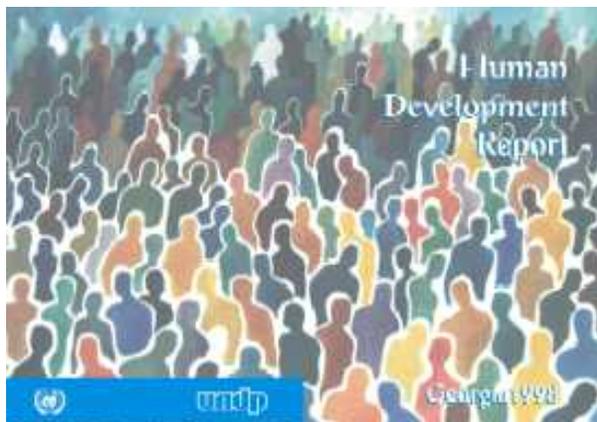


# National Human Development Report Georgia, 1998



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*by Mr. Marco Borsotti*

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*by Mr. Oliver Weeks*

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# *Foreword*

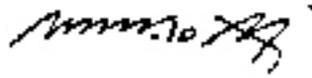
Seven years have now passed since Georgia gained independence, and having overcome the difficult first years of civil turmoil and hardship, Georgia is now engaged in building an open, democratic and free society. It is natural that, undertaking fundamental changes in all spheres of social and political life simultaneously with an economic transformation from a centralised to a free market economy, the country encounters associated hardships and problems. It is not easy to overcome the legacy of the totalitarian past, just as it is not easy to act in the complicated geopolitical environment of Georgia. But it is also obvious that Georgia is not going to change its commitment to democratic principles whatever the difficulties, and this gives a lot of ground for optimism

Indeed, we already can see clear signs of economic revival and national consolidation, the necessary prerequisites to building a society of which we can be proud. The social fabric today is much more healthy and stable than it was just a few years ago. The economy is growing and becoming more balanced, notwithstanding emerging financial crises in neighbouring regions and an unfavourable geo-economical environment. The population is no longer in as disastrous a situation as it was just recently, and most families have learned how to cope with their economic difficulties. Finally, we can see some progress in educational reform, and with assistance from the international community there are better prospects for the future.

However it would be too naive to look at the present situation through rosy spectacles. There still are numerous unsolved problems, and serious concerns such as the impoverishment of the citizens and the endangered territorial integrity of the state. In addressing the issues confronting Georgia today, the importance of the human component and social cohesion must not be forgotten. I welcome the fact that this report includes a section on education. We are very concerned about the slow pace of reform in education, with the erosion of scientific research, and more and more talent leaving Georgia for good. If we are unable to address these dangerous trends soon, it may be too late - the future of the country and that of its children is at risk

I am also pleased to note that the Report stresses the issues of civil society and human rights. In 1998 we celebrated the 50<sup>th</sup> anniversary of the adoption of the Universal Declaration of Human Rights, one of the most important international documents in history. The intention of the country to build a democratic society, one that gives the highest priority to the rights and dignity of every individual human being, is genuine and sincere, and the will is strong. At the same time we are well aware of numerous problems and human rights violations in Georgia - it is a difficult task to establish the rule of law and change the mentality of the bureaucracy, law enforcers, and the population at large, overnight. But I am sure that we are moving in the right direction, and the recent abolition of capital punishment in Georgia is one more example of that.

I am optimistic, and I wish success to all readers of this book, which discusses openly and sincerely the problems and the mistakes, but also the achievements and the intentions of Georgia. I wish success especially to the young readers of this book who, I hope will make a decisive contribution in forming the future of their country. Facing the greatest challenges in its history, Georgian nation is fully capable of coping with them.

A handwritten signature in black ink, appearing to read 'Marco Borsotti', is centered at the top of the page.

**Marco Borsotti**  
**UN Resident Coordinator,**  
**UNDP Resident Representative**

## *Acknowledgements:*

This report was written between October and December 1998 and reflects the situation at the end of 1998. A number of people contributed text, background pieces, and information: Marina Muskhelishvili on interest groups, Gaga Nizharadze on social psychology, Elena Imedashvili on the media, Dato Darchiashvili on political parties, Giga Bokeria and Levan Ramishvili on human rights, Nino Nanava on conflicts, Gocha Gogsadze on ethnic minorities, Alexander Imedashvili on education, Dato Melua on local government, Tamar Berekashvili on ideology. Valuable work by Gia Tarkhan Mouravi and Asmus Rotne has also been used. Nino Nanava and Irina Loria provided a great deal of help with translation and with finding information. The report was written and edited by Oliver Weeks.

The State Department for Statistics, in particular Revaz Tsakhadze, Nodar Kabanadze, Zurab Sajaia and Nana Aslamazishvili, as ever provided invaluable help and expertise. Data in this report relies heavily on the results of the SDS household survey.

