number of so-called self-employed members of society has overtaken the number of employed people, which is anything but surprising in view of the debacle in those sectors that used to employ the most people. The self-employed, however, are a long way from the notion of the vibrant entrepreneur profiting from new opportunities a market economy affords. An overwhelming percentage of these people have ended up working in agriculture, a cash-starved sector with limited opportunity to grow. Most of those who are self-employed turn to the informal sector for a much-needed lifeline to make ends meet.

The chapter also provided official data about reported income and expenditures and highlighted that in real terms, official figures for both income and expenses decreased, even at a time when the economy was growing at a breakneck speed. Either people have become more suspicious over time about reporting income and expenses, or the origins of their source of income have changed. We are inclined to believe that the second explanation is the more plausible and that the informal economy may be gaining ground.

From the private individual's narrow perspective, a dollar obtained in the informal economy does not differ from a dollar obtained in the formal sector. The costs of doing business in the formal economy appear to be high and originate in the many hurdles a dubiously competent tax department, a crippling bureaucracy prone to corrupt practices, and the relative incapacity of the court system to enforce contract law all pose. All these factors are invitations to remain in the informal sector, invitations that find strong synergies in the population's low levels of trust in formal structures of governance. We note with concern that 56.8 percent of population do not trust courts of justice, 64.0 percent do not trust the Parliament, 79.4 percent mistrust the tax administration, 80.2 percent distrust customs offices, 62.1 percent the Presidency, 65.6 percent the chairmanship of Parliament, and so on and so forth ([Georgian Lifestyle, GORBI, TBILISI, 2000](#)).

But for society as a whole, that same dollar obtained in the informal economy is different from the one originated in a formal exchange. The answer for this is as simple as could be imagined. The formal dollar can be taxed and, in doing so, resources obtained to enable the government to supply an array of goods and services that private individuals will not provide in efficient quantities. Among these services, we can mention a decently paid police force whose members do not have to demand bribes right and left to ensure enough to eat for himself and his family; a minimum level of maintenance of schools, which today are in an appalling state; the provision of minimum (basic) health care and monetary supplements for those most in need; and the need to revamp the court system to ensure existing laws are enforced. We note with apprehension that these goods and services will not be supplied at proper levels in a country with a vibrant informal economy. We want to emphasize that the government's capacity to ensure a significant array of human rights depends on its capacity to provide a proper supply of public goods. The former will not work without the latter.

Chapter 3

Access to Health Care

Everyone has the right to a standard of living adequate for the health and well being of himself and his family including...medical care and.... the right to security in the event of... sickness, disability, ...or other lack of livelihood in circumstances beyond his control

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 25.1

At the beginning of Chapter Two we mentioned that the life expectancy and education components of Georgia's Human Development Index are marked highly, counterbalancing the low figure of GDP/capita. In fact, Georgia's life expectancy and education indices are comparable to those of countries located much higher in the HDI rank. We will now turn our attention to the degree of access to health care services enjoyed by different categories of Georgian households.

How good or bad is the state of Georgia's overall health care system? This is a question that has inspired numerous reports, and debates. Although the answer varies according to the particular method applied to assess the health care system's performance, there is a general agreement that the system is in trouble and leaves much scope for improvement. In contributing to this debate, the World Health Organization (WHO), a specialized UN agency, has elaborated a new approach to evaluate the health care system's overall performance and to rank it according to a unified index ([World Health Report, Washington DC, 2000 \(released in Internet on June 21, 2000\)](#)). This index is based on a combined evaluation of a number of factors, including goal attainment and performance, disability-adjusted life expectancy (DALE), child survival, responsiveness level, responsiveness distribution, and fairness of financial contribution ([C.J.L. Murray and J. Frank AWHO framework for health system performance assessment. Bull. of the World Health organization, v. 78, No 6, 2000](#)).

One of the components of the WHO unified index, the introduction of the DALE concept, is a particularly innovative approach to measuring life expectancy and merits a brief explanation. In previous assessments, life expectancy estimates were based on the overall length of life calculated solely with reference to mortality data. This year, and for the first time, in calculating life expectancy the WHO has "adjusted" this figure to reflect the importance of living one's life in good health. The underlying logic is the following: suppose that people in country A and country B have the same life expectancy, lets say 75 years. In country A, people live on average to the age of 70 in good health (and are sick for the remaining five) while in country B people, on average, reach the age of 65 in good health (and live the remaining ten in poor health). The DALE index records this difference in quality of life, weights the years of ill health according to their severity, and subtracts them from the expected overall life expectancy to give the equivalent years of healthy life.

Table 3.1 provides the resulting ranking of countries according to the WHO's new unified index. We have included the indices for former Soviet republics and Eastern European countries, as well as for the top country (Japan) and the worst (Sierra Leone). According to the WHO's unified index, Georgia is not among the worst offenders but neither does it have much to celebrate. Out of the former Soviet republics, the performance of the Georgian health care system ranks not only behind those of the Eastern European countries but also behind that of Kazakhstan, Ukraine, and Belarus. The WHO study included 191 countries.

Table 3.1: Overall Health System Performance in Georgia

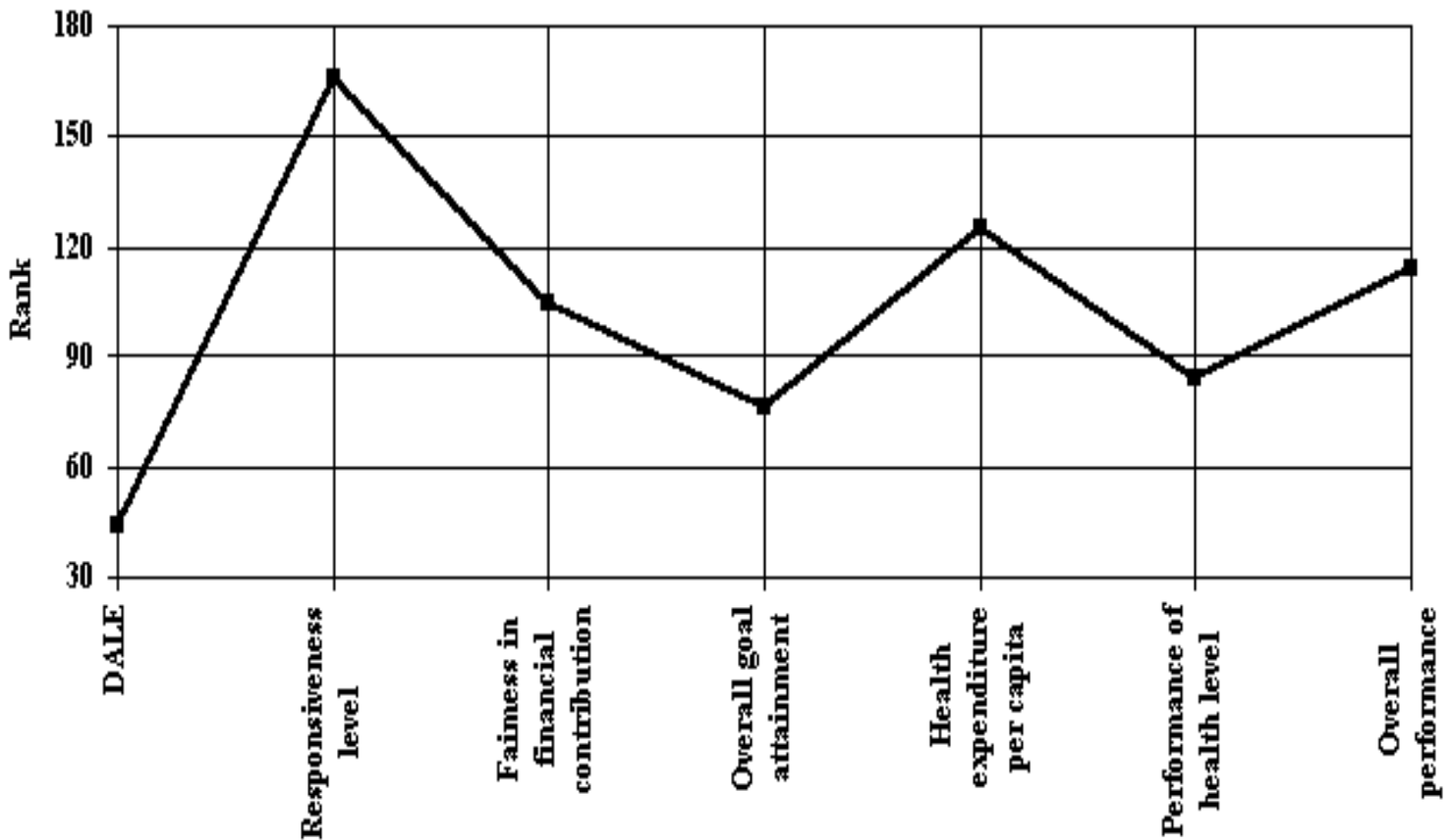
Rank	Country	Index	Rank	Country	Index
1	Japan	93.4	74	Bulgaria	77.6
29	Slovenia	87.9	76	Georgia	77.5
30	Czech Republic	87.8	81	Armenia	77.0
34	Poland	85.8	89	Macedonia	76.4
36	Croatia	85.1	91	Moldova	76.1
39	Slovakia	84.7	95	Yugoslavia	75.5
43	Hungary	83.4	100	Russian Federation	74.3
48	Estonia	81.7	103	Azerbaijan	74.0
52	Lithuania	81.0	109	Uzbekistan	73.5

53	Belarus	81.0	127	Tajikistan	68.3
60	Ukraine	80.1	130	Turkmenistan	67.7
62	Kazakhstan	79.0	135	Kyrgyzstan	67.0
67	Latvia	78.0	191	Sierra Leone	35.7
72	Romania	77.8			

Source: WHO

As we mentioned above, the new index developed by the WHO is an aggregation of different measures in the same way as the HDI is an aggregation of indices for life expectancy, education, and income per capita. Dividing the WHO index into its different components reveals some interesting results. Figure 3.1 dissects Georgia's unified index for overall health care system performance according to the index's different components (or sub-indices): the disability-adjusted life expectancy (DALE), responsiveness level, fairness in financial contribution, overall goal attainment, health expenditure per capita, performance of health level, and overall health system performance. Out of all the factors considered, Georgia ranks best (44th) in the DALE index. Note, however, that the difference in Georgia's DALE index and the other indices is significant. While the DALE index ranks Georgia 44th out of 191 countries (Table 3.2), the index for the "responsiveness" of the health care system ranks Georgia way back at almost the end of the list in 166th position. The index for "health expenditure" per capita ranks the country 125th while the index of "fairness" in health care financing improves things a little, ranking Georgia 105th.

Fig. 3.1. Georgia's Rank Among WHO Member Countries According to Different Indices



Source: WHO

The difference between the DALE index and the unadjusted index for life expectancy is substantial. The average Georgian's life expectancy at birth is 72.9 years; when adjusted in terms of the number of years of ill health (DALE index), the figure

drops to 66.3. The difference between the DALEs of males and females is also noticeable. Females have a DALE of 69.4 in contrast to 63.1 for men. These numbers show that Georgian males live for a relatively long time but that they also suffer from bad health for a number of years. No surprise if one considers the level of alcohol and cigarette consumption in Georgia. In fact, Georgians spend, on average, as much on cigarettes as they do on health care.

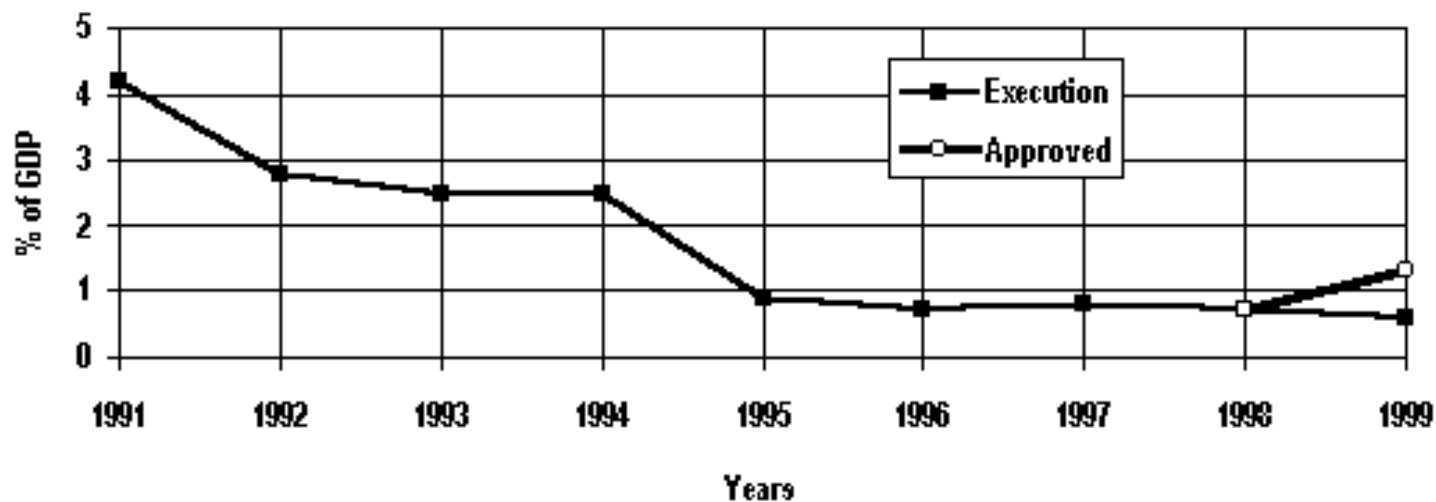
Table 3.2: Ranking of Selected Countries by DALE Index

Rank	Country	DALE in Years		
		Total	Male	Female
1	Japan	74.5	71.9	77.2
34	Slovenia	68.4	64.9	71.9
35	Czech Republic	68.0	65.2	70.8
38	Croatia	67.0	63.3	70.6
41	Armenia	66.7	65.0	68.3
42	Slovakia	66.6	63.5	69.7
44	Georgia	66.3	63.1	69.4
45	Poland	66.2	62.3	70.1
46	Yugoslavia	66.1	64.2	68.1
56	Bosnia	64.9	63.4	66.4
60	Bulgaria	64.4	61.2	67.7
62	Hungary	64.1	60.4	67.9
63	Lithuania	64.1	60.6	67.5
64	Macedonia	63.7	61.8	65.6
65	Azerbaijan	63.7	60.6	66.7
69	Estonia	63.1	58.1	68.1
70	Ukraine	63.0	58.5	67.5
80	Romania	62.3	61.2	63.3
82	Latvia	62.2	57.1	67.2
83	Belarus	61.7	56.2	67.2
88	Moldova	61.5	58.5	64.5
91	Russian Federation	61.3	56.1	66.4
100	Uzbekistan	60.2	58.0	62.3
120	Tajikistan	57.3	55.1	59.4
122	Kazakhstan	56.4	51.5	61.2
123	Kyrgyzstan	56.3	53.4	59.1
128	Turkmenistan	54.3	51.9	56.7
191	Sierra Leone	25.9	25.8	26.0

Source: WHO

The disparities between Georgia's good score on the DALE index and its bad scores on all other indices appears to suggest that the relatively good health of Georgians results from something other than the quality of services provided by the health care system. Responsiveness, expenditures per capita, and overall performance of the health care system ranked way behind the figure for the DALE index. This is not surprising if one looks at public expenditures on health care as a percentage of GDP, which are low by any standard.

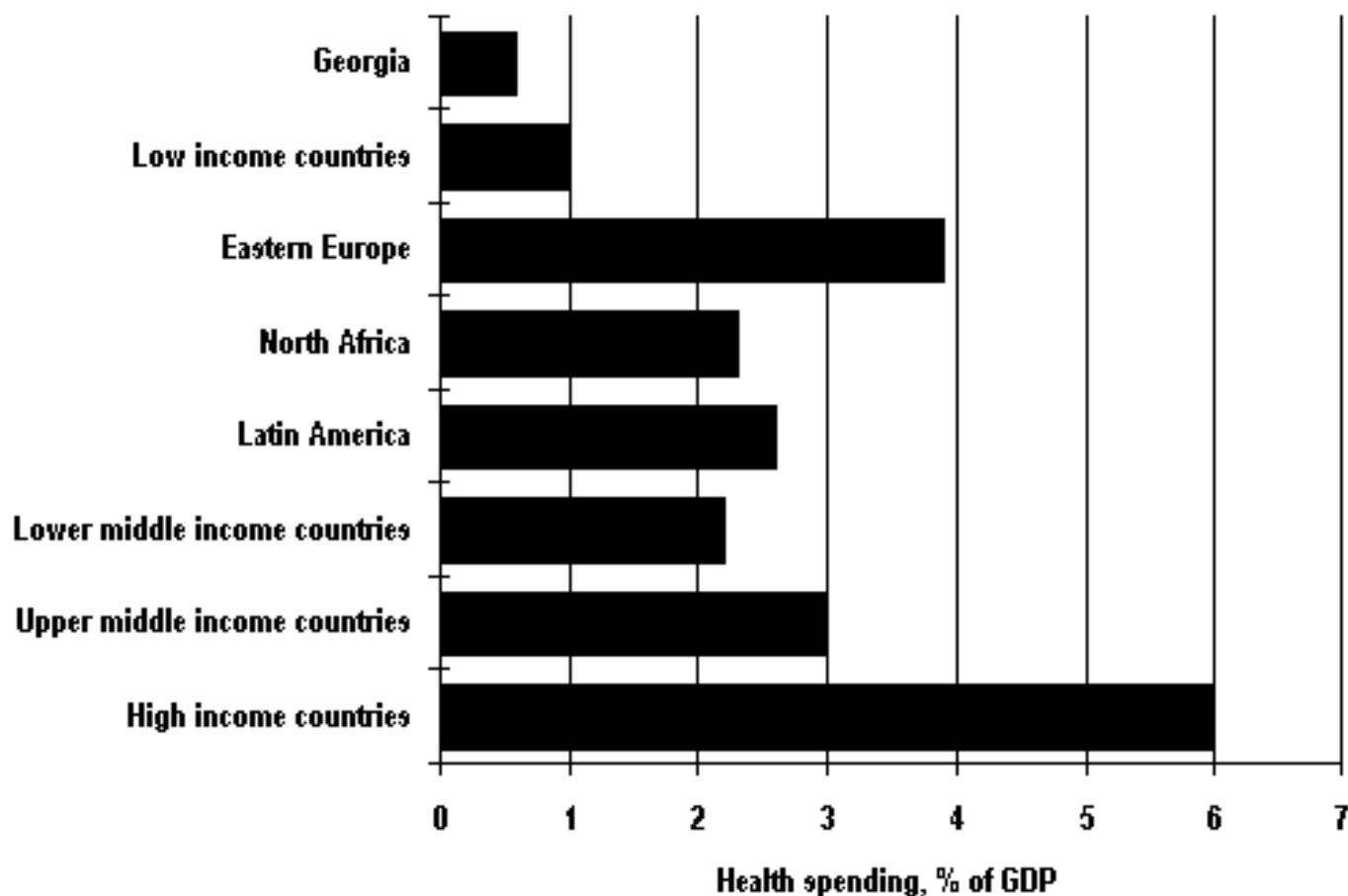
Fig. 3.2. Expenditures on Health Care as % of GDP in Georgia



Source: Women and Children in Georgia, UNICEF Report, Tbilisi, 1999; The 1999 State Budget of Georgia, Prepared by Barents Group; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000; Report on execution of the 1999 State Budget, Budgetary Office of Parliament, Tbilisi, 2000.

