

Social Protection and Social Inclusion in Georgia

Executive Summary

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Executive Summary

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

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

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

Macroeconomic overview

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

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

The August war of 2008 and the global financial crisis certainly impacted the economic and social development rates of Georgia. With the support of the international community, the government of Georgia overcame the critical phase of the global financial crisis relatively smoothly. Volume of assistance decreases

in 2011 and the government faces the necessity to take significant steps. For maintaining the speed of economic growth reached in 2010, it is necessary to reduce the state budget deficit and tax pressure; to carry out a strict monetary policy against the high inflation rate reported in 2010. The government also needs to do more to support local entrepreneurs.

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

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

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

Labor market

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

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

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

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

A new labor code adopted in 2006 overturned complicated regulations and led to a dramatic liberalization of the labor market to comply with International Labor Organization standards. Restrictions on the duration of

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

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

Education

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

In Georgia, enrolment rates for secondary school students are relatively high, but are showing signs of decline, particularly among rural and minority youth and youth from poor families. Secondary school enrolment rates decreased from 77 percent in 1993 to 71 percent in 2007, while the rate for upper secondary

education declined sharply to 54 percent. Differences in enrolment rates do not differ much between richer and poorer between ages 7 and 15. At age 18, enrolment rates among children in the richest quintile are more than twice as high as those for children in the poorest quintile. Attainment rates among minorities (particularly Azeri) are substantially lower than among native Georgians.

Migration and remittances

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

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

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

Demographic trends

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

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

Social assistance

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

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

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

As has been mentioned, Georgia's social assistance policy is mainly intended to avert the shock which is caused by extreme poverty. Taking into consideration that poverty level calculated in relation to the subsistence minimum does not reveal the poorest strata of the society (because of methodological drawbacks), the experts have considered that 2.5USD per day threshold accurately represents the poorest quintile of the population. Poverty level in relation to 2.5USD per day threshold has been decreased in 2007-09, that allows social policy experts to assess social assistance programme as properly targeted in order to alleviate extreme poverty. However, the effect of such assistance is not adequately assessed and evaluated. Therefore the efficacy of this aid is limited - it remains hard for some beneficiary families to escape poverty and also many families remain without any assistance. To overcome these obstacles requires an improvement in the methodology used to reach out vulnerable people, as well as to increase benefits and provide a needs based payments.

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

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

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

Some large-scale programmes address the needs of some other vulnerable groups: there are programmes dealing with prevention of child abandonment, deinstitutionalization of children in orphanages, establishment of day-care centres, psychological consultations for single mothers, supplying rehabilitative and supportive equipment to disabled people, providing them with rehabilitation programs etc. To be more specific: by implementing the deinstitutionalization program, the number of children at institutions has been reduced about 10 times. Most children got back to their biological families, or public funds are allocated for them to

be raised at foster families. Rules for assigning the PWD status were changed, and now it is assigned by the civil medical institutions. Assistance to able-bodied PWDs has been relinquished.

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

Poverty and Social Exclusion

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

Most of the methodologies used for measuring poverty indicators in Georgia reflect the decrease of poverty level by approximately 3-4 percent during the last 5-6 years. In 2009 poverty level measured by various methodologies (including the indicator of the material deprivation) is altering between 13-23 percent. The poverty indicators calculated in relation to the official subsistence minimum are difficult to reconcile with the poverty data calculated by means of the other methodologies. (These other methodologies are relative poverty indicators in relation to 40 and 60 percent of the median consumption, absolute poverty indicator in relation to 2.5 USD per day threshold, poverty level calculated on the basis of LSMS, etc.). The poverty level in relation to the official subsistence minimum was 41.4 percent in 2005. The poverty level was increasing in 2007 by 5 percent, similarly decreasing and reaching 41.2 percent in 2009. The inexplicable dynamic of the poverty level in relation to the subsistence minimum, unjustified high level of poverty and the methodological shortcomings of calculating family expenses and subsistence minimum constrain most of experts not to take these data into consideration and indicate to the poverty alleviation in Georgia over last years.

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

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

status between citizens and loss of access to basic services that a large number of poor people in the population cannot afford.

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

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

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

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

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

Pensions

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

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

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

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

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

Health and Long term care

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

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

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

In four years since the launch of the new system its coverage increased from the initial 1-2% to about 30% of the population. Unlike with education funding, where vouchers are distributed universally, the healthcare vouchers have been provided mostly to the poor part of the population, but the middle and well-off also benefited. Share of private insurance sharply increased during the same period. There is a big competition among the companies in the segment of private corporate insurance.

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

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