Many others also helped generously with opinions, information and data, including: Nino Pirtskhalava at UNICEF; Merab Pachulia and Lance Allen at GORBI; Nodar and Nato Sarjveladze at the Foundation for the Development of Human Resources; Thea Khitarishvili at Hagler Bailly; Sima Kanaan at UNDP; Gogi Loladze at Georgian Investment Associates; Kevin Cain at the EBRD; Mikho Abramishvili, Andrew Barnard, Irakli Tsereteli and Vera Schneider at Georgian Economic Trends; Kate Whyte and Leonora Lowe at the EU delegation; Olivier Bereche at Tacis Coordinating Unit; Dennis Sammut at Caucasus Links; the National Centre for Population Research; Marian Staszewski at UNOMIG; Lia Melikishvili at the Institute of Ethnography; David Khubua at the World Bank; Giorgi Margvelashvili at the National Democratic Institute; Giorgi Topuria at the Institute for Journalism in Transition; Levan Berdzenishvili at Civic Development International Centre.

Reports and data published by the Ministries of Finance, Economy, and Labour, the National Bank of Georgia, the Social Research Centre, the journal Transitions, Norwegian Refugee Council, USAID, CIPDD, UNICEF, UNOCHA, UNDP, the IMF and the World Bank, were all used, as was the very valuable web site [www.donors.caucasus.net](http://www.donors.caucasus.net)

The text was formatted and printed by Gia Shervashidze at Nekeru printers.

This report will also be available in Georgian and on the internet at the UNDP Georgia site, [www.undp.org.ge](http://www.undp.org.ge)

Data for Georgia excludes Abkhazia and south Ossetia unless otherwise stated.

The report is intended to encourage discussion about policy in Georgia rather than provide definitive solutions. Opinions expressed are those of the editor and contributors, not official UNDP views.

Oliver Weeks

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## Chapter1

Human  
Development and  
Society**HUMAN DEVELOPMENT AND SOCIETY**

*'Give your evidence' said the King, 'and don't be nervous, or I'll have you executed on the spot.'*  
Alice in Wonderland

*A poem uttered with surfeit of words lacks grace and excellence*  
Shota Rustaveli (trans. Urushadze)

**1.1 General**[Civil Society](#)[Migration and Inter-Ethnic](#)[Relations](#)[Ethnic Conflicts](#)**1.1. General**

Georgia is still recovering from one of the worst collapses suffered by any post-communist country. The past year has seen both progress and setbacks. Order has been largely re-established, and democracy and a free press appear to be taking root. Local elections in November were a crucial advance, and the arrival of new ministers in government reshuffles has increased the optimism of reformers. At the same time the uprising in Senaki in October and November's Constitutional Court decision reversing judicial reform have underlined the fragility of political achievements. Economic successes have also started to look precarious. Latent entrepreneurial talent has been released and there is much wider availability of goods, an increasing number of them Georgian. However the great majority of the population still has a standard of living far worse than at the end of the communist period. The end of the year has seen a sharp loss of confidence in the currency, caused partly by infection from the Russian financial crisis and partly by very weak tax collection. A lack of accountability in public spending has led to widespread non-payment of state wages and pensions. Very little has been done about rampant corruption. Inequality remains conspicuous. While casinos are opening in the centre of Tbilisi, most of the population is living below the official poverty line and standards of education and health care have fallen dramatically. Despite such economic hardship, nearly half the population still sees the unresolved conflict in Abkhazia as Georgia's most pressing problem. Here the fighting in Gali in May has reduced hopes of an early settlement and increased the number of internally displaced people. 73% of household survey respondents in September described their situation as bad or very bad.

Although some of the optimism and consensus of the early stages of reform has been lost, 45% of the population still said in September that they believed that, on the whole, the country was going in the right direction. Very few regret the passing of the Soviet Union. Yet many now complain that coherent aims and reasonable discussion about reform are still lacking. Over the past few centuries Georgia has become accustomed to instability, and to the fate of the country being decided by outside powers. Before the Soviet period there was little tradition of training for government service. Reform programmes such as there were depended on the whims of tsars, and the distribution of government posts depended on patronage and loyalty rather than talent. Georgian bureaucratic culture is almost entirely Soviet. Unlike in the Baltic states there was no conscious attempt to prepare civil servants for independence before it happened. Now hyperinflation and near anarchy have left people particularly unaccustomed to making long term plans for investment and development. A resumption of economic growth has been natural as the imprisonment of bandits has allowed other people to venture out of their houses and most have had to realise that they can no longer rely on the state for support. Sustaining growth and converting it into improved living standards will be more difficult.

It is now widely recognised that there is more to reform and development than increasing gross domestic product (GDP). Most countries now have a broader set of aims, including democracy, equity and sustainability. The 1997 UNDP Human Development Report argued that policy makers 'can be mesmerised by the quantity of growth. They need to be concerned with its structure and quality.' In short, the world should be suspicious of the sort of economic growth that makes a few people rich and the rest poorer, does not create employment and, moreover, wastes irreplaceable natural resources. It is increasingly accepted that improvements in education or health are not just means to an end of increased output, but are ends in themselves. Growth by itself does not ensure that the fruits will be equably shared. The costs of economic insecurity, both to individuals and society, are better understood. The environment is less taken for granted and it is less easy to justify deforestation or poisoning the Black Sea in order to increase GDP. Democratic development and responsiveness to people's wishes are important for their own sake.

Human development is an attempt to provide a concept of progress and development that takes into account such priorities. It is defined as a process of enlarging people's choices. The three essential factors in this are people's desire to lead long and healthy lives, to be knowledgeable and to have access to the resources needed for a decent standard of living. If these basic capabilities are not achieved, many choices are simply not available and many opportunities remain inaccessible. The Human Development Index (HDI) is based on these three dimensions and is designed to improve on GDP in presenting a simple measure of a population's well-being.