Yet more money should have been spent on the health care system. According to the Strategic Plan of Development of the Georgian Health Care System, in 1999, public expenditure on health care should have increased to 1.3% of GDP. The "Law on the 1999 State Budget" was approved with this increase in mind ([Strategic Plan of development of the georgian Health Care in Georgia, Tbilisi, 1999, 65 p. \(in georgian\)](#)). In reality, however, health care spending fell from 0.70 percent in 1998 down to 0.59 percent in 1999 (Fig. 3.2). The results have been a health care system that continues to crumble. Georgia, which has been classified as falling within the lower group of middle-income countries ([Knowledge for development. World Development report. World Bank, Oxford University Press, NY, 1999](#)) shows public expenditure levels on health care well below those seen in North Africa. On average, even low-income countries fare better (Fig. 3.3).

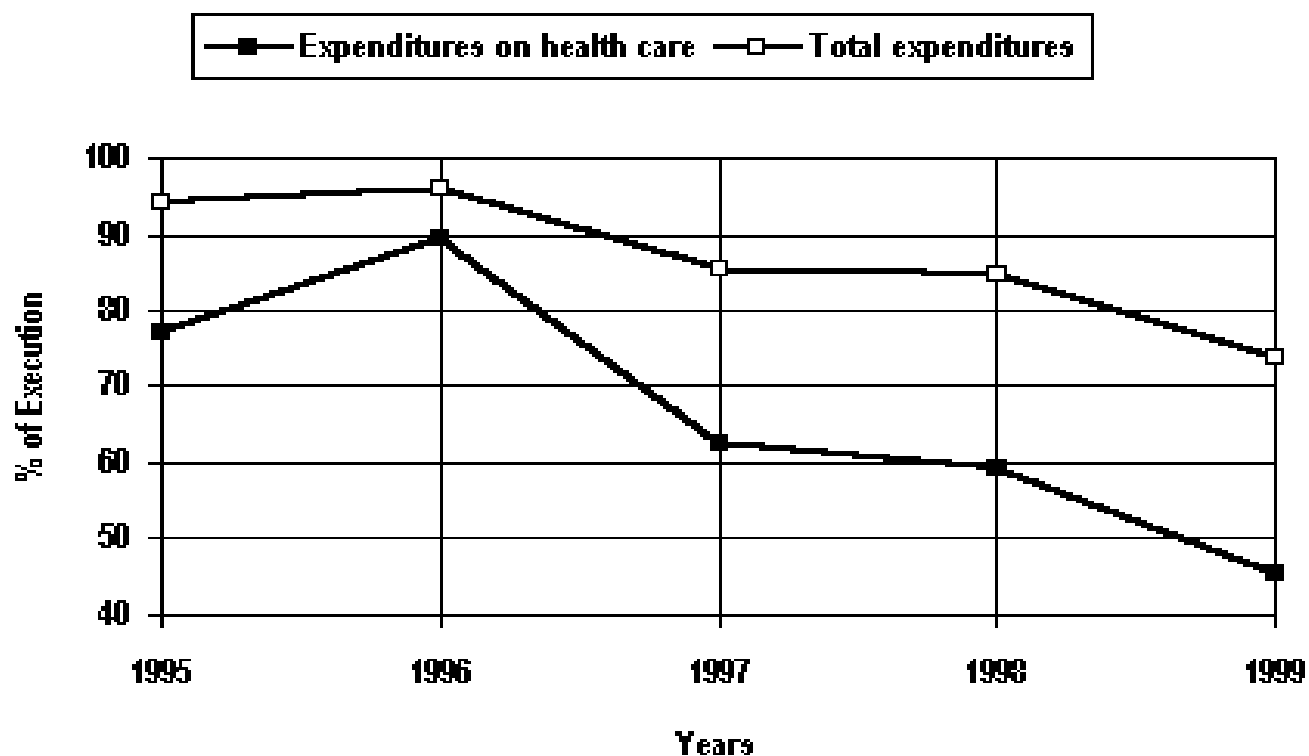
Fig. 3.3. Public Expenditures on Health Care as % of GDP in Different Income Countries



Source: World Bank; UNICEF; Barents Group; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000; Budgetary Office of Parliament.

The problems related to the health care system's low level of financing are anything but new and not even the impressive array of plans developed for the sector have managed to find a solution. The health care system shows ample room for savings in terms of increased efficiency and private sector participation but these measures are no substitute for providing a minimum and basic level of public financing, something that is not happening. Figure 3.2 shows the execution level of public expenditures on health care from the 1995-1999 State budgets as a percentage of the planned target. Both total expenditures and expenditures on the health care system have suffered because of the government's inability to collect sufficient revenues. The health care sector, however, has suffered more than others. In Figure 3.4 it can be seen that the execution of the health care budget is significantly lower than the execution rate of the whole State budget. In 1997, the overall budget had an execution of 85.6 percent, yet the health care system received funds for only 62.4 percent of its financial needs. In 1998, the execution of the overall State budget decreased to 84.8 percent but the execution of the health care budget went down to 59.2 percent. In 1999, the tendency worsens and while the State budget was 73.5 percent fulfilled, the health care system received only 45.3 percent of the resources it needed. The results of this policy are visible to anybody who has visited a public hospital. Maintenance is almost non-existent and supplies are minimal: the overall state of hospitals is appalling.

Fig. 3.4. Health Spending as % of Approved Target Versus Execution of Expenditures from the State Budget



Source: Strategic Plan of Development of the Georgian Health Care System (2000-2009), Tbilisi, 1999 (in Georgian); National politics of health care in Georgia, Tbilisi, 1999, 65 p. (in Georgian).

The financing of the State Medical Insurance Company (SMIC) has been equally low. SMIC was founded in 1995 for the obligatory medical insurance of: (i) 0-3 year olds, (ii) disabled persons, and (iii) persons subject to treatment from special medical programs like those for tuberculosis, oncological and cardiovascular diseases. In theory, medical insurance should cover between 50-100 percent of each patient's expenses. For financing, SMIC relies on central budget transfers and obligatory insurance charges from both employers and employees.

Table 3.3 shows planned and executed spending on SMIC medical programs as well as year 2000 targets. Mirroring the differences in execution between the overall State budget and the health care budget, SMIC's different categories of spending have also suffered from the budgetary cuts with differing degrees of severity. Medical aid to children and the provision of medical services to the rural population have been hit much harder than other programs, such as those involving the purchase of specific drugs. The situation for the year 2000 looks no better. In fact, this year's targets appear to have been set based on the execution rate of 1999. If spending on a particular medical program was relatively high, then planned expenditures have been left approximately the same. Otherwise, they have been decreased.

Table 3.3 indicates that the average citizen has a slim chance of receiving adequate services from the SMIC medical program even if he/she belongs to the very limited group that State medical insurance covers. For instance, only about 2 million GEL were allocated for treating oncological diseases in a country where a surgical operation plus the three obligatory cycles of chemotherapy treatment and the four obligatory screenings per year cost 2,500-3,000 GEL per patient. Given these rates, the SMIC can only cover the medical expenses of about 670 patients. Demand is at least three times greater than this.

Table 3.3: Execution of the Financial Plan by SMIC

Expenditure Category	Amount, Thousand GEL			% of Execution
	2000, Approved	1999, Approved	1999, Execution	
TOTAL, including	40,400.0	42,450.0	28,207.4	66.45
State Program for psychiatric aid	2,900.0	3,300.0	2,405.1	72.88
State Program against tuberculosis	2,600.0	3,000.0	2,766.0	92.20

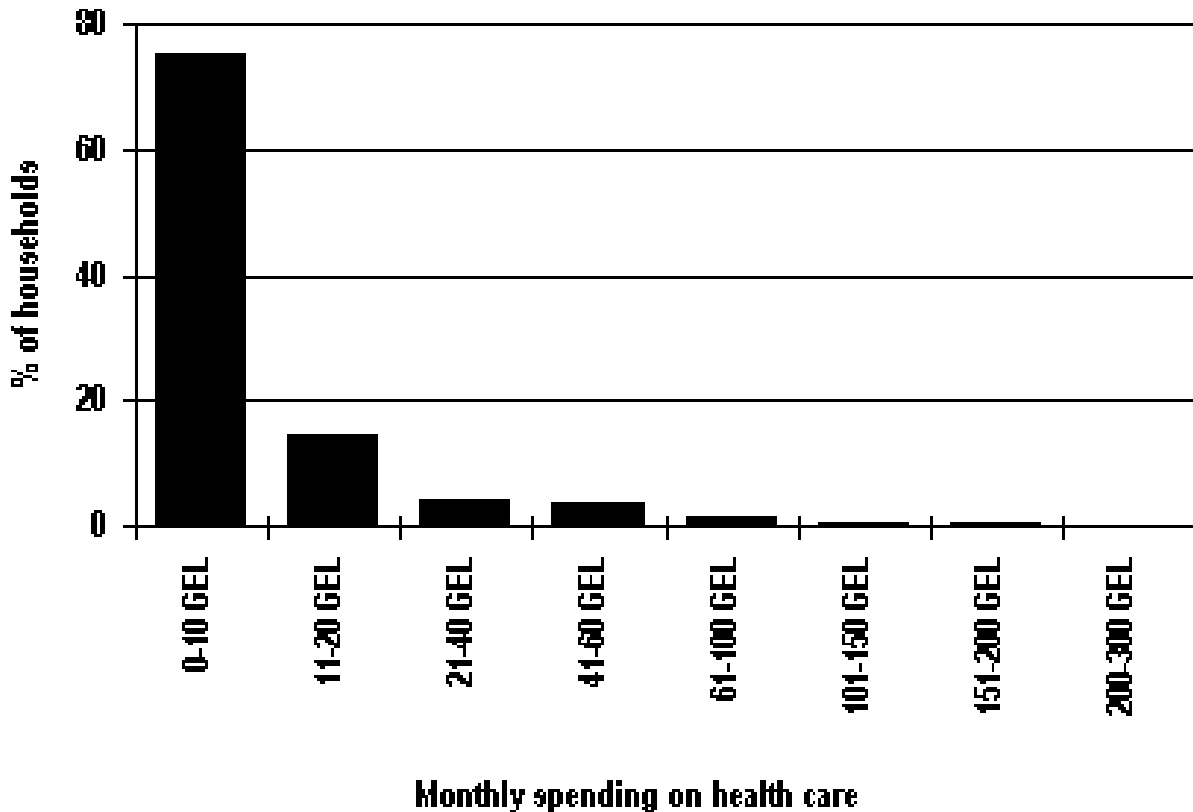
State Program for safe maturity	6,200.0	6,700.0	3,884.1	57.97
State Program for medical aid to children	10,200.0	10,800.0	6,003.5	55.59
State Program for additional medical aid to vulnerable citizens	5,600.0	7,200.0	5,285.2	73.40
State Program for treatment and diagnostics of oncological diseases	2,500.0	3,000.0	2,039.7	67.99
State Program for treatment of infectious diseases	1,300.0	1,700.0	1,108.4	65.20
State Program for development of haemodialysis	1,350.0	700.0	1,133.8	161.97
State Program for treatment of hurtischaemia	225.0	125.0	64.1	51.28
State Program for transplantation of organs and tissues	125.0	125.0	41.7	33.36
State Program for specific diseased supply with drugs	2,150.0	1,600.0	1,519.3	94.96
State Program for dispensary treatment of rural population	1,600.0	2,500.0	591.1	23.64
State Program for additional medical aid to the population in the Tskhinvali District	200.0	300.0	179.8	59.93
State Program for additional medical aid to IDPs in the Megrelia-Upper Svaneti District	300.0	400.0	234.4	58.60
State Program for additional medical aid to the population in mountainous districts	2,100.0	-	-	-
Organizational expenses of insurance business	1,050.0	1,000.0	951.2	95.12

Source: Report on Execution of the 1999 State Budget of Georgia, by the Government of Georgia, 2000

Given the limited coverage and protection the health care system provides, the Georgian population is *de facto* paying almost all health-care related expenses directly from its own pocket rather than making payments to the government in exchange for public health care services. The whole system has a high degree of informality. Staff supplement their meager salaries via under-the-table payments and patients buy almost all the medical supplies they require from the black market, leaving the government largely just to supply the buildings, water, electricity (irregularly) and limited amounts for some medical programs.

Figure 3.5 shows the distribution of households according to the total amount of out-of-pocket health care expenses they have per month. The data shows that in 2000 the average household was spending around 14.15 GEL per month on healthcare; however, more than 75 percent of Georgian households will have spent less than 10 GEL/month or less than 3 GEL per person.

Fig. 3.5. Monthly Spending of Georgian Households on Health Care

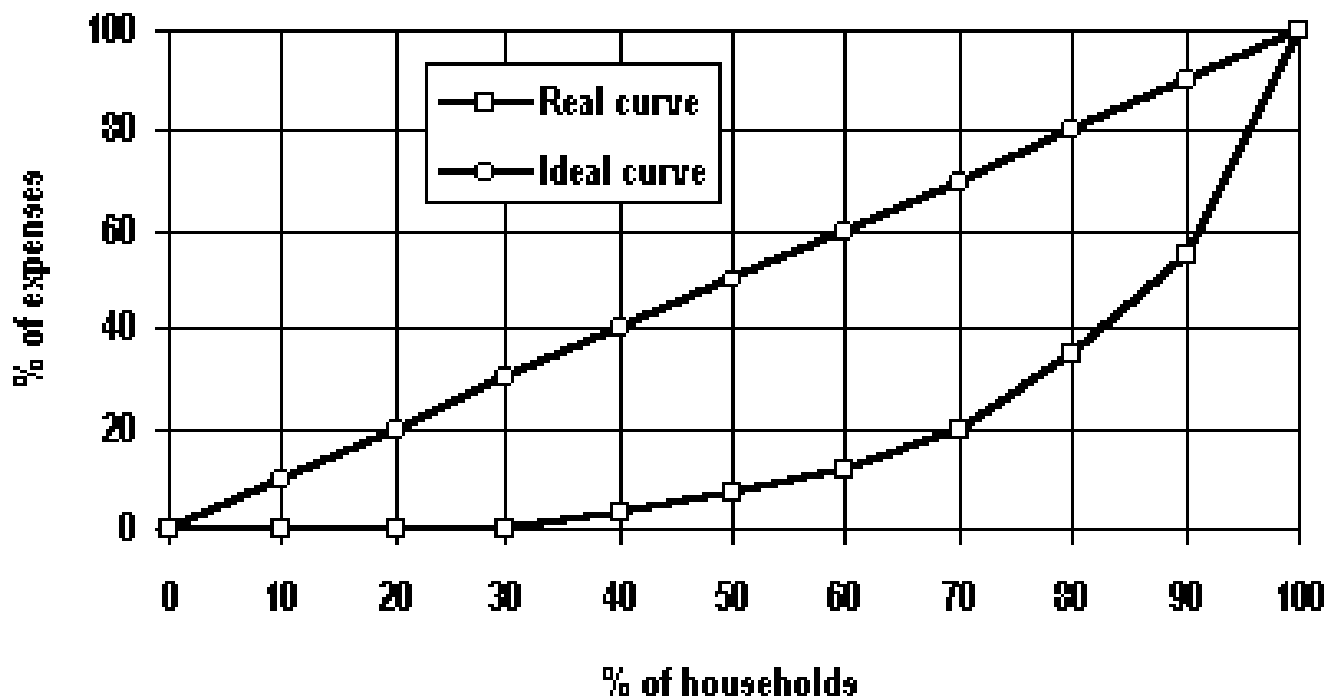


Source: GORBI

Health care spending is distributed highly unequally. The cost of medicines and the need to make informal payments at public hospitals deter about 30 percent of the population from seeking treatment. Consequently, these people have almost no access to health care services. About half of the population can afford only 8 percent of the medical expenses they require. In contrast, 10 percent of the population account for 45 percent of all medical spending and a tiny 2.5 percent of Georgians are responsible for 40 percent of total spending (Fig. 3.6). Not all of this highly biased distribution of expenses can be explained by lack of income. Most of the rural and about 50 percent of the urban population prefer treating themselves and visit physicians only in an emergency or when in serious pain.

The quality of services provided at public hospitals does little to encourage the population to visit doctors more regularly: some 50 percent of patients leave hospitals unsatisfied with the sanitary conditions and doubtful as to the quality of medical attention received. The combination of low levels of disposable income, poor services, and cultural attitudes means that 95.8 percent of the population often avoid visiting a doctor and treat themselves instead, which in 81.1 percent of cases involves the use of prescription drugs. A quarter of these self-practitioners (25.5 percent) have minimal knowledge of medicine and often waste their money and risk their health when resorting to self-prescribed treatments with antibiotics or specific drugs.

Fig. 3.6. Contribution to Total Expenditures on Health Care by Different Population Groups



Source: Based on data from the State Department of Statistics, the Ministry of Health and Social Welfare, GORBI Agency, UNICEF and the World Bank.