**Calculation of the Human Development Index (HDI):**

The HDI is based on three indicators:

**longevity**, as measured by life expectancy at birth

**educational attainment**, as measured by a combination of adult literacy (two thirds weight) and the combined primary, secondary and higher gross enrolment ratio (one third weight)

**wealth** as measured by real GDP per capita in purchasing power parity dollars (i.e. adjusted to take account of different prices in different countries).

Since these indicators are all measured in different units, they are made comparable by being related to the best and worst performances in the world. For each component, x, international maximum and minimum values are calculated and an index is produced according to the general formula:

$$\text{Index} = (\text{Actual } x \text{ value} - \text{minimum } x \text{ value}) / (\text{Maximum } x \text{ value} - \text{minimum } x \text{ value})$$

For the income index values above a world average of PPP\$ 5,990 are discounted to take account of the fact that extra income is less useful to the rich than it is to the poor. Atkinson's formula for the utility of income is used, where y is actual PPP income and y\* is the threshold, \$5,990:

$$Y = y^* \text{ for } 0 < y < y^*$$

$$Y = y^* + 2[(y - y^*)^{1/2}] \text{ for } y^* < y < 2y^*$$

$$Y = y^* + 2(y^{*1/2}) + 3[(y - 2y^*)^{1/3}] \text{ for } 2y^* < y < 3y^*$$

and so on for GDPs greater than 3y\*

The HDI index is then calculated as a simple average of the life expectancy, education and income indices.

Georgia currently ranks 108th out of 174 countries with an HDI score of 0.633. This is a slight fall on its previous ranking of 105. However inevitable statistical delays mean that calculations for all countries are based on data for 1995. They thus do not reflect Georgia's recent improvements in national income. Serious and continuing problems with data in Georgia and other poor countries also mean that such rankings are fairly approximate. What is clear is that Georgia's HDI has fallen sharply since independence. In 1994, with data from 1991 and 1992, Georgia had an HDI of 0.747, ranking 66th in the world. It is also striking that Georgia's HDI ranking is now 33 places above its GDP ranking. Georgia's health and education achievements are on a par with far richer countries. For a country that has suffered a sudden fall in income this is not entirely surprising, as health and education indicators will decline more slowly. However continuing impoverishment, or growth that favours only the rich, will soon show through in health and education performance. The point of the HDI is that health and education will have to be watched as closely as GDP in gauging the success of transition.

#### Human Development Index rankings - top 120 countries

1	Canada	31	Chile	61	Mauritius	91	Paraguay
2	France	32	Bahamas	62	Brazil	92	<b>Latvia</b>
3	Norway	33	Portugal	63	Belize	93	<b>Kazakhstan</b>

4	USA	34	Costa Rica	64	Libya	94	Western Samoa
5	Iceland	35	Brunei	65	Surinam	95	Maldives
6	Finland	36	Argentina	66	Lebanon	96	Indonesia
7	Netherlands	37	<b>Slovenia</b>	67	<b>Bulgaria</b>	97	Botswana
8	Japan	38	Uruguay	68	<b>Belarus</b>	98	Philippines
9	New Zealand	39	<b>Czech Rep</b>	69	Turkey	99	<b>Armenia</b>
10	Sweden	40	Trinidad	70	Saudi Arabia	100	Guyana
11	Spain	41	Dominica	71	Oman	101	<b>Mongolia</b>
12	Belgium	42	<b>Slovakia</b>	72	<b>Russia</b>	102	<b>Ukraine</b>
13	Austria	43	Bahrain	73	Ecuador	103	<b>Turkmenistan</b>
14	United Kingdom	44	Fiji	74	<b>Romania</b>	104	<b>Uzbekistan</b>
15	Australia	45	Panama	75	Korea, Dem Rep of	105	<b>Albania</b>
16	Switzerland	46	Venezuela	76	<b>Croatia</b>	106	China
17	Ireland	47	<b>Hungary</b>	77	<b>Estonia</b>	107	Namibia
18	Denmark	48	UAE	78	Iran	108	<b>GEORGIA</b>
19	Germany	49	Mexico	79	<b>Lithuania</b>	109	<b>Kyrgyzstan</b>
20	Greece	50	St. Kitts	80	<b>Macedonia</b>	110	<b>Azerbaijan</b>
21	Italy	51	Grenada	81	Syria	111	Guatemala
22	Israel	52	<b>Poland</b>	82	Algeria	112	Egypt
23	Cyprus	53	Colombia	83	Tunisia	113	<b>Moldova</b>
24	Barbados	54	Kuwait	84	Jamaica	114	El Salvador
25	Hong Kong	55	St. Vincent	85	Cuba	115	Swaziland
26	Luxembourg	56	Seychelles	86	Peru	116	Bolivia
27	Malta	57	Qatar	87	Jordan	117	Cape Verde
28	Singapore	58	St. Lucia	88	Dominican Rep	118	<b>Tajikistan</b>
29	Antigua	59	Thailand	89	South Africa	119	Honduras
30	Korea, Rep of	60	Malaysia	90	Sri Lanka	120	Gabon

The bases for comparison in the HDI are by no means perfect. In Georgia adult literacy is not a current problem, although it may recur. With education and health indicators still high, Georgia's HDI depends largely on its income. Among rich countries, with high literacy and income far above the point of diminishing returns, the HDI ranking becomes largely a measure of life expectancy. While the HDI does represent a very useful starting point for comparing achievements, it needs to be supplemented by other information. UNDP also compiles a Gender-related Development Index, which is the HDI adjusted downwards for gender inequality. Georgia's ranking here is two places higher than in the HDI, reflecting traditionally high Soviet standards of equality in education and health care. There is also a separate Human Poverty Index, but the state of Georgian statistics does not yet allow its use in Georgia. Another obvious omission from the HDI is any measure of political freedom. Life in Georgia is surely on average more pleasant than in North Korea or Algeria, despite their much higher HDI ranking. There have been many attempts by UNDP and others to construct indices of political freedom, and the main reason for their continuing omission from the HDI is strong opposition from some governments that would find it harder to explain away poor performance on this measure than on economic ones.

Many aspects of human development are harder to capture in an index. The originator of the human development paradigm, Mahbub ul Haq, distinguishes four essential components: equity, sustainability, productivity and empowerment. People need fair access to opportunities. The next generation should be able to enjoy the same well-being as the present one. Investment in people and a stable economic environment is needed to allow everyone to reach their potential. They should also enjoy self-respect, a sense of belonging to a community, and be able to participate in the activities and processes that shape their lives.

Often discussions of human development present false dichotomies. A focus on human development need not mean neglecting economic growth. Only if Georgia grows rapidly will it be able to provide its citizens with a decent standard of living. Improved living standards do ultimately depend on increased production of goods and services. Yet the provision of good education and health services, a reliable legal system and effective labour markets can all be important contributors to economic growth. Neglect of human capital in the present can lead to significant costs in the future. Failing to pay adequate attention to relieving poverty can be a false economy if the result is malnutrition, illness and crime. Some east Asian economies have demonstrated that rapid growth can be compatible with increased equality. Public investment in improved methods of financing and administering health care can hugely reduce public costs. Employment services can reduce the average duration of unemployment. Environmental protection can be economically sensible as well as an end in itself. Care of the environment can prevent the loss of productive land to soil erosion, reduce threats to public health, and contribute to potential eco-tourism. Addressing externalities by measures like pollution taxes forces producers to take environmental costs into account and ensures resources are sensibly used. All these measures can also promote a sense of the public good that is valuable in any society.

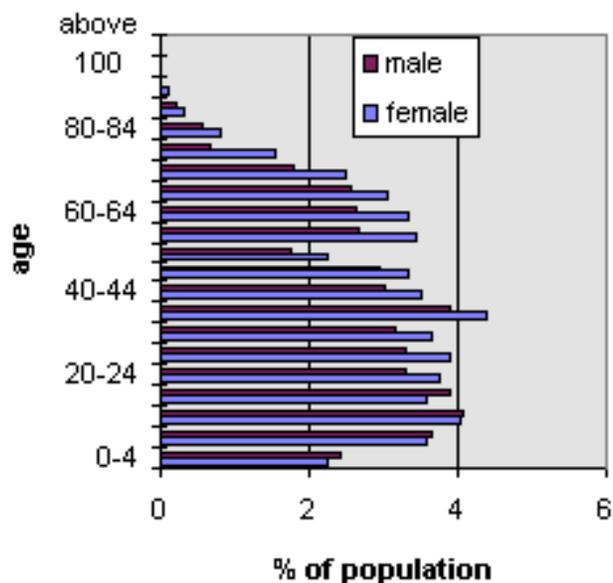
It is also no longer so widely believed that there is a trade-off between rapid growth and democracy. People living under totalitarian regimes like the USSR sacrificed both freedom and economic growth. Experience has shown that without a free press millions can suffer and even starve without public outrage mobilising efforts to help them. Above all successful human development depends on the national priorities chosen by a society or its rulers. A link between growth and human lives has to be created consciously through deliberate public policy, such as public spending on social services and fiscal policy to redistribute income and assets. It requires the removal of barriers to entry in economic and political spheres and the establishment of temporary social safety nets for those who may be bypassed by the markets or public policy actions.

The role of the state will certainly have to change. For fiscal reasons the state cannot afford to do most of what it used to, and few would want it to. Ideologically, the move to private markets implies the state being less a public provider than an enabler of private activity. Governments and markets are increasingly seen as complements rather than substitutes. Where there are imperfections of information or competition, both common in Georgia, well-designed government interventions can potentially improve living standards. The government may have to help create markets, and it has to provide the institutional infrastructure that markets need in order to work effectively. It has to be responsive to people's needs, and can be helped in this by decentralisation. Low-income countries that have directed their (modest) public spending to ensuring that the poor have access to public services have achieved relatively high health and education indicators. Schools and clinics that are locally managed seem to suffer less from absenteeism and waste. Elites interested in large projects and large subsidies for powerful interest groups have been the worst enemies of development. New and expensive cars driven by mayors and ministers represent not only a waste of money but an indication to taxpayers that the government has different priorities. Reform will fail for political as well as economic reasons if it is unable to improve earnings opportunities, provide better education and health care, and increase individual choice. In Georgia people have made many sacrifices and seen few results.