Preventative health care has been almost abandoned as a strategy to minimize overall health care costs in the medium run. More than 87.7 percent of citizens say they have never had a thorough medical check-up and more than 98 percent have never been screened for cancer. A surprising 50 percent has never visited a doctor while 14 percent has never visited a dentist (Table 3.4). Yet postponing a visit to a doctor until the pain is unbearable or until the patient is very sick is a strategy that does not pay off in the medium and long run. In most cases, preventative medicine is a cost-effective strategy for both the state and the private individual. Once the situation becomes serious, the cost of treatment is usually high.

Table 3.4: Schedule of Preventative Visits to Doctors

Frequency	Share of Respondents that Have Had (%)			
	Check-up	Cancer Screening	Visit to Doctor	Visit to Dentist
During the last one month	1.7	0.3	10.4	4.2
During the last 3 months	1.6	0.1	10.6	4.7
During the last 6 months	1.7	0.4	7.5	4.0
During the last year	2.0	0.5	6.3	4.7
More than one year ago	5.1	0.2	59.5	68.4
Never	87.7	98.5	50.8	14.0

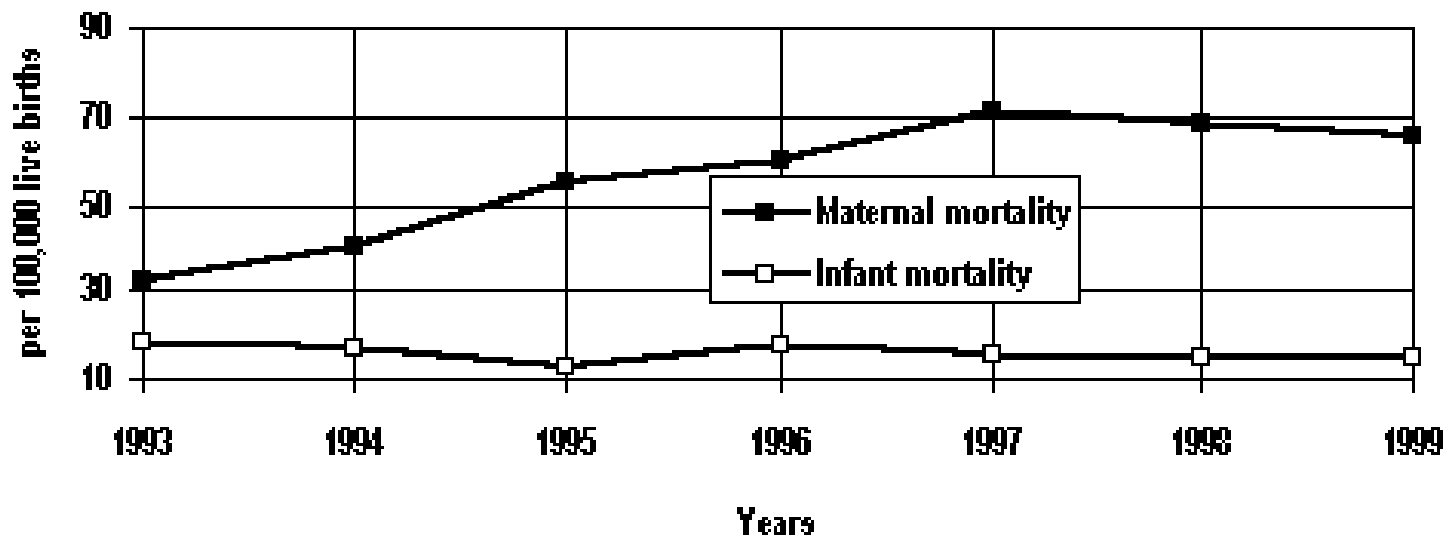
Source: GORBI

That 87 percent of respondents said that they have never undergone a thorough medical check-up is a surprising finding and appears to contradict the common belief that the Soviet health care system provided widely available preventative medical

services. While it is reasonable to expect that patients have not been able to have these check-ups for the past ten years, these services were said to be widely available before 1990. If true, one could expect a larger percentage of respondents to have had at least one thorough check-up in their lifetime. This is partly explicable by the fact that a large percentage of GORBI respondents surveyed were still young when the Soviet Union collapsed and may not remember their last thorough hospital check-up. For those respondents above 35 years of age, the lack of regular thorough medical check-ups might reflect what in the last decades of the Soviet regime turned into just a "formality" required for certain positions or jobs. The same can be said with regard to visits to doctors. Yet the percentage of those that have never made such a visit is high, even if one takes into account the number that may have been too young at the time of the Soviet meltdown to remember a visit to the public hospital or a visit to the district doctor. Again, the effectiveness of the Soviet health system in the regime's final decades appears to have been less than common perceptions indicate.

But while the quality of services rendered in Soviet hospitals may have been less than perfect, the situation today is much worse and negatively influences mortality rates in public medical institutions. Figure 3.7 demonstrates maternal and infant mortality rates between 1993-1999. There is a clear tendency for maternal mortality to increase between 1994-1996 and to decrease slightly thereafter. We will have to wait for the figures for the year 2000 before concluding whether the decrease in maternal mortality constitutes a trend or has reached a plateau.

Fig. 3.7. Maternal and Infant Mortality in Georgia

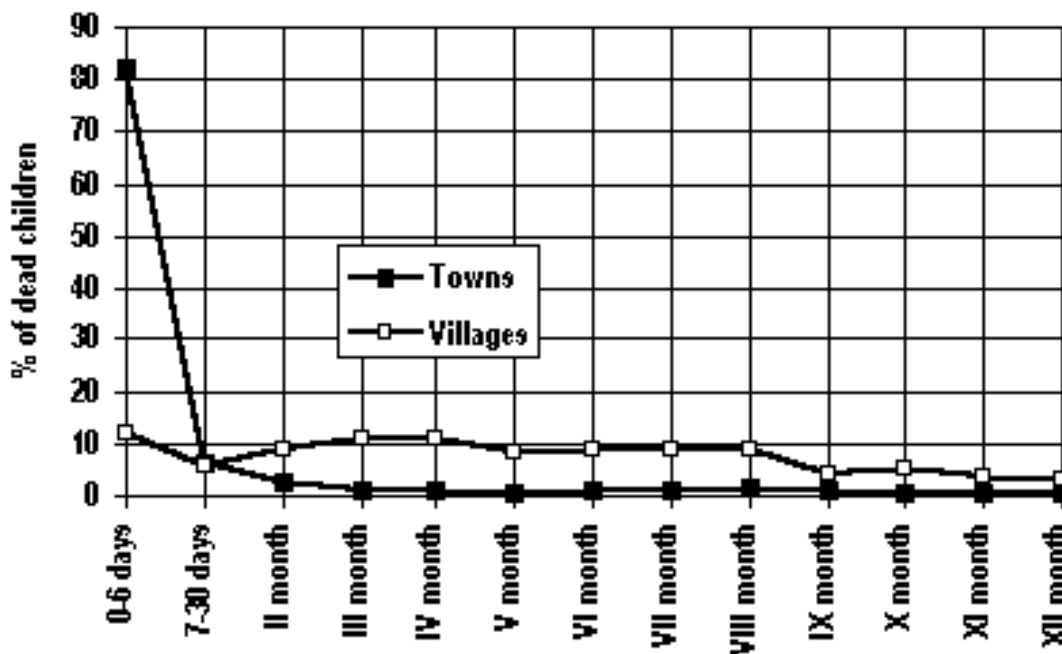


Source: Strategic Plan of Development of the Georgian Health Care System (2000-2009), Tbilisi, 1999 (in Georgian)

If the figures for maternal mortality are disturbing, the ones for child mortality are even worse. Official data shows that an infant's delivery in a public maternity ward can pose a serious health hazard for the child. Overall, however, infant mortality in Georgia is not high compared to other developing countries ([World Health Report, Washington DC, 2000, released in Internet on June 21, 2000](#); [Knowledge for development. World Development Report. WB, Oxford University Press, NY, 1999](#); [World Development Indicators 2000; CD-ROM, World Bank](#)). What is dramatic, is the degree to which public hospitals contribute to overall infant mortality rates. Figure 3.8 shows child mortality during the first 12 months of life in towns and villages. The figures have been adjusted to reflect the different numbers of children born in villages and towns. It can be seen that of those children that die in the first week of their lives, 82.4 percent (of the total for the year) are in towns and only 11.9 percent are in villages. One of the main differences between towns and villages is that in towns children usually spend their first week of life at a maternity hospital, whereas in villages, mothers usually give birth at home according to ancient Georgian traditions. After the second week of life, child mortality in towns decreases significantly and this coincides with the time when the mother usually leaves the hospital and goes home. The appalling state of hospitals (lack of medical supplies, other equipment, and poor hygiene) and the professional services provided appear to be responsible for this difference in child mortality rates during the first week of life. Otherwise, we could have expected the figures for infant mortality in towns and

villages to move together more harmoniously.

Fig. 3.8. Child Mortality Rates in the First Year of Their Lives



Source: Strategic Plan of Development of the Georgian Health Care System (2000-2009), Tbilisi, 1999 (in Georgian)

Figure 3.8 shows one of the saddest and most unfair aspects of the Georgian socio-economic transformation process. We hope that the current health care system reforms will reverse this situation. The alarming mortality rate of children in public hospitals reflects the state's inability to protect those that are most vulnerable and is a violation of Article 25 of the Universal Declaration of Human Rights: "Mothers and children are entitled to special care and assistance."

An Ongoing Reform

The turmoil in the health care system results from a combination of two factors. The first is the existence of an oversized and inefficient system of health care that was already crumbling in the last period of the Soviet system. The health care system developed according to the Soviet model, characterized by a centralized approach to management, finance, and distribution, which lead to gross inefficiencies. Georgia, like most of the former Soviet republics, inherited a system with a great deal of excess capacity. From 1997-1999 there was one physician for every 245 people compared to an average of one per 400 members of the population in European Union countries.

The second factor behind the collapse of the health care system has been the breakneck speed with which budgetary allocations were reduced to less than minimal levels. The system never stood a chance of adjusting to the new rules of the game, with predictable results. The quality of services provided by has hospitals plunged and is now so bad that they are to blame for increasing the mortality rate of vulnerable groups such as children.

The most far-reaching reforms in the health care sector are directed towards increasing the efficiency of budgetary allocations and towards the privatization of health care services. In the last five years, 448 health care institutions have been privatized. In addition, since 1991, the number of hospital beds has decreased from 57,300 to 24,481, or 4.5 beds per 1,000 population. Yet, even with more than a 50 percent reduction, the number of hospital beds still appears to be high. In Tbilisi alone there are about 11,000 beds in 51 hospitals serving a population of 1.38 million. In the United States, a similar population would have to make do with approximately 1,200 beds ([Health & nutrition adjustment project ID GEPE40555, World Bank. Prepared on](#)

December 16, 1999).

Savings from the consolidation in the health care sector can be substantial. Today, Georgia has 285 hospitals, almost all of which need to be seriously rehabilitated and re-equipped. According to the World Bank, their rehabilitation (without re-equipment) would cost as much as 100 million USD. On the other hand, patient enrollment in these institutions does not exceed 28 percent of their capacity. Further consolidation in the health care system is called for (Table 3.5).

Table 3.5: Existing Amount of Hospitals and Medical Personnel and Actual Amount Needed

Item	Existing Amount	Actual Amount Needed
Hospitals in Tbilisi	51	12
Hospitals in Georgia	285	65
Physicians	20,824	8,000
Nurses & other technical personnel	28,642	15,000
Students	17,000	1,000
Graduates	3,000	250

Source: Ministry of Health Care and Social Welfare and the Actuarial Research Group

Further consolidation, however, is not free from political and social costs. The decrease in the number of hospitals means a reduction in the number of medical personnel, which will leave thousands unemployed. Consolidation will be an unpopular policy and, on the whole, neither the public nor the medical staff supports the planned reforms. The World Bank reports that less than half (44.8 percent) of citizens familiar with the reform plans back them. Most of those respondents against the reforms (83.1 percent) said they were afraid that health care costs could go up, which would further restrict their already limited capacity to afford treatment. At the same time, 42.5 percent of respondents believe that the decision to reduce the number of medical personnel is both necessary and appropriately timed. Most of the respondents said that the establishment of a solid medical insurance system should accompany the continuing privatization of health care services ([Health care reform in Georgia, GORBI Survey, Final Document, Tbilisi, 1999](#)).

Forced to carefully maneuver itself given these difficult conditions, the Ministry of Health Care and Social Welfare has chosen to reduce the excessive number of medical staff gradually and to provide a cushion for those personnel affected. The Ministry has established a system of accreditation for health care facilities and licenses for medical staff. Some of those lacking acceptable professional qualifications and some of those who have found themselves unemployed are receiving reorientation training. But, unfortunately, the opening of more than 50 private medical schools since 1995 is offsetting these efforts. Such schools are likely to funnel additional doctors and medical staff into the labor market, for whom employment opportunities will be restricted.

We would like to emphasize that it would be a mistake of the highest degree to see consolidation and privatization as objectives in themselves because they are merely the necessary tools (among others) for improving the quality and availability of health care services. Consolidation and privatization per se will not allow vulnerable and poor members of society to access health care services. The private sector is likely to fill only the most profitable niches and to provide services to only that segment of the population that can pay. It would be naïve to expect otherwise. In turn, consolidation of capacity in public hospitals will not ensure that sufficient money is available to provide adequate services but rather that budgetary allocations have a greater impact per unit of dollar spent. Adequate services will require greater budgetary inputs; current expenditures will be insufficient regardless of how much further the privatization program is pursued or how deep the consolidation of the sector turns out to be. The state should fulfill those niches that do not interest the private sector. In filling these gaps, the state has several alternatives available. For now, the establishment of a solid medical insurance system appears to be the preferred strategy, one that can also count on the population's support.

So far, the lack of resources at its disposal is starving the medical insurance system, as we have seen in this chapter. A fully functioning medical insurance system requires a greater state capacity to collect taxes, a full hearted effort to bring the volume

of informal payments in health care into the formal economy (worth between an estimated 200 and 315 million GEL), and an equally full hearted effort to stop funds being lost between the central and regional budgets and the door of the hospitals. There will be little to celebrate if policies aimed at ensuring the 40 percent of households with incomes below the poverty line can access health care services do not accompany sector consolidation and hospital and clinic privatization. Greater budgetary allocations are needed and these should come from genuine government resources. For now, it is mainly the substantial support in the form of World Bank loans that allows Georgia to direct at least some resources into the health care system over and above those needed to cover salaries, provide less than minimal maintenance to hospitals and a scattered provision of under-funded medical programs.

Concluding remarks

According to criteria developed by the WHO, public health care systems are incapable of performing basic functions when public expenditures on health fall to less than 60 USD per capita. In Georgia, the figure is about 7 USD/per capita ([World Health Report, Washington DC, 2000, released in Internet on 21th of June, 2000](#)). The population has objective reasons to be negative about the health care system and to believe that the sector falls outside the government's top priorities. The growing differences between the execution of the overall state budget and the health care budget do nothing but fuel these perceptions.

Access to health care services is very limited for a substantial segment of the population (50 percent) and for 30 percent it is almost out of reach. In total, 40 percent of all health care spending goes on a tiny percentage of the population (2.5 percent). The system shows a high inequality in access to its medical services. We are concerned that unless accompanied by other policies, health care privatization may, for the most part, improve only the quality of services available to the top segment of the population, because we doubt that the private sector will find the remaining segments equally attractive. Universal coverage, or at least coverage for most of the population, is likely to require government intervention. There is nothing inherently wrong with this. It is a government's job to supply those goods and services that the private sector is least keen to provide and that are in the interests of social welfare. Privatization and consolidation are very important parts of the answer. But they are not the whole answer. The state needs a greater capacity to finance its health care policies and the growth of the shadow economy is unlikely to help towards reaching this goal.

If planned reforms fail and/or if more than minimal resources can not be supplied to the health care system there will be repercussions in the medium and long term. We doubt that Georgia's scores for life expectancy can be sustained for long in the face of the critical state of public hospitals and clinics and in view of the unequal distribution of households' expenditures on health, which leaves scores of Georgians without proper access to medical services. The impact on the life expectancy index or on the DALE index will be felt. Perhaps not next year or the year after. The life expectancy index and the DALE index are indicators that usually vary slowly and for which time lags occur in data collection. But it would be an unwise policy to find comfort in their present readings. Once they start to go down, reflecting increasing human misery, it will take significant time and money to reverse the process and bring them back to even current levels.