The past few years have been extraordinarily painful, but Georgian society has also proved itself to be resilient. A focus on small groups, usually family and friends, has traditionally been a characteristic of Georgian culture. Despite the collapse of government and effective anarchy between 1992 and 1994, the links and obligations embodied by such in-groups kept society from complete disintegration. While the level of crime has been high, frequent contract killings and the extraordinary nihilism and ruthlessness of some post-Soviet societies have not been a normal feature of Georgian life. The social support system of extended families has saved many from destitution and despair. However a corollary of this has been a low level of faith in political action and civil society. Adapting to a new economic and political system will take a long time yet.

The effects of recent hardship are immediately visible in recent demographic figures. It must be emphasised that the quality of data has worsened, but recent changes are large enough to be incontrovertible. The decline in recent births is comparable to that seen during the Second World War. The population is currently 53% female, although younger births are significantly more often male. Among older people there are far more women, largely because men are more likely to die from stress, violence and alcoholism.

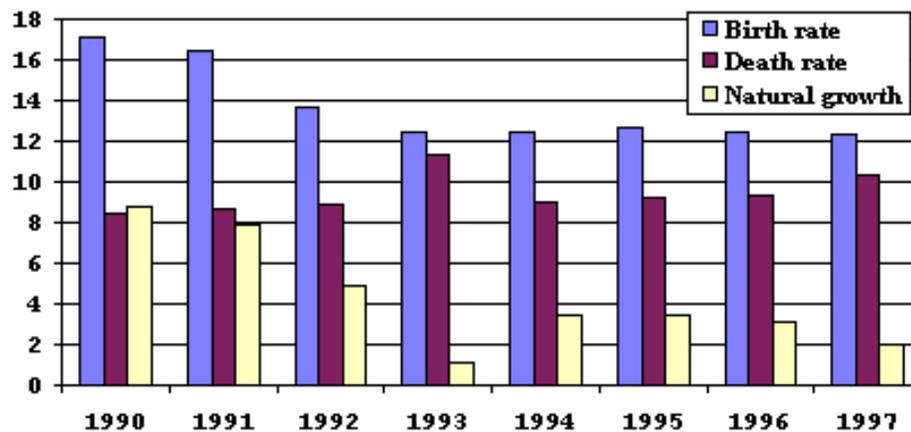
### Age and sex structure of the population, 1997



Source: Data from SDS Household survey

The birth rate seems to be stabilising at a low level. The death rate peaked sharply in 1993, perhaps the worst year of Georgia's transition. It is now climbing again, which may be due both to the long term effects of increased stress levels and worsening health-care, and to improving registration systems.

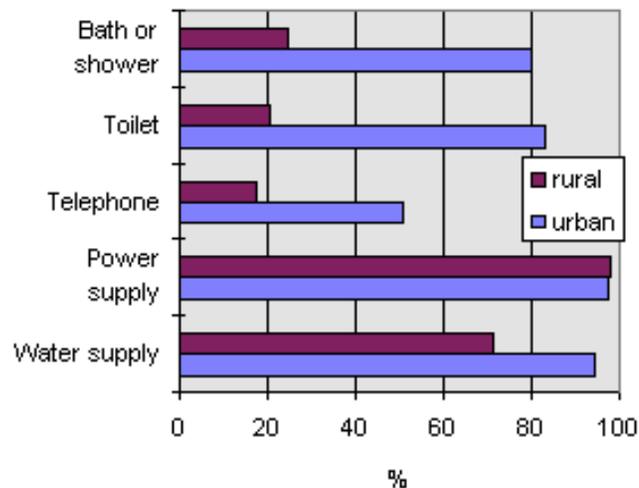
### Birth, death and natural population growth rates, per thousand population, 1990-7



Source: National Centre for Population Studies

Access to physical amenities is uneven and declining. Electrification was an achievement of which the Soviet Union was particularly proud, but in villages very few actually now have any electric power even if the infrastructure exists. In other amenities the difference between rural and urban areas is still striking. Relatively few households have telephones and lines that exist are mostly of poor quality. It is precisely such investment that is needed for economic development.

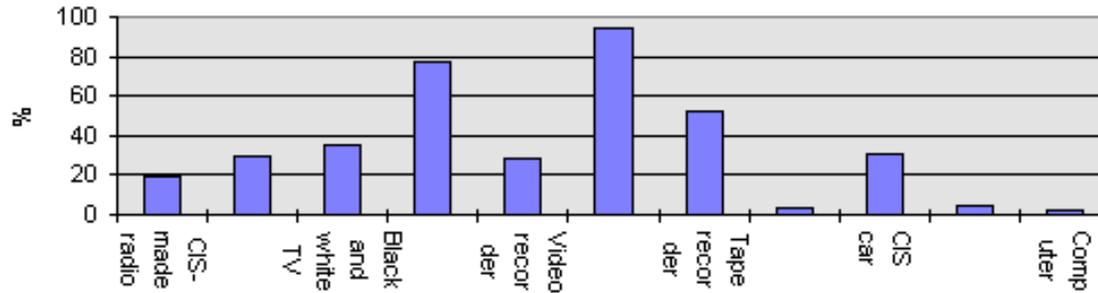
#### Households' access to basic amenities, 1997



Source: Data from SDS household survey

A positive aspect of transition has been greater access to consumer goods. It has been widely observed in post-communist countries that, despite increasing levels of poverty, household ownership of expensive items like fridges and video recorders has risen hugely. Car ownership has also risen fast from very low levels. However consumption is clearly very uneven and many of those with expensive assets are very poor in income terms.

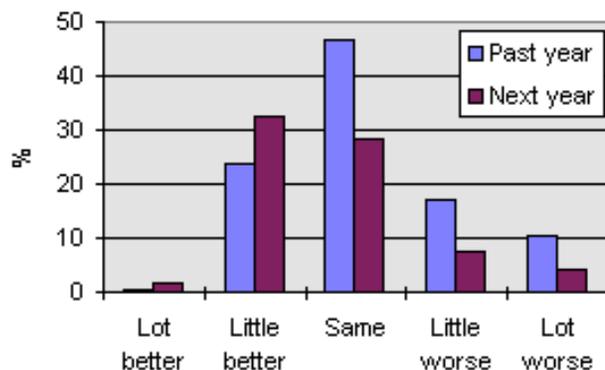
### Households' possession of selected consumer goods, July 1998



Source: Georgian Opinion Research Business International

Very few people have noticed any recent improvement in their living standards. In the survey detailed in the figure below just 24% of households said that their situation had improved slightly over the past year. The benefits of growth do not seem to be widely spread. Yet levels of optimism are surprisingly high. Other sociological research surveys conducted in 1995 and repeated in 1998 suggest that the overall level of fatalism has fallen significantly and that people's belief in their own power to change and decide things has risen significantly. Passivity and despair was a common response to the worst years of transition, and this appears to be dissipating. However again there are very wide differences between population groups. The same sociological study was conducted in Belarus, Hungary, Russia and Ukraine, among students, entrepreneurs, civil servants, manual workers and pensioners. Georgian manual workers proved to be the most pessimistic group of any studied, and the most apathetic and authoritarian-inclined. Georgian entrepreneurs and students, by contrast, were unusually optimistic. All these results do predate the autumn financial crisis, which looks likely to deal optimism another blow.

### Households assessment of how their living standard has changed in the past year and how it is likely to change in the next year, September 1998

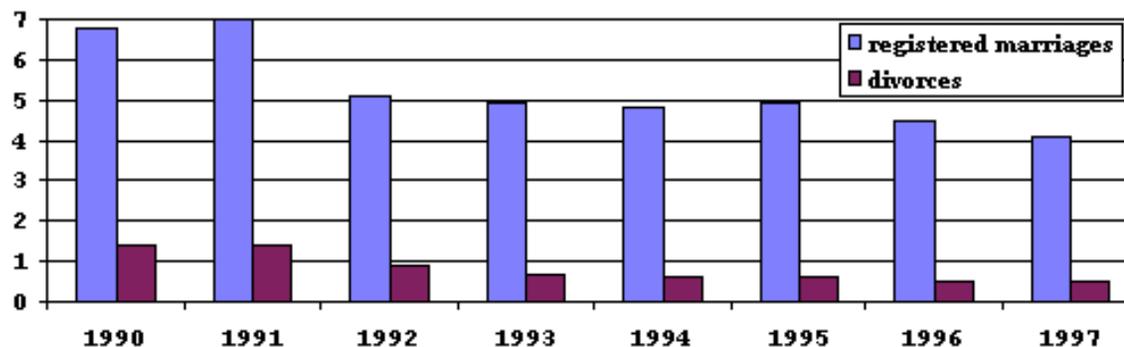


Source: US Embassy

Of the countries in the 1995 survey Georgia was the only one where female respondents exceed men in their optimism, belief in their own abilities and faith in public and political activism. While Georgian society is traditionally male-led it seems that women are typically more flexible and often take on the responsibility of stretching family income to meet essential needs at time of crisis. With less pride at stake it was often women who would maintain a family by selling goods on the street. In the 1998 survey it seems that men have caught up in their adjustment, and once again men's optimism exceeds that of women. However many men who have lost their jobs still do not spend much time on household work and bringing up children, leaving many aimless and losing respect from their children. It is also increasingly common for young people to find it easier to get work than their parents, who often feel their traditional roles undermined.

For many the family has become the only refuge from an otherwise insecure and stressful life where previously held values and certainties have disappeared. The number of divorces has fallen very sharply. Many have noted that divorces among internally displaced people (IDPs) seem to be particularly uncommon. The frequency of recorded marriages has declined as many feel they cannot take on the financial responsibility of a family, but an increasing number of church marriages may not be officially registered.

#### Registered marriages and divorces per thousand population, 1990-7



Source: National Centre for Population Studies

One symptom of social breakdown that has drawn much attention from society and the press is the appearance of street children, begging and often living on the streets. The Ministry of Internal Affairs had recorded over 2000 such children in Tbilisi by the summer of 1998. Many are orphans who have left government homes where conditions have become unbearable. Others leave or are sent out from poor families in search of food. A survey by the NGO Child and Environment found that a third of child beggars questioned were orphans and a quarter were giving their incomes to their families. The majority did not attend school and 40% complained of health problems. Those living around Tbilisi railway station were in particularly dangerous circumstances, sometimes being employed unloading railway carriages, and apparently sometimes in prostitution. Under pressure from public opinion the government has established a commission to find ways of improving conditions in orphanages and ensuring that such children attend school. Inevitably the main problem is a lack of financing. The most effective work has been done by a small number of local NGOs financed by international grants.