Chapter 4

Access to Education

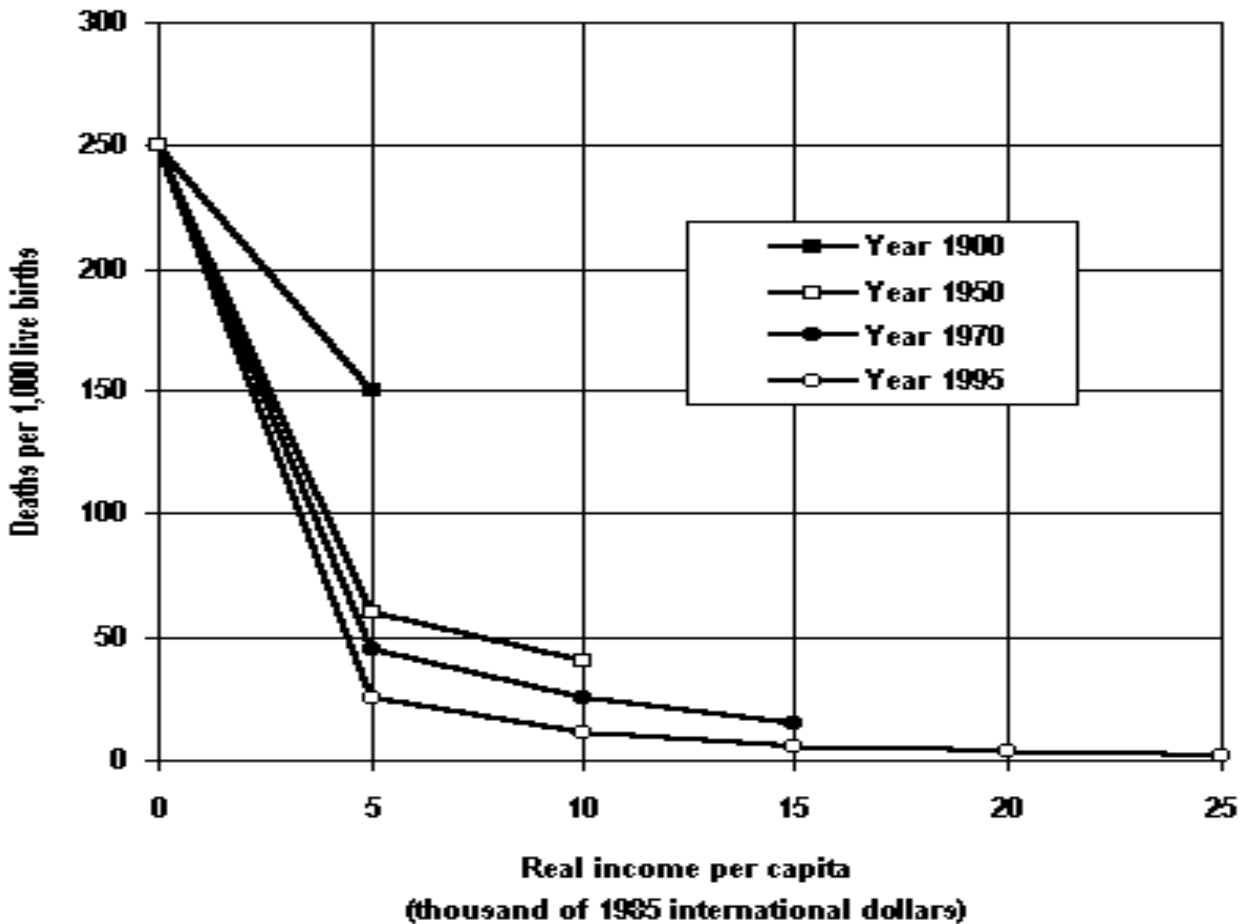
Everyone has the right to education.... Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit

Universal Declaration of Human Rights, Article 26.

"Knowledge is like light: weightless and intangible, it can easily travel the world... Poor countries – and poor people – differ from rich ones not only because they have less capital but also because they have less knowledge" (**Knowledge for development. World Development Report. World Bank, Oxford University Press, NY, 1999**). Knowledge goes as far back as to the time when our first ancestors began to modify simple objects for their personal convenience. Transmission of knowledge was (and in some parts of the world still is) an informal process based on the transmission of personal experiences. Learning how to use objects and how to modify objects and practices enabled humans to increase productivity and, over time, to attain higher standards of living. The transmission of knowledge from one generation to another is what education is all about. Little else has a similar power to influence where we are headed and who we are. The history of our civilization can be described in terms of the development and improvement of its education systems.

Our so-called "modern" world has attained unprecedented levels of material wealth and prosperity as a result of new technologies, which boil down to an accumulation of knowledge about how to modify objects and processes. Similarly, how far a country develops is greatly dependent on the performance of its education system. Vice versa, an individual's capacity to advance up the social ladder greatly depends on his/her capacity to access education. The challenge of human development is the challenge of learning from past experiences, of transmitting this knowledge to our descendants and, thereby, attaining a permanent flow of education. Knowledge has the capacity to influence all strata of society and is an investment that does not depreciate with time. Figure 4.1 is an example of that.

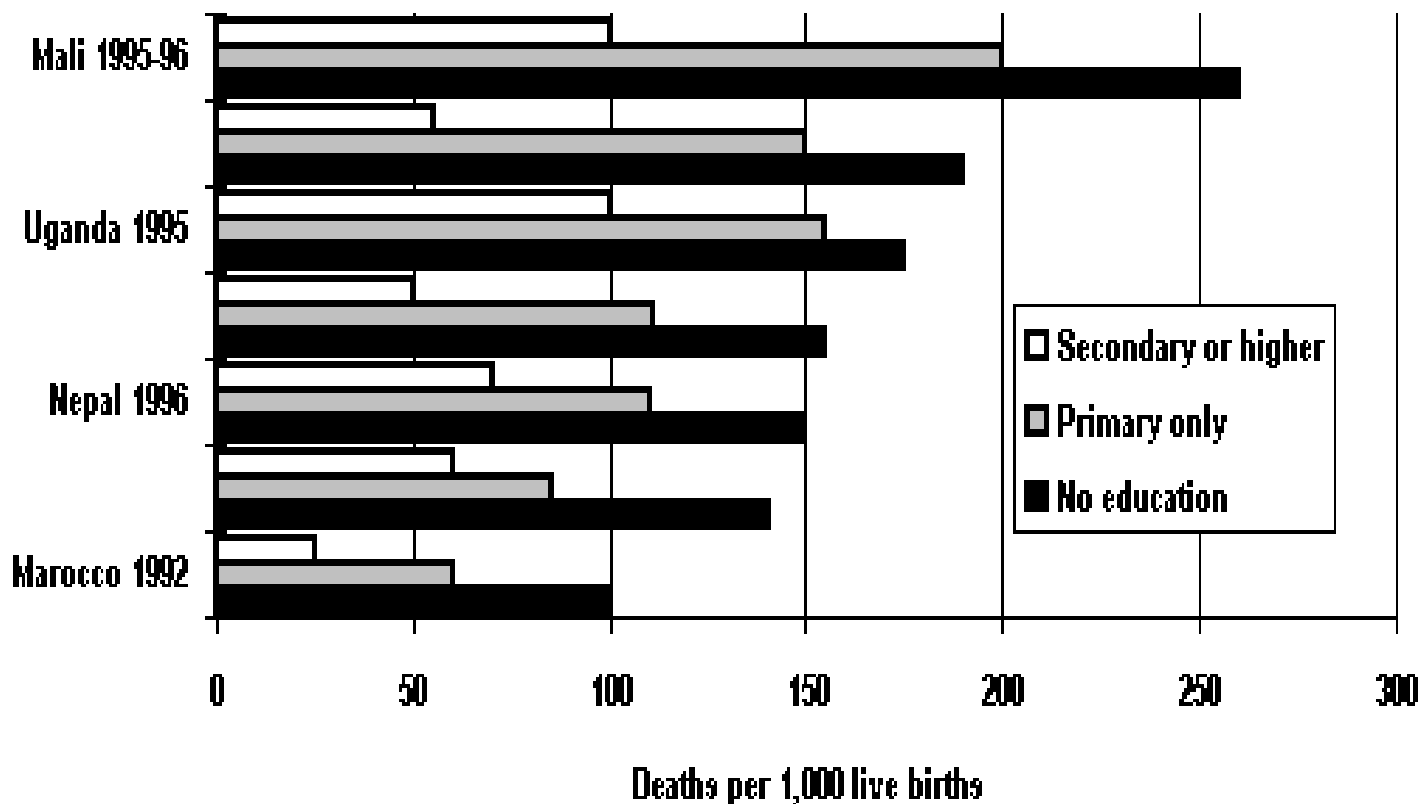
Fig. 4.1. Infant Mortality and Real Income per Capita



Source: World Bank

Figure 4.1 conveys a fascinating message. Infant mortality depends only slightly on income and only for that segment of population below the poverty level. As knowledge spreads, infant mortality falls for rich and poor countries alike. In 1950, an income level of 10,000 US dollars was associated to an infant mortality rate of 40/thousand births. Forty-five years later, the same income level is associated to an infant mortality rate of 11/thousand births. This improvement is not just the result of new and expensive technologies (knowledge) available in rich western countries but also the result of simple rules and methods that increase the chances of a child's survival at birth. Figure 4.2 shows the child mortality rate as a function of the educational attainment of the mother. The message is clear: child mortality falls as mothers learn.

Fig. 4.2. Child Mortality in Terms of the Mother's Educational Attainment



Source: World Bank

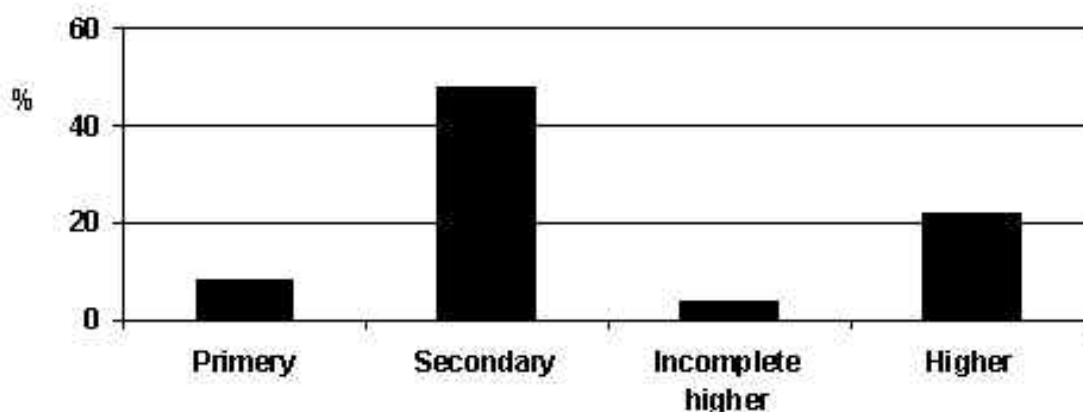
Georgia has attained world-class levels of combined primary, secondary and tertiary education. The country's education index (0.90) is comparable to countries in the "high human development" category (on the HDI). It is above the index of Singapore (0.86), Hong Kong (0.83), and Luxembourg (0.89) and only just below that of Greece's (0.91). Nationwide surveys show almost an universal access to primary and secondary education and a high percentage of the population with higher educational degrees (Fig. 4.3). At the same time, however, there is little doubt that the Georgian education system needs serious improvement if it expects to sustain these remarkable enrollment figures in the long run. Deterioration in the quality of and access to education services constitutes a large barrier to long-term growth. Some of the most important reported factors hindering the performance of the education system are presented below:

1. The existing education system is unable to respond to demands imposed by the new market economy. "In the past, teachers were trained to deliver one curriculum that reflected a very positivist view of knowledge, where there was only one truth and that was contained in a single textbook. Students were seen as passive recipients whose main duty was to absorb all factual knowledge that the teacher presented during the lesson. A good student was one who could memorize and repeat the lesson. As a result of this model, a direct observation of Georgian classrooms today shows that regardless of grade, subject, region or urban/rural distinction a similar teaching pattern is followed" (*Georgia - Education system realignment and strengthening program. World Bank, Washington DC.*).
2. The continued absence of investment in infrastructure has caused major damage to schools throughout the country. The Ministry of Education reported that 70 percent of rural schools and 84 percent of urban schools need significant capital repair or outright reconstruction. According to the evaluation of the Social Investment Fund, the total bill for restoring school buildings could reach 200-250 million USD (*The analysis of the situation of children school education in Georgia in*

1998 - 1999. UNICEF Report, Tbilisi, 1999).

3. In tertiary education, students overwhelmingly report teaching that does not invite their input or feedback. Examination results are not always objectively assessed. Practices vary from patronage to bribery. University administrations do not collect and evaluate available data to support strategic planning and to monitor resource use. The existence, size, and budget absorption of different tertiary departments often does not reflect employment demand.
4. The efficiency of spending in kindergarten, primary, and secondary schools has been reported as very low for the period 1996-1998 (NHDR, 1999). Unfortunately, data for 1999 was not available. Based on previous findings, however, it is clear that unless resource management in the system of kindergarten, primary and secondary schools increases significantly, reforms in the education system are heading for failure.

Fig. 4.3. Stratification of Population According to the Education Census

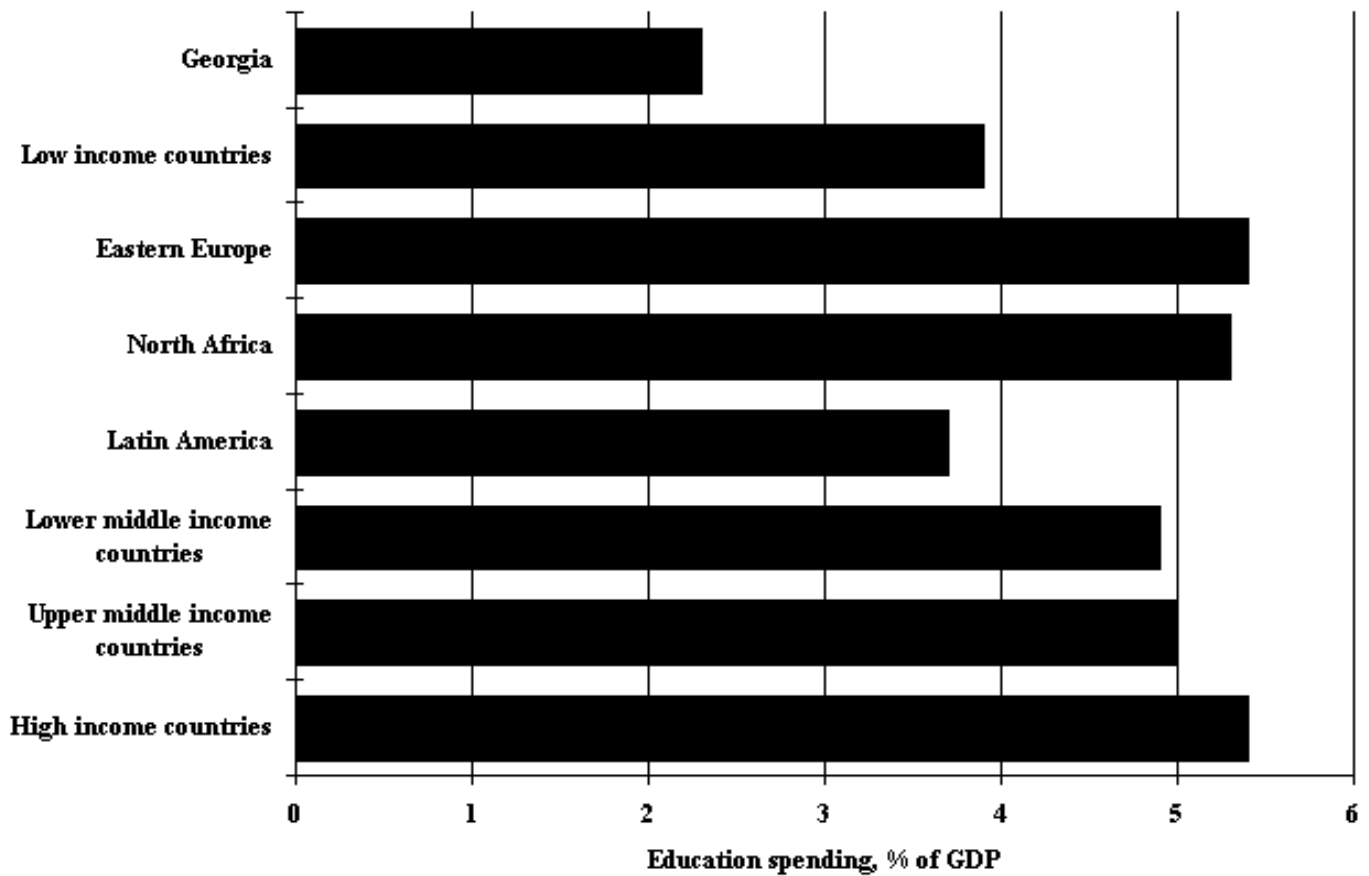


Source: GORBI

The quality and quantity of data presented in the works of the World Bank, UNICEF NGOs and previous NHDRs is impressive and we refer the reader to these documents for a description of the problems affecting different components of the education sector. This year, the NHDR contributes to this body of literature by exploring the interrelation between access to education and advancement up the social ladder.

We will follow a similar structure as in Chapter Three and begin with a description of public expenditures on education as a share of GDP. Figure 4.4 shows that Georgia is not only behind the average of countries in Latin America, Middle Orient and Africa but also behind low income states. Figure 4.4 also shows that public spending on education does not exclusively depend on the country's income level. Rather, other factors, such as countries' priorities appear to affect total resources allocated.

Fig. 4.4. Country Ranking According to Public Expenditures on Education as % of GDP



Source: World Bank; 1999 State Budget of Georgia; Budgetary Office of Parliament.

Figure 4.5 shows public expenditure on education from the 1995-1999 State Budgets in USD equivalent. It can be observed that since 1997, budgetary allocations have been decreasing steadily and that in 1999 were less than 15 million USD, approaching in real terms the levels of 1996.