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### Civil society

A major obstacle to developing sensible social policy is that civil society remains undeveloped. Even the more democratic politicians operate in a small world of friends and cronies. Reform initiatives come from outside and above, and the government is rarely responsive to people's concerns. Consultation in law-making is still rare, as there are few formal interest groups, and political parties are rarely representative of voters. As a result many decisions are unpopular and unrealistic, making their enforcement difficult and providing fertile ground for corruption. If reform is to be successful it requires greater participation from the people it concerns.

In many ways Georgian society remains strong and cohesive. Under the Soviet system of vertical power relations, a network of horizontal relations focused on families, and colleagues in work or leisure. Although private and outside the legal sphere, such relationships played an effective role in transmitting ideas and information, maintaining trust and preserving traditional ethical norms. Social skills and hospitality are a Georgian speciality, and have been an important asset in foreign relations. The Georgian language is also a powerful uniting factor. Radical nationalism has been effectively discredited, but patriotism and a general belief in the importance of independence are major sources of strength. Economic success stories in countries like the Baltic states, Slovenia, south Korea and Taiwan have often been stimulated by the need to escape the orbit of a powerful and predatory neighbour. The government of Belarus is kindly demonstrating that a return to communist economics is not a viable option if independence is to be preserved. Although some are still inclined to blame Russia for everything bad that happens, Georgia is also generally open to foreign ideas and assistance. In the sociological survey of transition countries mentioned above Georgians are the people least inclined to blame the west for their troubles and to complain about the introduction of western culture.

*'Those societies which retain in changing circumstances a lively sense of their own identity and continuity, which are without hatred of their own experience which makes them desire to efface it, are to be counted fortunate, not because they possess what others lack but because they have already mobilised what none is without and all, in fact, rely on.'*

*Michael Oakshott*

Such social strength allowed Georgia to adapt easily to the Soviet system while retaining its language and many of its traditions. In many ways the USSR allowed considerable leeway to its constituent republics, with political cultures varying from almost feudal despotism in central Asia to a European style in the Baltic republics. After Stalin the authorities turned a blind eye to a certain amount of private enterprise and misuse of state funds, in return for political and ideological loyalty. In Georgia this was readily accepted and many look back on the period from the 1960s to the 1980s as one of the most prosperous periods in Georgian history. Internal stability and external security were guaranteed. Subsidies and state jobs were plentiful. Among locals and visitors Georgia had the reputation of the happiest Soviet republic. There was little tradition of dissidency, and what there was was based on nationalism more than democracy. One effect of this adaptation was that Georgia was entirely unprepared for independence.

The strength of traditional social links has also weakened formal and political ties. A low level of faith in public activity is a characteristic legacy of the USSR, where laws and politicians could hardly inspire respect and most public organisations were facades. But this is particularly so in Georgia, perhaps partly because power has for many centuries been held outside the country. Issues like security and finance were settled in Russia or Persia and political

careers depended on patronage and loyalty. People focused on small in-groups and considered that others should worry about public and national problems. The traditional sphere of concern and responsibility hardly applies to wider social groups like state or nation, and even less to abstract norms such as the law. Social norms and obligations have priority over official or legal ones - people would always be expected to give up work to travel to the funeral of a distant relative for example. In as far as people are interested in politics the interest is usually personalised and officials are seen very much as people from particular regions and with particular interests. Responsibility is limited in time as well as space. In an environment of war or arbitrary government there was little point in investing for the future. A culture of self-government will take time to reappear.

A new generation is increasingly prominent in politics but new and more formal civil relationships are developing only slowly. The extent of poverty is such that most people are still primarily concerned with finding enough money and food to satisfy their most basic and immediate needs. They are unable to invest labour or money, or to bear temporary losses to achieve long-term aims. Political activity is for many a luxury. The weakness of the tax system creates a vicious circle where people's unwillingness to pay for the state means it is unable to do anything useful to justify its demands for money. Previously high expectations of the government have dissipated fast. Most people understand that the official budget is nearly empty and have largely lost faith in the authorities' ability or desire to aid the population. The weakness of the legal system means that few feel their rights are protected, which lowers trust between citizens and hinders the development of collective activities. Many are also still very unsure of their place in society. Although many highly educated people have had to take on menial work, this may not yet reflect on the opportunities of their children. The need to engage in many and often temporary activities weakens people's sense of social groupings and their particular long-term interests. The continuing passivity of the population does not mean there is not considerable discontent.

People are having to work out new value systems and strategies with little help from politicians. The separation of ideology and the state have led more to bureaucratisation than to the competition of different political and strategic programmes that each citizen might evaluate according to his own priorities. There have been frequent calls for a 'national ideology' to replace the certainties of communism. Some would like to see this based on nationalism and Orthodoxy, while others regard this as dangerously exclusive and inflexible. So far such attempts to find a unifying aim have led only to rhetoric and improbable claims about a new Silk Road and pipelines.

The most active informal interest groups are now those of large business and the bureaucracy. The government is still dominated by members of the old nomenklatura, who inevitably have the most inclination for and experience of governing. Many continue to operate in much the same way as they always have, although now legal restrictions are if anything less effective. A lot of time is spent trying to increase their power to extract bribes. They represent a powerful interest group, whose income is in many cases extremely high. In many bureaucratic departments most employees receive a share of the proceeds of corruption and all thus become compromised. In the most corrupted, such as the tax and customs services, this is connected with clear breaches of the law. In others such as the parliamentary apparatus it may consist in turning a blind eye to extravagant spending on office refurbishment that the budget can ill afford.