Fig. 4.5. Public Expenditures on Education from the 1995-1999 State Budgets



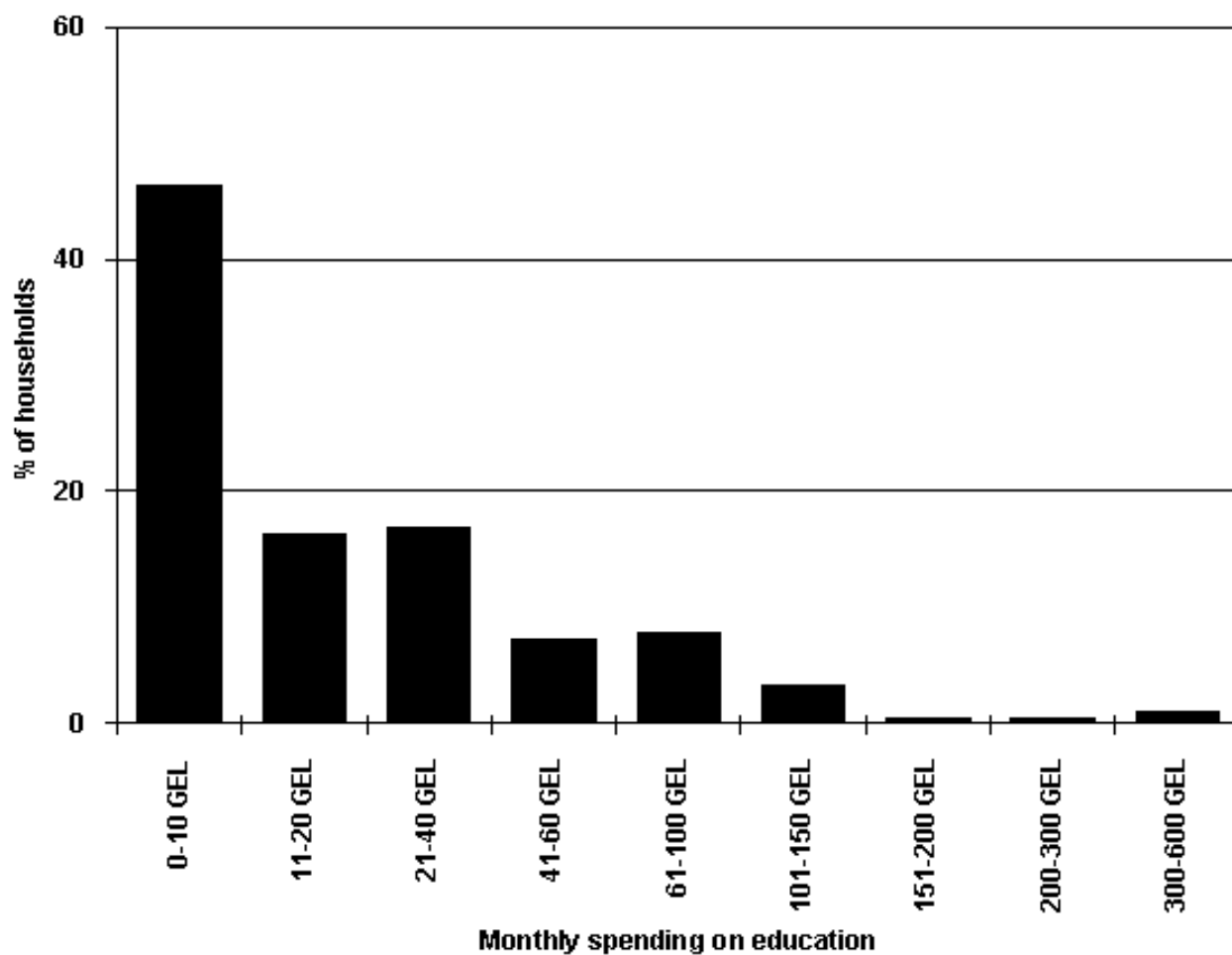
Source: own calculations based on data from the World Bank, the 1999 State Budget of Georgia, and the Budgetary Office of Parliament.

The result of these low levels of spending are easily noticed in the form of appalling conditions of schools, lack of minimal supplies, salaries below the poverty line, salary arrears and a general low morale among teachers. In addition, the state's inability to contribute minimal levels of financing to public education has provided fertile ground for an informal payment system to develop by which Georgian householders cover a considerable share of the education budget directly from their own pocket. These out-of-pocket payments can be classified into several categories:

1. Semi-legal fees for buying wood in rural schools and kerosene in urban schools for heating;
2. Legal fees in grades 10-12 of secondary schools;
3. Informal payments for additional training of students (see below);
4. Official fees in private secondary schools and tertiary education institutions; and
5. Bribes.

Out-of-pocket expenditures in education appear to be a sensitive issue for most Georgian households. That 78 percent of respondents refused to answer questions concerning the amount of their monthly spending on education purposes is revealing (GORBI household survey of Georgia, Final Report, Tbilisi, July 2000). Figure 4.6 shows personal spending on education for the fraction of households that agreed to report its educational expenses. Based on this data, a household's average monthly spending is about 34.77 GEL. The extrapolation of this figure should be done with extreme caution but should this reflect average spending, overall out-of-pocket education expenses in 2000 would be as much as 476.7 million GEL (243.2 million USD according to the current exchange rate) or 16.21 times over the corresponding public expenditures from the 1999 state budget.

Fig. 4.6. Monthly Spending on Education of Georgian Householders



Source: GORBI

The poor conditions of schools and the impressive informality of the private payments system in primary and secondary institutions, however, have not yet impacted enrollment and graduation ratios (Table 4.1). The data shows that about 95 percent of pupils enrolled in primary schools graduated from them seven years later. Out of this total, 97 percent entered I level secondary school and approximately 96 percent of these students managed to graduate. At this point, there is a significant drop in enrollment as only 58.84 percent of those that graduated from I level continued to II level secondary schools. About 88 percent of students that enrolled in II level secondary schools completed their studies and obtained their diploma (Fig. 4.7).

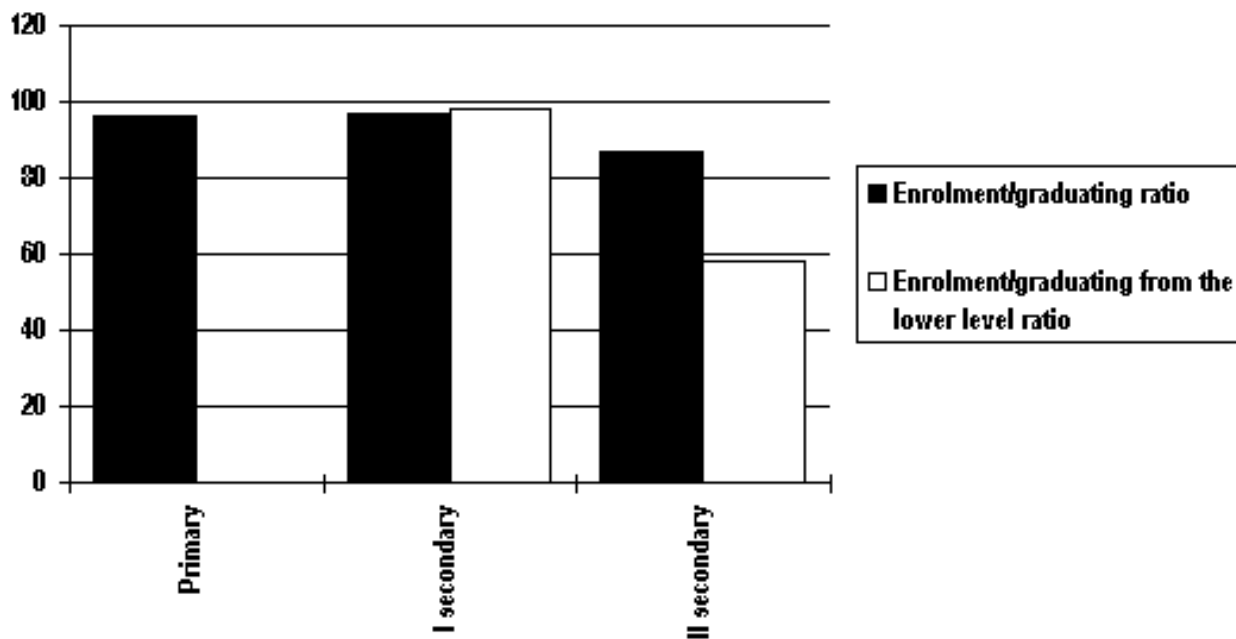
Table 4.1: Enrollment of Pupils in Primary and Secondary Schools in the 1998-1999 Academic Year

Region	N of pupils	Enrolment in:										
		Primary schools of grade:							Secondary schools of grade:			
		I	II	III	IV	V	VI	VII	VIII	IX	X	XI
Abkhazia	7755	803	850	787	818	747	681	571	578	664	588	668
Ajara	67361	7119	7155	7387	6878	6624	6759	6595	6433	6071	3378	2962
Tbilisi	715822	15340	16873	17550	14823	14823	15198	15267	14821	14173	7681	6561
Kakheti	64628	6811	7086	7241	6282	6043	6311	6200	6081	5785	3635	3153
Imereti	114311	11255	12086	11628	10870	11038	11609	11230	11019	11093	6666	5817

Samegrelo & Zemo Svaneti	69564	7286	7439	7500	6824	6942	6945	6809	6513	6440	3611	3255
Shida Kartli	54585	5529	5904	6056	5149	5215	5259	5376	5155	5150	3006	2786
Kvemo Kartli	88532	9709	10468	10423	9516	8362	8795	8618	7926	7429	4077	3209
Guria	22761	2380	2467	2402	2161	2219	2275	2311	2329	2108	1070	1039
Samtskhe-Javakheti	41363	4176	4228	4228	3676	3953	4114	4037	3944	3833	2724	2450
Mtskheta-Mtianeti	20987	2133	2277	2290	2083	1910	2126	2049	1904	1930	1192	1093
Racha-Lechkhumi	6615	626	732	698	600	591	625	695	641	579	432	396
Central schools	4064	396	391	421	336	316	356	424	454	431	254	286
Other	186					7	22	27	21	27	42	40
TOTAL	715822	73563	77956	78611	70016	68790	71075	70209	67819	65713	38356	33714

Source: Ministry of Education; UNICEF

Fig. 4.7. Enrollment/Graduation Ratio in Georgian Schools



Source: Ministry of Education; Ministry of Finance; UNICEF

There are several factors that explain these variations in enrollments from primary to secondary school. The good enrollment ratios in primary schools and I level secondary schools are a Georgian tradition. The overall Georgian population, regardless of its national or social origin, considers education an indispensable attribute and does whatever is within its means to access education for their children. One can note that the percentage of students graduating from primary and secondary schools is very high. Exams and other requisites do not constitute serious impediments for graduation and, in fact, only those students who have some health problems or those who are arrested withdraw or leave schools (The state provides some facilitates for impaired students. according to official data from the Ministry of education, in addition to state-run orphanages Georgia possesses the following special schools for disabled students: one for the blind, one for those with limited eyesight, two for the deaf, one for those with limited hearing, one for those with cerebral paralysis, one for those with spinal curvature, one for asthmatics, one for those in need of speech therapy, one for those suffering from gastic diseases, and eight auxiliary schools).

Only those students who have lost any hope of entering a university stop education after graduating from I level secondary schools. This is due to a number of different reasons, but is first and foremost financial. The diploma obtained at the end of the II level of secondary school is perceived to have no social function other than to allow access to higher education. This diploma, as well as those from vocational institutions, gives minuscule, if any, advantages in searching for a job. In fact, our own surveys among potential employers suggest that, as a rule, employers divide the population into three main categories: (i) those who have higher education, (ii) skilled workers and technicians (here a formal diploma is unimportant) and (iii) unskilled personnel (On this count, foreign investors do not differ much from Georgians. For instance, a large foreign-owned company operating in the energy sector in Tbilisi often prefers to hire unskilled personnel (and does not ask them to provide any diploma) and afterward to provide them with professional training. Managers of such enterprises consider that most skilled workers and technicians are difficult to retrain and are prone to corrupt practices). Correspondingly, almost all young people who enroll in the II level of secondary school hopes to enter a university or, in the worst case scenario, any other private higher institution.

Tertiary Education

Tertiary education constitutes the big prize for the average Georgian citizen because traditionally it is associated with opening up doors to higher social layers. This perception goes back in time. At the beginning of the XIX century, after conquering Georgia, the Russian administration closed all Georgian educational institutions and founded Russian schools. It was only in the 1830s (after series of public protests and pressure) that four-year term primary Georgian schools and Russian gymnasiums were opened. The ensuing process of Georgianifying the education system resulted in its first important victory in 1918, when, after independence was declared, the State Georgian University was founded. Its students and professors were considered to be the best representatives of the nation regardless of their social origin. After the Red Army invaded Georgia, the university's initial celebrations were short-lived as the university was soon to become the target of the same Stalinist repression that so decimated the ranks of intellectuals. By the 1930s, the purges had been so thoroughly carried out as to result in worryingly low levels of highly educated people. This, in turn, obligated communist leaders to react. First, by opening the doors of higher institutions to a vast mass of the population (correspondingly decreasing demands for knowledge). And, second, by creating a system of privileges for students and professors that included high salaries, access to better living conditions, the possibility to buy goods in the so-called "closed" stores and, most importantly, to avoid universal military service (even during the Second World War).

Those within the higher education system continued to receive significant privileges and perks until the 1960s when the number of students in tertiary institutions had increased to acceptable levels, giving the communist authorities fewer reasons to maintain the generous incentives for people to access universities. At the same time, the incentives became unnecessary as the number of applicants sharply increased. This was a consequence of the decision to increase Tbilisi's population to over 1 million, in order to benefit from the substantial differences in material allowances given by Moscow to big urban centers. Other urban settlements were similarly expanded. This policy changed the ratio between the urban and rural population and created an accessibility problem to universities and institutes. Although demand for higher education increased significantly, no new universities or institutes were built. Competition at entrance exams became tough.

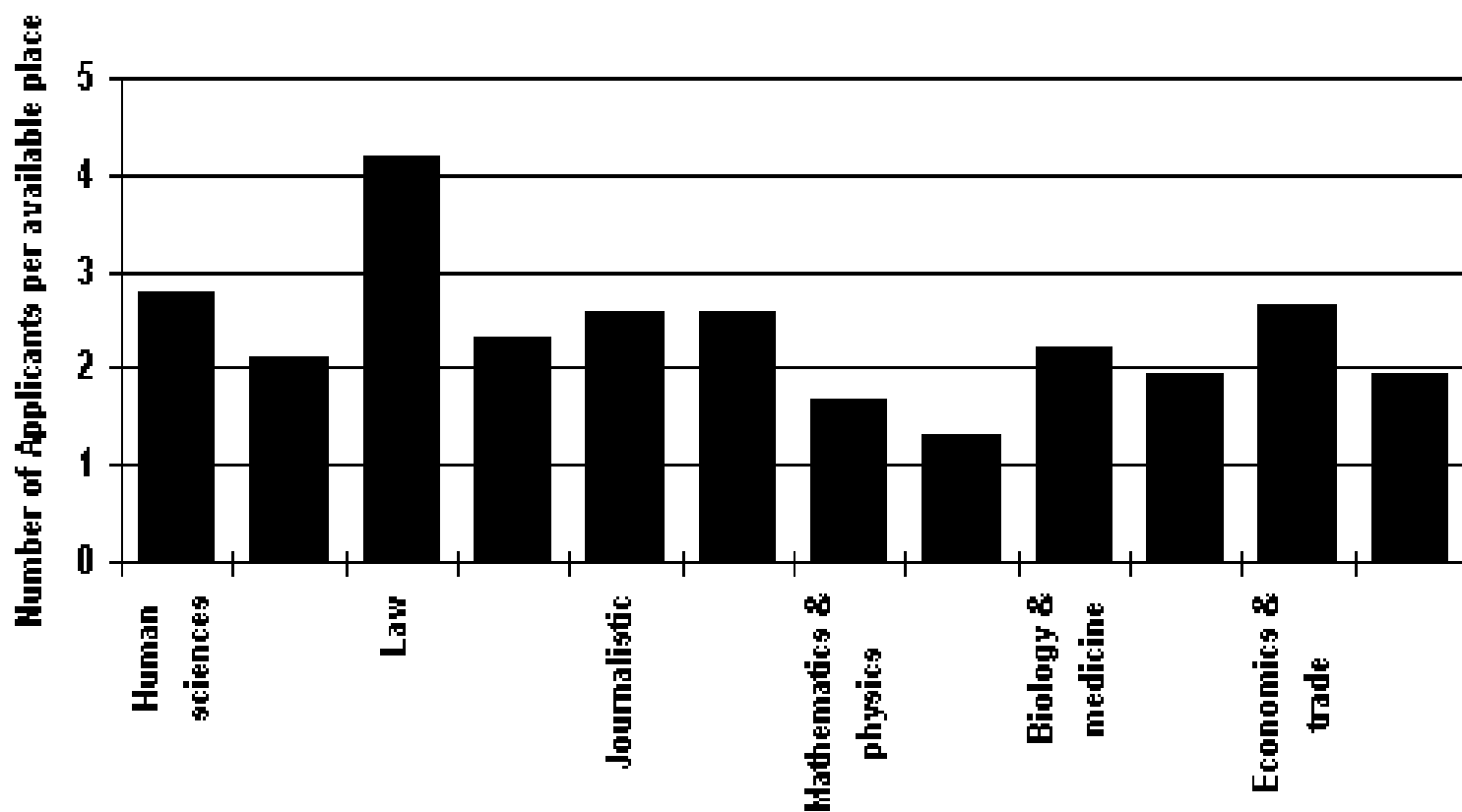
In turn, the tougher exams meant applicants had to acquire a greater knowledge about the subjects being examined. It wasn't long before the Georgian school system proved unable to provide such a level of education. The spin-off from the unmet demand for the additional knowledge required to access higher education was an illegal system of tutors, mainly professors from universities, who managed to compensate the cancelled benefits by supplementing their salaries with a shadow income. The payments system to private tutors also created a parallel system of payments from tutors to members of examination committees. Each tutor had a high incentive to ensure a high percentage of their applicants were successful in sitting the university entrance exams. Connections and chains of obligations were used to open up back doors to universities. Thus competition between applicants was not limited to the domain of knowledge

but also included the domain of personal relations. In the 1970s, Mr. Edward Shevardnadze dealt this system a heavy blow as part of his campaign against corruption. However, the system has proved to be remarkably resilient and is still and well alive today.

A big casualty from this informal system of tutors and payments at universities was the social prestige of secondary school education and, consequently, that of teachers. This remains very low because neither the secondary schools nor the teachers determine the accessibility of higher education. Another group badly affected was the considerable segment of the population that did not have the means to afford these informal payments. Our own research suggests that the sums paid are not trivial and involve a transfer of out-of-pocket spending from the secondary education system to private coaches at universities. The estimated number of youths that use private tutors every year is twice that of students enrolled in universities. On average, these potential entrants take training in three or four disciplines and the yearly fees paid to coaches are substantial. For instance, annual costs of training in Georgian Language and Literature can equal 600 USD, in Justice and Social Sciences - 800 USD, in Geography and History - 500 USD, in Mathematics, Physics, Chemistry, Biology - 600 USD and so on. A committed applicant can spend from 2,000 up to 3,000 USD for a thorough training.

Figure 4.8 contains information on competition at entrance exams in Tbilisi State University for no-fee education. More than 1,700 new students have enrolled in addition to more than 800 in departments that charge between 400 to 600 USD for annual education.

Fig. 4.8. Competition of Applicants at Entrance Exams in Tbilisi State University in 2000



Source: Tbilisi State University

Figure 4.8 shows that the most prestigious subject is, without a doubt, Law and International Relations. This is

followed by Economics and Trade, Human Sciences, Foreign Languages, and, surprisingly, Journalism. Demand for, as well as the social prestige of, the hard core sciences has fallen. It is interesting to note that the demand for Business Administration is still relatively weak, which suggests that youths do not seem to associate education in business management with an increased chance of being a successful businessman. We will elaborate more on this issue in the next chapter.

The competition for entrance in prestigious departments does not appear to be in relation with the market demand for their graduates. For instance, the Department of Law at Tbilisi State University has a yearly quota of about 95 state-funded (**With free education**) and 70 fee-based students for international relations. We are concerned that in the medium term Georgia will face an "overproduction" of those Juris Bachelors and Masters as we observed an overproduction of physicians and biologists in the late 1980s. The same can be seen in medical state and private higher institutions, including Tbilisi State University and the State Medical Institute. Each year, the system of medical schools grants medical Diplomas to about 3,000 youths, whereas the Georgian medical system needs no more than 300 young physicians per year.

Conclusions

In general terms, the overall access of Georgian youth to the primary and secondary school system has been shown to be good and this is reflected in the indices for combined primary and secondary enrollment. Primary and I level secondary education are almost universal and show remarkably high graduation ratios. We are concerned, however, with the quality of education provided to youth and we hope that the reforms to the education system, which include teacher examinations, will show the planned and desired results. In addition, the purpose of the II level of secondary schools must serve other more productive ends than being a mere formal springboard to access tertiary education. Students only invest in these two final years of secondary education to access a prestigious department at prestigious institutions with Tbilisi State University topping the polls. Those turned away try the Kutaisi and Batumi institutes, including the commercial ones. The most unfortunate ones try to obtain a higher education diploma as a sort of consolation prize for their investment of time and energy.

The need for attaining not only good quantities of students enrolled but also a good quality of education provided has apparently been well understood by the Georgian Government and the Parliament. Both recognize that there is a need to define the objectives at each education level in view of the demand of the market and society. The Government has taken the first steps to address this issue. There has been the development of a new Minimum Content Curriculum Standards for basic education. The new "Law on Education", which was adopted in 1997, envisages (starting from 2001) the introduction of external assessments at the end of grades 6, 9 and future grade 12 in order to grant certificates at the end of each cycle. The most far-reaching provision of this Law is that the grade 12 exam would replace university entrance exams. We agree with the project's authors that such measures can finally break the vicious system of informal applicant training and corruption at entrance exams. At it stands today, access to universities is restricted and biased toward those in the higher income brackets or those with the right social connections.

However, the replacement of entrance exams at universities by grade 12 exams must be accompanied by a substantial revamp of the quality of learning provided at the first and secondary school stage. Otherwise another informal system of tutors will develop in the secondary education system. In this regard, we applaud an initiative by the Georgian Government aimed at improving the quality and relevance of general secondary education. Phase I of this project has begun to develop the policies and institutional framework required to effectively realign the system of educational objectives, to develop local capacity at government levels to meet those objectives and to manage the physical, financial and human resources in the education system more equitably and efficiently. Georgia is investing a heavy sum in this project in the form of a 60.06 million USD loan provided by the World Bank.

Loans have to be repaid sometime in the future. Thus the effective implementation of the agreed policies is of utmost importance. Otherwise the result will be merely a wealth of expensive documents and plans for which the Georgian

people will have to pay sooner or later. In addition to the reforms, which we consider of critical importance, the effective implementation of public educational policy will require an increase in the low budgetary allocation to the schooling system. The state cannot escape its obligation of providing a critical mass of financial resources to the public education system. As long as teachers' salaries remain well below the poverty line and as long as salary arrears continue to exist, the best and brightest will leave for better paid professions. Quality will suffer. The incentives for a private system of tutors at secondary schools will remain very much alive. Not long after that, the vices observed at the entrance exams in tertiary institutions will find fertile ground in the system of secondary schools. In a similar vein, as long as the infrastructure in public schools continues to fall apart, and as long as the state is unable to provide minimal educational materials and supplies, the morale of those in charge of preparing our youth to meet the challenges of modern life will remain unsurprisingly low.

The flourishing informal economy, though it provides a lifeline to many that otherwise would be in dire conditions, works against the state's capacity to collect sufficient resources to be able to finance the public education system. True, some niches can be occupied by the private sector responding to the demands of particular segments of the population that can pay for them. But the private sector cannot and will not provide universal education or a sufficient supply of it in, for example, rural areas of Georgia or to low income groups. As we mentioned at the beginning of this report, the contents of the Article 26 of the Universal Declaration of Human Rights "Everyone has the right to education.... Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit" is to a great extent a public good.

Chapter 5

Concluding Remarks: Shadow Economy and Access to Human Rights

All are equal before the law and are entitled without any discrimination to equal protection of the law

UNIVERSAL DECLARATION OF HUMAN RIGHTS, Article 7.

In previous chapters we attempted to describe the access of the population to a number of agreed human rights, such as the right to life, liberty and security of persons or the right to freedom of expression or the right to be presumed innocent until proved guilty. At the same time, the chapters described the access of the population to an array of social services such as social security, health care, and education. Both types of socially perceived rights have been enumerated in the Universal Declaration of Human Rights signed more than 50 years ago.

We believe that the previous chapters convey a clear message. No doubt, the majority of Georgian households is facing a tough time. We all know this fact well, though we lament that after so many years, the skin have grown thick and the innumerable stories of deprivation and misery suffered by the Georgian population, stories that regularly show in newspapers, television, or just those that we hear in the street, appear to have lost their shock value. These are the stories from the daily life of those that belong to that 40% of the population whose monetary and non-monetary income fall below the minimum subsistence level; or the stories of those that belong to that 30% of Georgians with no access whatsoever to the health care system (which are similar stories of half the population that accounts for a scanty 8% of total national expenditures on health care); these are also the tragic stories of those families whose children died in public hospitals as a direct result of their appalling state characterized by poor hygiene and lack of minimal supplies; or the desperate stories of old pensioners that depend heavily on meagre pensions that are not paid for months; or just the stories of the sad and unjust discrimination of those youths whose families do not have enough to afford the illegal system of payments that dominate the entrance to higher institutions. It is healthy to keep these anecdotes in mind when reviewing data and indicators, for it is easy to forget that behind the statistics presented in this report there are thousand of human tragedies that numbers and figures cannot describe.

The previous chapters, however, also convey the message that while the situation of the Georgian household is bad, it is still not critical. Georgians are managing to survive and are doing so remarkably well if one takes into account the economic and institutional background against which they have to make ends meet. The combined monetary and non-monetary income of the average Georgian citizen has been increasing steadily since 1996 and for the first time in the year 2000 appear to have surpassed the minimum consumption basket. True, this average includes a 40% of the population that does not get their income above minimum subsistence levels and a 1.5% with incomes above 1000 laris. Distribution of income in Georgia is still unfair and biased. But except for a significant 6.5% of Georgians that are locked in a poverty trap, income distribution appears to be improving since 1996. The main reason for this trend is the significance of the informal economy as a source of income for the average household.

The informal economy seems to have an equalizing effect because the middle segments of the population rely substantively on informal activities as sources of supplementary income.

In fact, Georgians have achieved a remarkable ability to detach from the formal structures of governance in their pursuit of income and access to social services. Numerous statistics and publications appear to agree that the informal economy is at least responsible for 35% of total economic activity though some estimates put the figure well above that. In addition, we believe that the informal economy seems to be growing in importance and in some areas have dwarfed the size of the formal sector. For example, the estimation of out-of-pocket education expenditures is in the order of 476.7 million GEL or 16 times greater than the whole of public expenditures for the sector. In the case of public health, the state and international agencies have achieved a de-facto privatisation of health care services, which are characterized by an impressive degree of informality. This de-facto privatisation, which is just the default situation in view of the lack of state support to hospitals and clinics, allows staff to obtain a supplement to their meagre salaries by means of under-the-table payments and oblige patients to purchase (mostly in the black market) almost all medical supplies necessary to perform the medical treatment in question. The participation of the government is limited to the supply of crumbling buildings, water, electricity (irregularly) and limited amounts for some medical programmes. As for income, we notice that the level of formal salaries, the increasing underreporting of income and expenditures, the increase in average incomes, and the apparent increase in equality of income distribution as a result of the equalizing effect of informal activities suggest that the shadow economy is gaining ground. All things together, we believe that Georgians are good at finding ways to survive the crisis and in some cases even improve their living conditions in spite of the weak government performance to establish an environment conducive to competition and business and its poor capacity to provide for social services.

The capacity of the average Georgian to make use of informal structures to obtain income has come handy at times when the state suffocates the population under a web of debatable economic and social principles, like in the soviet past, or when it is unable to set and enforce rules of the game that make unattractive the risks (and subsequent costs) of going informal, like in the current situation. The capacity of Georgians to profit from the shadow economy is nothing new and comes as an inheritance from the previous regime. In fact, we believe that a casual knowledge of the dynamics of the formal and informal economy under soviet rule and the many forms by which corruption took place at that time would have been more than sufficient to warn the architects of the transformation process about the critical need for establishing the institutional fundamentals that allow free-market democracies to achieve increasing levels of welfare. The shock economic therapy applied to Georgia would have benefited enormously if it had been implemented alongside similar radical measures in those institutions that minimize the cost of enforcing contracts or the costs of being a DHL (decent, honest, and law abiding) citizen (The term was first introduced by Professor Alex Rondeli, a respected professional and scholar, as well as a generous contributor to National Human Development Reports of Georgia). The growth of the informal economy and the current prevalence of corrupt practices represent the continuation of the informal economy and practices that flourished under soviet rule. Today, these activities and practices are prospering in the institutional vacuum that results from the limited capacity of the government to perform its duties. During Soviet times, the provision of some agreed level of social services (education; health care; transportation system) was a matter of political significance for the system and thus acted as a partial contention mechanism for corrupt practices. Even though the Party structure was involved in the mismanagement of public funds, corruption seems to have never been allowed to overtake the system completely so as to severely disrupt the provision of social services. The system needed them at least for

purposes of propaganda. Today, however, the political need for providing similar levels of social services appears to have weakened while the current efficiency of the law enforcement bodies has not been sufficient to keep corruption at acceptable levels. Under these conditions, the informal economy finds fertile ground to expand.

A Brief Discussion about the Organization of the Informal Sector

Having emphasized the contradiction between a vibrant informal sector and the capacity of the government to provide public goods, we believe that it is worth a few paragraphs discussing some of the characteristics of the informal economy in the Georgian society. In doing so, we turn the attention to the clan structure which governs crucial sectors of the Georgian economy. As it was mentioned earlier, the remarkably capacity of the Georgian citizen to prosper by means of informal activities is nothing new. To the contrary, during Soviet times Georgians were famous for their ability to break the systems' rules and for having a vigorous informal sector running in parallel to the formal soviet economy.

The late 70s and early 80s in the USSR were known as the "stagnation period", a time when the Soviet economy had been mortally wounded with gross inefficiencies in production and years of political repression. Inefficiencies in production had arisen in part as a by-product of a rigid top-down management of the economy. The decision-making process concerning the development of Soviet republics, economic sectors and even specific enterprises took place in Moscow's ministerial offices. The system put in place the best incentives one could have ever imagined for the widespread use of corrupt practices. There was an enormous gap between the almost unlimited power and the limited official salaries of ministerial bureaucrats. As it is observed today, the informal economy provided apparatchiks and others with an additional and attractive source of income. The informal economy, however, demanded a dual accounting system of cash and clearing in order to allow the diversion of inputs into the informal economy. By default, in a planning system, the meeting of yearly production targets depends on the availability of previously identified inputs (capital and labour) for production. The system "clears" by default since all inputs are assigned in advanced to specific productive sector and the sum of their outputs should meet the production targets. The double accounting was needed because except for outright theft, there was no other way to cover the selling of, lets say cement (e.g. which was supposed to be used in the construction of a bridge) to a private individual that wanted to build his own dacha. The double accounting also created double moral standards. One was the official, communist moral for public interventions and mass media; the other, a moral of mutual guarantee for accomplices involved in informal (illegal) activities (In this sentence the term "illegal" refers only to what was illegal under Soviet rule. To do private business was illegal under the past regime, something that many people in the west could not understand or beleive). In this environment, Moscow bosses could trust only their direct relatives when profiting from the shadow economy. And vice versa, these special channels often resulted in Georgian employees having extraordinary influence in Moscow ministries. As the latter possessed monopolistic rights in distinct economic branches, a corresponding monopolistic structure of clans developed throughout the Soviet Union. In general, each clan consisted of a protector in Moscow, a contact person between the Moscow protector and the local body, and the head of the local business structure. In Georgia, as in the Caucasus in general, clans proved to be remarkably adept at dominating the informal sector. They also showed that medieval and feudal structure in which the "vassal of my vassal is not my vassal". In other words, each clan representative had a distinct space around him and had

to take care of people included within that space. In Georgia this principle was enforced by historically strong family traditions and code of friendship.

The collapse of the USSR not only decapitated clans from their Moscow protectors but also caught many members of that semi-legal Soviet establishment on the wrong foot. The collapse of the Soviet rouble brought down almost to zero the value of their savings and businesses, as only few among them had been cautious enough to convert their wealth into hard currency (For many, the value of the informal business was dependent upon the existence of the formal soviet order. For example, public buses in Tbilisi had been informally "privatised" during Soviet rule, as it was not unusual to pay for a ticket and get no receipt. In a nutshell, the bus driver would pay cash for having the right to drive a bus. He would get his investment back by pocketing a share of tickets sold (for which he would not give receipt to passengers). Inspectors would let the scheme run as long as they receive a share of the informal income. The upper ranks of the public transportation authorities were also involved and aware of these "privatisation" of buses for otherwise such a system could never survive. The collapse of the Soviet system brought the value of this business close to zero for those that were not strong enough to formalize their previously informal property rights over the bus in question in the new economic system). The years of civil war that followed the declaration of independence were not conducive for business activities, be those formal or informal, and Georgian clans had to wait until the disbandment of the armed groups. Once the country achieved minimum levels of stability, the informal sector picked up pace again, this time in an environment characterized by serious institutional deficiencies. If during Soviet times there was a risk of being caught in the latest crusade against profiteers, that risk was inexistent under the new rules of the game because doing private business was now the order of the day. Those clans that entered the new economic order with dollars in their pockets and/or with their web of connections and obligations in the right place made fortunes. It was not illegal any more to do business and the state was too weak to enforce the basic foundations of a market economy, namely the definition and enforcement of who owns what (property rights), who may do what to whom (civil and penal code), and who must pay whom to have their interest protected (property rights and the law of the contract). The downing of the new market era in Georgia was "open season" for those having the right connections and the decision to grab in one way or another their share of assets from a moribund state. Many failed to understand the implication of these institutional weaknesses on the plan of economic reforms. Had international and donors organizations paid a bit more attention to variables outside those of the "accounting" sphere, they would have realized that the privatisation program they were promoting and celebrating was firmly on its way to end up in history as one of the most biased processes of wealth re-distribution in Georgia of a magnitude only comparable to the nationalization of land and other assets by the Red Commissars in 1921.

Time has passed and clans have also evolved. The most powerful ones appear to have attained a certain degree of specialization exercising monopoly (though sometimes oligopoly) power over certain sectors of the economy. For instance, the imports of cigarettes and oil-related products have clear domains and could be unhealthy for outsiders to step into these areas. In general, the import and trade sector are characterized by a predominance of an informal economy divided and controlled by different clans. The division and control of the market is a dynamic process and entails an underground competition between different clans. In general, this competition can be bloody though conflict resolution often takes place behind doors and few cases have reached the mass media (One of them concerns 20 months of cross juridical disputes in court and investigation by Georgian law enforcement bodies of two competing tobacco-importing firms: "Omega" and "Elisi". At the end of the process, Omega got the upper hand and

Elizi found itself out of the market. Another well-known example is related to a 2-year juridical dispute (that included several civil and penal court processes) concerning the control on the company "Astra Digomi", which imported cars from Germany. However, the great majority of deals between different clans is concluded in extreme secrecy and rarely became public). Clans in control of importing goods such as cigarettes and oil (among others) often possess a sophisticated structure for distribution. Smuggling is rampant and deals and bribes to customs officials are anything but common currency. The Georgian smuggling model shares features of the "Soviet model": it is maintained together with and not against the customs and law enforcement bodies officers. Sometimes, however, things got out of control and by 1999 smuggling was one of the main reasons behind the poor execution of the tax revenue plan, which was a modest one under any standard.

A second type of clans has found their niche in those branches of the Georgian economy that appear to be competitive on international market. In capturing these sectors, they participated actively in the privatisation of state property. The reports of the Chamber of Control provide a fascinating description of the many ways by which the best connected got state assets at bargain prices while discouraging competition during the bidding process (report on Execution of the 1998 State Budget, Chamber of Control, Tbilisi, 1999 (in Georgian); Report on Execution of the 1999 State Budget, Chamber of Control, Tbilisi, 2000 (in Georgian)). Here, a distinction should be made. Some clans acquired assets with the intention of investing and profiting in sectors in which the Georgian economy appears to have comparative advantages. Others, however, just exploited their immunity and the lack of capacity of law enforcement bodies to benefit from trade policies. Several examples come to mind but, perhaps, the export of scrap metal is a case in question. The International Monetary Fund demanded free scrap exports among its conditions of further financial assistance. The government agreed. The boom in export of scrap material that followed was fabulous and resulted in a rush to get hold of whatever metal was around. Often valuable and even working equipment, wires, cables got stolen and sold abroad (Including even high voltage and strategic intrastate 500 kV electricity lines. In autumn, 1999 11 km of electric regional lines were stolen and disappeared. The investigation proved that an anonymous company that drove the wire away to an unknown destination had hired these workers. The managers of the company evaporated. The names of these managers never became public. It is difficult to believe that such a major operation could have been carried out without some kind of "protection" from well-positioned people). The situation got so out of control that officials of the Georgian Railway, worried about the decimation of their inventories, forwarded an appeal to the President of Georgia proposing that the number of ferrous scrap buying-up centres be limited and buying non-ferrous scrap banned. The conditions put forward by the IMF, however, minimises even this degree of flexibility in decision-making.

Finally, we note a third type of clan showing a more "regional" approach with no specific specialisation. Such type of clans attempts to control the overall business activity in a concrete region. These clans can be active enough and oblige other "specialized" clans interested in business activities in their regions to cede a certain share of their income for protection and services rendered. Independently of their chosen niche of specialization, clans often show a similar structure consisting of a lobbyist in the state or regional or local government and/or Parliament, the head of the clan, clan members with a strictly determined place in the overall structure, a legal cover in the form of an officially registered joint stock or limited liability company (or a group of companies), and finally (of course) a bank necessary for all legal and semi-legal transactions and even money laundering.

It would be a great mistake, however, to consider clans as evils or dark forces that result in corruption, mismanagement and a flourishing shadow economy. Clans are just organizations that have developed

according to a given cultural background (strong family ties) and the pressures imposed on citizens by the formal institutions of governance. Sometimes, clans as organizational units proved invaluable to survive tough periods. In the years of civil war and general debacle, clans and strong family ties were responsible for an informal social safety net that saved scores from hunger. Family units and clans in the form of a combination of family units helped each other taking care of those members temporarily or permanently without sources of income. Every member collaborated with her or his share, whatever the size or its contents. These strong family links and sense of duty/responsibility to protect our relatives saved the day at a time the government was almost of a formal character and the social safety net was completely absent.

These same informal organization units have proven an efficient way of dealing with the poorly conducive business environment in Georgia. It should not surprise foreigners, much less Georgians, the fact that businesses will have strong incentives to remain in the informal sector or incur into illegal practices or request the help of a clan member that happen to enjoy a strategic position in a Ministry when the costs of doing business formally is unbearable high and adherence to the law proves difficult even for those committed to it. We have heard innumerable stories of Georgians attempting to import goods and finding impossible to avoid the bribing of custom officials who have the power to retain goods at the port of entry for long periods of time. We are familiar with those cases of Georgians that have received several visits from competing taxmen, all interested in having a slice of the company's profit, all of them threatening to close the enterprise unless their demands are satisfied, and the pressure resulting from the sum of all of them making a profitable business unprofitable. We have heard the stories of foreigners and Georgians setting up business in the country only to being brought to court by incumbent firms (with oiled connections with law enforcement bodies) for inexistent tax evasion or other alleged transgressions. Some of these processes have taken years to resolve, have been costly, and have pushed firms to the verge of bankruptcy. And we are aware of the innumerable bureaucratic hurdles to be faced in the process of obtaining permits and clearances for business operation. Often, only an under-the-table payment and/or the help of friend in the department in question have the power to push papers forward.

In this kind of institutional environment, clans represent a viable organizational structure that pool risk among members and protect their businesses against the threats and abuses likely to happen in a society with weak or corrupt law enforcement bodies. The incentives for all clans is to grow in power and influence within and outside government units since these factors heavily affect in the short term the share of market captured by the clan in question and in the long term the survival of the business or set of enterprises themselves. It should not surprise that conflict resolution between clans take place more often than not outside the judicial courts given the still limited capacity of the court system to reach a decision and enforce its own rulings. And it should not surprise either the importance of reputation and honour as observed in Georgian clans. Conflict resolution outside the formal system is facilitated when the parties in question consider each other likely to honour their own words and agreed commitments. Thus trustworthiness is not only a matter of honour, and this is a factor important enough in Georgian culture, but also makes threats and promises of rewards credible scenarios and therefore keep uncertainties to a minimum and help reducing the costs of enforcing contracts. If you are sure that in a given transaction the opposing party will reward you as agreed or will retaliate if you fail to honour your part of the deal, the decision to respect the contract is a matter of weighting previously known cost and benefits from rewards and retaliation plus any long-term damage from lost credibility. In contrast, in societies in which the market mechanisms have resulted in outstanding levels of social welfare, disputes about contracts and property rights are dealt in formal courts and in the majority of cases, courts provide the most attractive

(least expensive) way for conflict resolution. In these societies, law enforcement bodies still face plenty of problems and shortages in material and moral capacities but nevertheless they manage to constitute credible threats to those inclined to break the law. For example, in advanced western societies the possibility of being caught smuggling goods (e.g. cigarettes) into the country is real and this constitutes an expected cost that discourage many (though not all) from engaging in such income generating alternatives. In a society in which property rights are clear and enforced, the civil and penal code are respected, and the law of the contract is not prohibitively expensive to enforce in formal courts, the advantages of the clan structure for doing profitable business is rather limited. Without disregarding the potential benefits of having an uncle working at the Ministry of Finance, a good business strategy, talented human resources, and access to affordable capital will be more significant factors affecting business profitability.

Clans, therefore, should not be taken as the root cause of a worrying level of corruption and a flourishing informal economy but rather as structures that have become efficient organizational units at doing business in the current institutional environment. Take away the incentives that foster the clan as an attractive alternative to survive in the rough world of Georgian business and the clans may survive as identifiable units reflecting the long standing Georgian tradition of strong family ties but not as determinants of market share, dominance and power.

Concluding remarks

In the last section of this report, we would like to come back to a set of basic and simple messages that underlined the contents of each chapter. The first is that Georgia has gone to great lengths in ensuring respect for human rights and except for the Baltic countries, it is a leader among all former Soviet republics. Indeed, the contents of this report would have been subjected to automatic censure in other former Soviet republics and it would have been even difficult to recruit local expertise because of the fears of reprisals. In Georgia, however, this type of literature is allowed to circulate in the same way as strongly critical TV investigative programmes are allowed to be broadcasted. True, there is a lot to improve in the area of political rights and the right to a free press but it would be a mistake to overlook the magnitude of the government's achievements in these areas.

The second message is that the supply of agreed social rights (education, health care, social security, etc) is dependent on (i) the capacity of the government to set up a conducive business environment that expand the size of the economic cake and benefit from the comparative advantages of Georgia in the world economy, and (ii) the capacity of the formal institutions to steer increasing volumes of economic activity into the formal sector because it is in this sector where taxes can be levied.

And the third message is a basic derivation of the second one immediately described above. Even though the informal economy has provided a lifeline to many that otherwise would have been in dire troubles, an expanding informal economy is nothing to celebrate and cheer as far as we are concerned with the provision of human and social rights. A country with a vibrant informal economy will be most probably at its second best in terms of overall social welfare. In their fight for influence and power, clans will not face incentives to contribute towards the establishment of a competent and efficient judicial system. For the powerful ones, conflict resolution and deals that perpetuate the dominant position of a given clan

occur outside the formal judicial system. From the other end, those member of clans positioned at high decision making-levels will probably face weak incentives for establishing competent law enforcement bodies if the existence of such institutions constitute a serious threat to the clan's sources of income.

But the overtaking of formal institutions by interested groups and a continuing weakening of the government capacity to provide for the kind of public goods that ensure the access of the population to political and social rights is a process that cannot go forever, for at some point the same process can and will threaten the very basic structures that currently allow the most powerful clans to dominate strategic sectors of the economy (See also *Ramaz Othinashvili, Nature, reasons and consequences of shadow economy, Georgian Centre for Strategic Studies and Development, Bulletin # 37, 2000 p. 3-25 (in Georgian)*). That point is simply the point at which the state and its formal structures of governance lose relevance as vehicles for collective decision-making and the pursuit of increased levels of social welfare. Though it takes time to gather steam, the erosion of the government capacity to perform its inescapable duties, and therefore its legitimacy, is a process that often provides clear warning signals. We seem to observe some of these in remote (and not so remote) corners of Georgia in which the government has failed to pay pensions for months, where teachers do not get their salaries for half a year, places where electricity supply has been totally absent in winter and summer, places in which bartering has replaced the lari as a vehicle for exchange, places where the court system has little to say in the way conflicts and disagreements are resolved. When this erosion reaches critical levels, the political and economic system that allowed such a situation to unfold is often replaced by a highly authoritarian structure that combats the existing interested groups and/or replaces them by their own. If this is bad news for the incumbent clans, it is disaster for society as a whole. Civil and political liberties are likely to be the first collateral casualties of such a change in governance systems.

We cannot but hope that Georgia will continue to undertake those measures that will strengthen the institutional foundations upon which markets and civil and social rights depend on. And we hope that in this process Georgia will prove wrong those that sincerely overwhelmed by the impressive amount of circumstantial evidence affirm that the overall post-Soviet space is characterised by a total lack of political will to fight corruption (*Louise Shelley, The current state of corruption in the NIS, Transnational Crime and Corruption Center, Washington, DC, 2000*). And we are convinced that in that process of revamping formal institutions Georgia will improve its currently appalling corruption ranking, a figure that calls for serious doubts about the aspirations of the country to join the club of European advanced nations (*Corruption rank, World Audit, released in Internet in December, 1999*).

Table 5.1: Corruption and Democracy Rank of 149 Countries in 1999

Country	Corruption Rank	Democracy Rank	Country	Corruption Rank	Democracy Rank
Denmark	1	1	Romania	60	56
Slovenia	22	23	Croatia	71	105
Estonia	24	21	Moldova	72	53
Hungary	28	28	Ukraine	72	102
Czech Republic	36	25	Armenia	77	98
Poland	40	27	Russia	79	105
Lithuania	46	30	Georgia	81	89
Slovakia	49	47	Kazakhstan	81	120
Latvia	55	31	Kyrgyzstan	84	112
Belarus	55	121	Yugoslavia	87	132

Bulgaria	60	49	Uzbekistan	92	134
Macedonia	60	54	Azerbaijan	93	129

Source: Corruption rank, World Audit. 1999

No doubt, some measures are underway to increase the capacity of the government to implement public social policy. One of them has been to acknowledge the problem caused by increasing levels of informal economic activity. In this regards, the President of Georgia is heading himself a commission that should elaborate special legislation and a programme aimed at increasing the incentives for business to go formal. Another welcome step has been the increasing relevance that the topics of corruption and organised crime are having in Georgia. We have noticed the numerous international meetings and conferences that have analysed a number of legal and managerial remedial actions and we wait anxiously to see the practical results on the ground. We have also witnessed the creation of an Anti-Corruption Agency staffed by an impressive list of high-rank government officials like Mr. Vladimir Chanturia, (Chairman of the Supreme Court), Ms. Nana Devdariani, (Public Defender (Ombudsman) of Georgia), Mr. Sul Khan Molashvili (Head of the Chamber of Control), Mr. Jemal Gakhokidze (Member of the State Security Council), Mr. Levan Kiknadze (Vice Minister of Finance), Mr. Gia Nodia (President of the Caucasian Institute for Peace, Democracy and Development), and Mr. David Usepashvili, (President of the Georgian Young Lawyers Association). It will be difficult to justify lack of results because of insufficient human resources in view of the unusual prestige of the officials involved in this Anti-Corruption Agency. We hope that their work will help to revert the worryingly low levels of public confidence on formal institutions. According to public opinion polling data, 56.8% of population do not trust courts of justice, 64.0% do not trust Parliament, 79.4% do not trust the tax administration, 80.2% do not trust customs administration, 62.1% do not trust the Presidency, 65.6% do not trust the chairman of Parliament, and so on and so forth ([Georgian Lifestyle, GORBI, Tbilisi, 2000](#)). In addition to being a serious threat to the state budget, mismanagement is steadily eroding the confidence of citizens on the institutions of democracy.

Political will, however, will be a necessary addition to the ongoing analysis of remedial measures aimed at combating mismanagement and decreasing the costs for business to be in the formal economy. At some point, the array of technical measures designed to improve business conditions in Georgia, increase government revenues, and stop the unacceptable leakages in social funds (among other things) will demand taking courageous decisions that will affect one powerful clan or another. It would be naïve to believe that combating corruption and the establishment of measures to bring informal businesses into the formal economy are actions that will result in no casualties among powerful groups. If the overall Georgian society is taken as a whole, such measures are win-win actions since their benefits will definitely outweigh the costs. But in the short run, there will be many that will be painfully touched where it hurts most and one should expect strong resistance from a number of different quarters. In supporting these efforts, we hope, wish, that this time the role of international organizations will be as active on ensuring budgetary equilibrium and debt-repayment as on strengthening irreversibly the institutional foundations that allow markets to operate and democracy to remain a valid alternative to collective decision making. Yes, we are aware that we ask for radical changes in the way the Georgian economy has been operating since independence. But these changes have to happen and will likely happen. We have no doubts that those at the highest decision making levels are committed to transform Georgia into a prosperous democracy thus entering the books of history as leader with the stature of David the Builder rather than contemporary followers of Mr. Chichikov.

ANNEXES

Annex A1. Macroeconomic and Socioeconomic Indices

Table A1.1: Main Macroeconomic Indices

Index	1996	1997	1998	1999
Nominal GDP (million GEL)	3,768	4,505	4,795	5,594
Nominal GDP (million USD)	2,982	3,470	3,443	2,799
Nominal GDP per capita (GEL)	814	980	1,043	1,217
Nominal GDP per capita (USD)	644	755	749	609
Growth of real GDP (%)	-	110.8	102.9	103.3

Source: Budgetary Office of Parliament

Fig. A1.1. Rate of Nominal GDP in 1996-1999

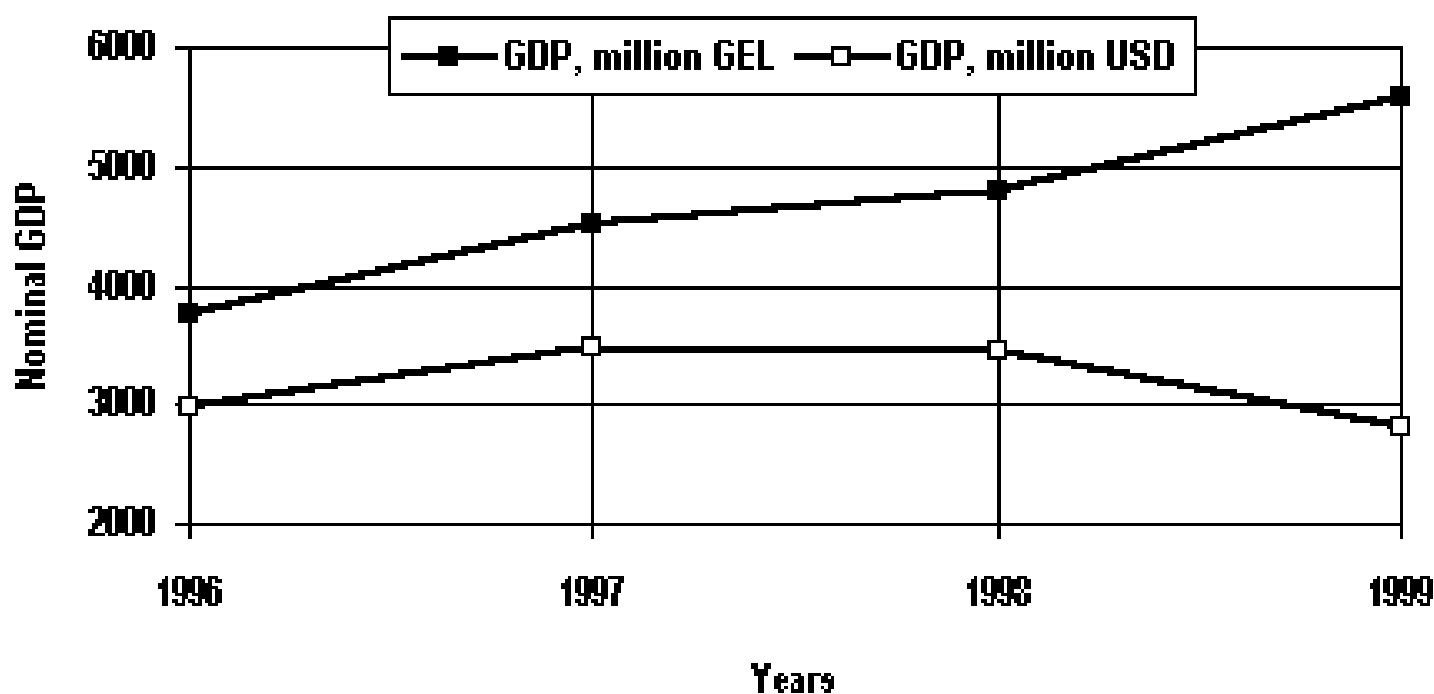


Fig. A1.2. Rate of Nominal GDP per capita in 1996-1999

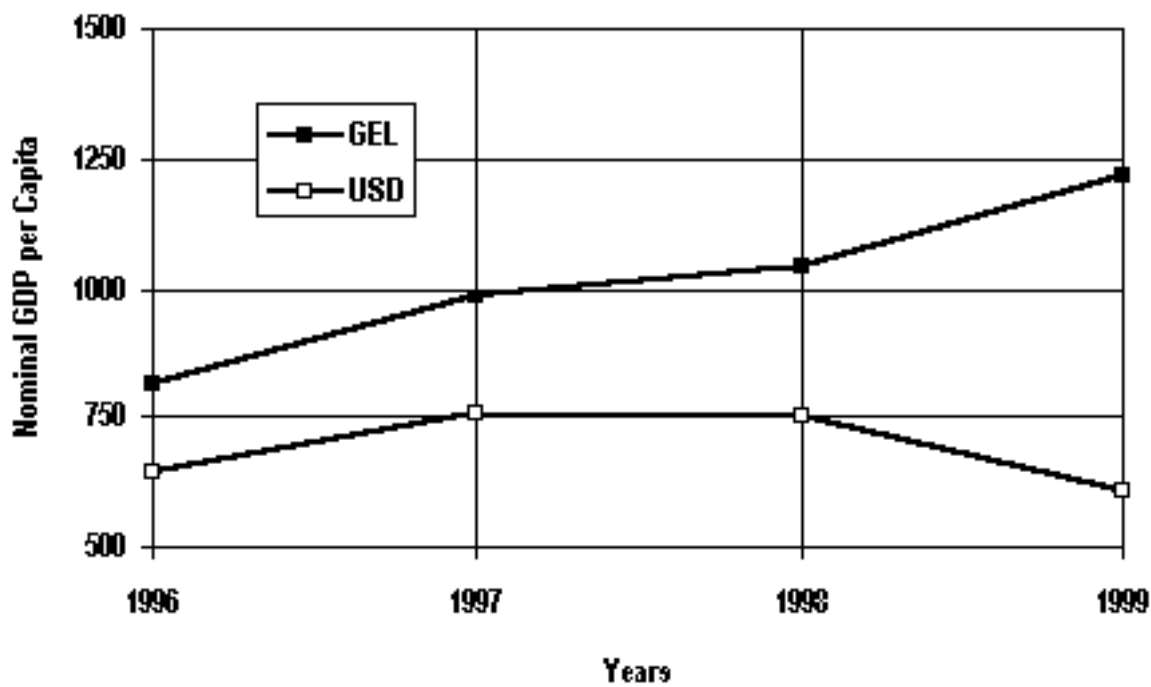


Table A1.2: Social Indicators on Georgia

Item	Latest single year			Same region/income group	
	1980-85	1993-98	1999	Europe & Central Asia	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	5.3	5.4	5.4	474.7	886.5
Growth rate (% annual average)	0.8	0.0	0.0	0.1	0.9
Urban population (% of population)	53.9	59.7	55.5	66.2	57.7
Total fertility rate (births per woman)	2.4	1.3	1.1	1.6	2.5
POVERTY (% of population)					
National headcount index	..	11.1	11.1	..	..
Urban headcount index	..	12.1	12.1	..	..
Rural headcount index	..	9.9	9.9	..	..
INCOME					
GNP per capita (US\$)	..	970	983	2,200	1,740
Consumer price index (1995=100)	..	100	107	155	131
SOCIAL INDICATORS					
Public expenditure					

Health (% of GDP)	..	0.7	0.6	4.0	3.0
Education (% of GNP)	..	5.2	4.1	5.1	4.9
Social security and welfare (% of GDP)	..	..	3.0	8.8	..
Net primary school enrollment rate (% of age group)					
Total	90	89	95	100	94
Male	90	89	91	100	95
Female	89	89	99	99	93
Immunization rate (% under 12 months)					
Measles	..	95	96	91	89
DPT	..	92	94	89	89
Life expectancy at birth (years)					
Total	71	73	73	69	68
Male	67	69	69	65	65
Female	75	77	77	74	72
Mortality					
Infant (per thousand live births)	24	15	15	22	35
Under 5 (per thousand live births)	..	20	19	26	44
Adult (15-59)					
Male (per 1,000 population)	210	194	190	283	244
Female (per 1,000 population)	94	82	82	120	137
Maternal (per 100,000 live births)	..	70	68	..	..

Source: World Bank; Strategic Plan of Development of the Georgian Health Care System (2000-2009), Tbilisi, 1999; Report on Execution of the 1999 State Budget of Georgia, by Government of Georgia, 2000;

Budgetary Office of the Parliament

Table A1.3: Dynamics of Consumption Price Index (December of previous year = 100%)

Month	1994	1995	1996	1997	1998	1999
January	204.9	113.0	102.6	108.8	100.3	102.6
February	303.7	113.9	106.4	102.9	101.4	107.8
March	374.2	110.4	109.4	103.6	101.4	109.8
April	781.3	109.3	110.7	103.9	102.4	111.2
May	1,184.5	114.9	111.1	105.0	100.7	109.4
June	1,592.0	113.6	112.0	103.0	98.7	107.8
July	1,838.0	114.6	110.4	102.0	96.4	105.5

August	3,585.7	118.4	110.5	102.1	96.6	105.5
September	6,113.6	123.2	111.0	103.3	96.7	106.5
October	10,698.8	152.0	111.5	104.1	97.7	107.1
November	10,912.8	152.2	112.7	106.5	98.7	109.6
December	12,004.1	157.4	113.7	107.3	110.7	110.9

Source: SDS

Table A1.4: Dynamics of Consumption Price Index (Previous month = 100%)

Month	1994	1995	1996	1997	1998	1999
January	104.9	13.0	2.6	0.8	0.3	2.6
February	48.2	0.8	3.7	2.1	1.1	5.0
March	23.2	-3.1	2.8	0.7	0.0	1.9
April	108.8	-1.0	1.2	0.3	0.9	1.3
May	51.6	5.1	0.4	1.1	-1.7	-1.6
June	34.4	-1.1	0.8	-1.9	-2.0	-1.4
July	15.5	0.9	-1.4	-1.0	-2.3	-2.1
August	95.1	3.3	0.1	0.1	0.2	0.0
September	70.5	4.1	0.5	1.2	0.1	1.0
October	75.0	23.4	0.4	0.8	1.0	0.5
November	2.0	0.1	1.1	2.3	1.1	2.4
December	10.0	3.4	0.7	0.8	12.2	1.2

Source: SDS

Table A1.5: Indicators of Population Income

item	Measure	1995	1996	1997	1998	1999
Monetary income of population	mln GEL	1,164.0	2,500.0	1,800.0	1,751.8	1,723.7
Monetary spending of population	mln GEL	1,077.0	2,454.6	2,390.0	2,534.6	2,677.2
Nominal average monthly salary	GEL	13.6	29.0	42.5	127.6	114.4
Growth of real monthly salary	%	139.4	152.9	139.8	123.2	103.6
Minimum consumption basket	GEL	41.3	47.7	182.7	183.9	193.5
Minimum food basket	GEL	28.9	33.4	128.0	128.7	135.5

Source: SDS

Table A.1.6: Expenditures from the State Budget, Million GEL

Expenditures	2000	1999
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	Approved, Million GEL	Approved, Million GEL	Execution, Million GEL	Execution percentage
General purpose public services	191.9	240.4	123.5	51.4%
Defense	27.1	51.7	35.7	69.1%
Public order & security	65.0	91.1	75.7	83.1%
Education	27.8	46.5	29.3	63.0%
Health care	31.5	34.7	15.7	45.2%
Social welfare & insurance	273.4	240.2	247.0	102.8%
Housing	4.3	5.1	5.1	100.0%
Culture, sports, religion	19.1	27.5	25.0	90.9%
Energy sector	21.2	11.6	12.5	107.8%
Agriculture, forestry, fishing	14.3	29.4	15.5	52.7%
Mining, processing, construction	0.5	1.1	0.8	72.7%
Transport & communication	36.2	37.7	35.7	94.7%
Environment protection & other economic affairs	1.5	4.2	2.7	64.3%
Not elsewhere classified	272.9	410.4	280.6	68.4%
TOTAL	986.6	1,231.6	904.8	73.5%

Source: Ministry of Finance; Budgetary Office of Parliament

Table A.1.7: Expenditures from the 1997-2000 State Budgets, Million USD

Expenditures	Year			
	1997	1998	1999	2000
TOTAL	597.5	570.7	452.4	493.3
General purpose public services	73.7	44.9	61.7	96.0
Defense	51.9	40.3	17.9	13.6
Public order & security	71.8	46.4	37.9	32.5
Education	35.6	21.7	14.6	13.9
Health care	19.7	19.5	7.9	15.7
Social welfare & insurance	146.1	154.3	123.5	136.7
Housing	4.5	5.2	2.6	2.1
Culture, sports, religion	27.8	23.6	12.5	9.5
Energy sector	9.2	2.3	6.3	10.6
Agriculture, forestry, fishing	13.4	16.2	7.8	7.2
Mining, processing, construction	2.1	1.4	0.4	0.3
Transport & communication	29.7	38.9	17.9	18.1
Environment protection & other economic affairs	2.6	8.6	1.3	0.7
Not elsewhere classified	109.6	147.1	140.3	136.5

Source: Ministry of Finance; Budgetary Office of Parliament

Table A.1.8: Structure of Revenue to the State Budget in 1997-2000

Item	1997 Revenue, Million GEL	%	1998 Revenue, Million GEL	%	1999 Revenue, Million GEL	%	2000 Revenue, Million GEL	%
Revenue and grants	593.2	100.0	621.9	100.0	650.2	100.0	693.7	100.0
<i>Revenue, including</i>	<i>568.8</i>	<i>95.9</i>	<i>591.4</i>	<i>95.1</i>	<i>600.8</i>	<i>92.4</i>	<i>659.8</i>	<i>95.1</i>
<i>Tax revenue, including</i>	<i>352.7</i>	<i>59.5</i>	<i>330.1</i>	<i>53.1</i>	<i>414.4</i>	<i>63.7</i>	<i>462.1</i>	<i>66.6</i>
VAT	199.9	33.7	184.6	29.7	212.7	32.7	265.0	38.2
Excise	49.1	8.3	27.7	4.5	110.7	17.0	97.1	14.0
Customs tax	58.7	9.9	58.1	9.3	25.9	4.0	37.5	5.4
Income tax	28.8	4.9	39.2	6.3	44.9	6.9	38.7	5.6
Profit tax	13.5	2.3	20.4	3.3	20.2	3.1	23.8	3.4
Other taxes	2.7	0.4	-	-	-	-	-	-
<i>Capital revenue</i>	<i>13.2</i>	<i>2.2</i>	<i>47.0</i>	<i>7.6</i>	<i>21.0</i>	<i>3.2</i>	<i>-</i>	<i>-</i>
<i>Non-tax revenue</i>	<i>101.2</i>	<i>17.0</i>	<i>71.6</i>	<i>11.5</i>	<i>20.8</i>	<i>3.2</i>	<i>27.0</i>	<i>3.9</i>
<i>Revenue to special State Funds, including</i>	<i>101.8</i>	<i>17.2</i>	<i>142.7</i>	<i>22.9</i>	<i>144.5</i>	<i>22.2</i>	<i>170.7</i>	<i>24.6</i>
Social welfare fund	71.7	12.2	105.9	17.0	107.3	16.5	133.7	19.3
Employment fund	3.2	0.5	3.2	0.5	3.6	0.6	5.0	0.7
Road fund	26.9	4.5	33.6	5.4	33.7	5.2	32.0	4.6
Grants	24.4	4.1	30.4	4.9	49.3	7.6	33.9	4.9

Source: Ministry of Finance; Budgetary Office of Parliament

Annex A2: Structure of Georgia Businesses

Table A.1.9: Structure of Georgian Businesses

	Subsector	N° of Entities	% of Total	% in Sector
1	2	3	4	5
I. Public services	1.1. State Chancellery	1	-	0.09

	1.2. Parliament offices	3	0.01	0.28
	1.3. Ministries	19	0.08	1.80
	1.4. State departments	32	0.14	3.04
	1.5. Prosecutor offices	125	0.53	11.87
	1.6. Other governmental agencies	126	0.54	11.97
	1.7. Major offices	165	0.70	15.67
	1.8. Regional government structures	115	0.49	10.92
	1.9. Courts of justice	125	0.53	11.87
	1.10. Regional offices of social wel-fare & education	103	0.44	9.78
	1.11. Customs & tax inspections	23	0.10	2.18
	1.12. Regional managerial bodies	35	0.15	3.32
	1.13. Embassies & Representations	98	0.42	9.32
	1.14. Georgian Embassies	20	0.08	1.91
	1.15. NGOs	63	0.27	5.98
II. Defence, secu-	2.1. Police departments	245	1.04	54.93
urity, public or-	2.2. Security offices	63	0.27	14.12
der	2.4. Defence entities	37	0.16	8.30
	2.5. Fire squads	92	0.39	20.63
	2.6. Intelligence agencies	9	0.04	2.02
III. Education	3.1. Kindergartens	1,239	5.28	26.19
	3.2. Schools	3,175	13.53	67.12
	3.3. Vocational institutions	86	0.37	1.82
	3.4. Universities & institutes	129	0.55	2.73
	3.5. Other	101	0.43	2.14
IV. Health care	4.1. Hospitals	285	1.21	32.80
	4.2. Dispensers	226	0.96	26.00
	4.3. Emergency stations	55	0.23	6.33
	4.4. Stomatologic dispensers	143	0.61	16.46
	4.5. Veterinarian services	25	0.11	2.88
	4.6. Sanitary offices	89	0.38	10.24
	4.7. Other	46	0.20	5.29
V. Science	5.1. Academies of sciences	7	0.03	4.19
	5.2. Earth & applied science institutions	104	0.45	62.28
	5.3. Fundamental science institutions	56	0.24	33.53
VI. Public associ-	6.1. Public associations	79	0.34	50.96

ations, unions	6.2. Political parties, unions	38	0.16	24.52
	6.3. Trade unions	38	0.16	24.52
VII. Finances	7.1. Banking	122	0.52	71.34
	7.2. Monetary agencies	24	0.10	14.04
	7.3. Other	25	0.11	14.62
VIII. Culture & sport	8.1. Theatres	65	0.28	10.16
	8.2. Music halls	53	0.23	8.28
	8.3. Museums & art galleries	125	0.53	19.52
	8.4. Cinemas & video clubs	49	0.21	7.66
	8.5. Studios	33	0.14	5.16
	8.6. Clubs	26	0.11	4.06
	8.7. Recreation entities	29	0.12	4.53
	8.8. Libraries	97	0.41	15.16
	8.9. Sport entities	131	0.56	20.47
	8.10. Other	32	0.14	5.00
IX. Mass media	9.1. Journals & magazines	157	0.67	65.14
	9.2. TV studios	24	0.10	9.96
	9.3. Radio studios	11	0.05	4.56
	9.4. Information agencies	34	0.14	14.12
	9.5. Other	15	0.06	6.22
X. Industry	10.1. Mining & mineral exploration	65	0.23	6.00
	10.2. Metallurgy	3	0.01	0.28
	10.3. Machinery & metal processing	223	0.95	20.57
	10.4. Mineral processing	97	0.41	8.95
	10.5. Chemical industry	71	0.30	6.55
	10.6. Petrochemical industry	15	0.06	1.38
	10.7. Light industry	120	0.51	11.07
	10.8. Polygraphs & printing	254	1.08	23.43
	10.9. Furniture production	28	0.12	2.58
	10.10. Jewellery	12	0.05	1.11
	10.11. Recycling	8	0.03	0.74
	10.12. Energy production	106	0.45	9.78
	10.13. Gas & vapour processing	45	0.19	4.15
	10.14. Electronic industry	19	0.08	1.75
	10.15. Other	18	0.08	1.66
XI. Agriculture,	11.1. Industrial agriculture	52	0.22	7.51

forestry,	11.2. Forestry	35	0.15	5.06
fishing, food	11.3. Fishing	45	0.19	6.50
production	11.4. Wood production	33	0.14	4.77
	11.5. Food production	350	1.49	50.48
	11.6. Wine production	95	0.40	13.73
	11.7. Beer production	12	0.05	1.73
	11.8. Mineral water & soft beverage production	29	0.12	4.19
	11.9. Tobacco processing	6	0.02	0.87
	11.10. Other	35	0.15	5.06
XII. Construction	12.1. Civil construction	152	0.65	57.14
	12.2. Autoroad construction	12	0.05	4.51
	12.3. Hydrocomplex construction	6	0.02	2.25
	12.4. Other specialised construction	67	0.28	25.19
	12.5. Assembling	12	0.05	4.51
	12.6. Technical supply	17	0.07	6.40
XIII. Transport	13.1. Railway entities	9	0.04	0.66
	13.2. Railway stations & depots	875	3.73	63.87
	13.3. Autotransport entities	105	0.45	7.66
	13.4. Taxi companies	107	0.46	7.81
	13.5. Bus companies	78	0.33	5.60
	13.6. Minibus companies	68	0.29	4.96
	13.7. Maritime transport companies	24	0.10	1.76
	13.8. Universal transport companies	26	0.11	1.92
	13.9. Airway companies	27	0.11	1.98
	13.10. Auxiliary business	19	0.08	1.41
	13.11. Other	32	0.14	2.36
XIV. Infrastruc-	14.1. Telecommunication entities	135	0.57	17.74
ture, com-	14.2. Post offices	279	1.19	36.66
munication	14.3. Water supply & treatment entities	25	0.11	3.28
	14.4. Water monitoring entities	5	0.02	0.66
	14.5. Autoroad maintaining entities	35	0.15	4.60
	14.6. Geophysical network	49	0.21	6.44
	14.7. Electric power distribution companies	35	0.15	4.60
	14.8. Auxiliary entities, warehouses	175	0.75	23.00

	14.9. Other	23	0.10	3.02
XV. Trade & Commerce	15.1. Wholesales trade	125	0.53	2.30
	15.2. Vehicles sales companies	84	0.36	1.54
	15.3. Non-specialised retailer trade	134	0.57	2.46
	15.4. Food products retailer trade	1,725	7.35	31.73
	15.5. Chemical product sales	128	0.54	2.35
	15.6. Pharmacies	1,640	6.99	30.18
	15.7. Gallantry sales	115	0.49	2.12
	15.8. Clothes sales	452	1.92	8.31
	15.9. Shoes & leather sales	118	0.50	2.17
	15.10. Furniture & home equipment sales	48	0.20	0.88
	15.11. Electronic equipment sales	155	0.66	2.85
	15.12. Book & newspaper sales	149	0.63	2.74
	15.13. Supermarkets	216	0.92	3.98
	15.4. Other	347	1.48	6.38
XVI. Services	16.1. Hotels	180	0.77	3.34
	16.2. Restaurants	494	2.10	9.17
	16.3. Cafés	624	2.66	11.58
	16.4. Bars	498	2.12	9.24
	16.5. Small nourishment entities	1,115	4.75	20.77
	16.6. Repair of vehicles	215	0.92	3.99
	16.7. Repair of edifices	121	0.52	2.24
	16.8. Repair of home equipment	123	0.52	2.28
	16.9. Repair of microelectronics	89	0.38	1.65
	16.10. Other repair	74	0.32	1.37
	16.11. Tourist & travel agencies	95	0.40	1.76
	16.12. Insurance companies	37	0.16	0.68
	16.13. Real estate agencies	152	0.65	2.82
	16.14. IT groups	54	0.23	1.00
	16.15. Internet providers	16	0.07	0.30
	16.16. Software providers	38	0.16	0.70
	16.17. Legal advice	114	0.48	2.12
	16.18. Notary agencies	275	1.17	5.10
	16.19. Patent agencies	20	0.08	0.37
	16.20. Marketing agencies	21	0.09	0.39

	16.21. Consulting groups	34	0.14	0.63
	16.22. Architecture & design	73	0.31	1.35
	16.23. Technical maintaining	84	0.36	1.56
	16.24. Social services	76	0.32	1.41
	16.25. Living services	77	0.32	1.43
	16.26. Gasoline stations	555	2.36	10.30
	16.27. Other	125	0.53	2.33

Source: Techninform Data Base on Business Georgia; NHDR-1999; SDS