Political and economic power in Georgia have long been close. The shadow economy in Soviet times depended on patronage, and many officials actively encouraged it as a source of bribes. While shadow activity may have nurtured entrepreneurialism it differed fundamentally from capitalism in that competition did not play a part. It also left businessmen accustomed to depending on the goodwill of the government, and with the idea that any law can be overcome with money. Now a senior government job offers such significant advantages in business, legal or illegal, that almost all large scale activity falls within the sphere of influence of a small number of officials. In the absence of significant raw material deposits, trade appears to offer the greatest rents and the most profitable lines, notably fuel and cigarettes, are controlled by groups with strong political connections. They can usually obtain privileged access to credit, investment, and licensing and can sometimes ensure government pressure on their competitors. Well-connected large businesses manage not to pay their full taxes and in return pay off parts of the government and bureaucracy. The government publicly blames large businesses for its inability to pay pensions and state wages, and usually responds by increasing the bureaucracy's power over business, which bureaucrats use to further enrich themselves. Advocates of greater public spending on health, education or social security are weak and disorganised by comparison.

Such a system may not be stable. There is some competition among government-protected businesses and economic battles are often carried out in the political arena. Some of the recent changes of ministers were widely seen as having less to do with their corruption per se than their reluctance to share the proceeds of corruption with more powerful figures. Most political developments are widely discussed in such terms. The behaviour of some threatens to reduce the authority and popular legitimacy of the whole government. Although frequent exposes in the press are encouraging, the lack of response or shame encourages cynicism from the public, many of whom say that they consider corruption to be the only significant difference between the current regime and the Soviet one. Democratic pressures are likely to become increasingly important as national elections approach. The authorities may risk losing future elections if their clients continue not to pay taxes and the government cannot raise social spending. However crackdowns on tax evasion and corruption are rarely taken seriously. Tax payment can be seen as a non-cooperative game, where although it may be in the interest of many businesses to

pay a little tax and ensure the survival of the current system, no single business is willing to be the first to pay.

Other previously influential groups are having trouble adapting to new ways. Leaders of old Soviet industry have attempted to become a lobbying force. Many of the managers of old Soviet factories argue that their weakness is due to unfair competition from imports and from small businesses in the shadow economy, who take advantage of corruption to avoid paying taxes and import duties. Some enterprise directors have attempted to fund their own political operations, but are hampered by the weakness of their enterprises. The Union of Industrialists of Georgia has proposed an alternative tax code, but the government continues to be closer to importers and also experiences pressure from the IMF. The latter argues for an open trading regime and is not surprisingly suspicious of allowing tax payers to write the tax code. Previously powerful intellectuals, including film and theatre directors, are also finding that a new financial climate has weakened their influence. Trade unions also mostly survive only by renting out their buildings. They face considerable mistrust as a result of their role in Soviet times, and attempts to organise demonstrations have met with little support.

New small businesses also remain disorganised and usually low profile. Engaging in business is still frequently seen as a matter of shame and entrepreneurs often identify themselves as teachers, engineers and so on who have had to take up business, perhaps only temporarily. Many say that their relatives are ashamed of what they do. An Orthodox tradition of disapproval of wealth is still influential. Money is to be spent on the needs of family and friends rather than to be invested. While some businessmen are inclined to co-operate with large industrialists in lobbying for lower taxes and less regulation, many prefer simply to opt out of the legal sector.

There have been some cases of public discontent with the bureaucracy turning into open protest. Non-payment of wages has driven teachers to staging strikes. In some cases political pressure has restrained some of the more shameless attempts to create bribing opportunities, including for example recent proposals to change all driving licences. In Tbilisi the most frequent protests have followed attempts to restrict informal trading. Traders are often refugees and include many highly qualified people, mostly operating just above subsistence level for 2 to 3 lari per day. When the owners of more permanent shops, municipal governments and police conspire to impose taxes and restrictions on this trading, mass demonstrations often follow as traders usually have no other means of surviving.

Recently there are also signs that democratic institutions are starting to develop. The non-governmental organisation (NGO) sector has expanded rapidly in the last few years, stimulated by the availability of funds from the Soros and Eurasia foundations. Highly educated people have accepted that their old research jobs will not return and are turning to other activity. Large numbers of people returning from education abroad have also had a strong effect. Over three thousand NGOs are currently registered, although many exist only formally and inevitably some are conventional businesses looking for tax privileges and foreign grants. Most represent the views of a relatively young, educated and liberal section of urban society. The largest have not more than a few hundred members. Yet, being independent from the government and less vulnerable to financial and political pressure, they are becoming influential. Members of the government who are keen to be seen as reformers have understood the importance of co-operation with the NGO sector. In 1998 a consultative council of NGOs was created within the State Chancellery. Funding organisations are also very keen to encourage NGOs outside Tbilisi. The gap between Tbilisi and the provinces is still large but in some areas, notably in Khashuri and Ozurgeti, the establishment of one NGO has led others to see the possibilities and start their own. The increasing quantity and quality of NGOs, and of media organisations, suggests that democracy is well entrenched.

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### **Migration and inter-ethnic relations**

Georgians have not traditionally been inclined to migration, internal or external. However the economic crisis has driven large numbers, usually the most dynamic and educated, to leave the country. Many are not complete emigrants in that they retain close links with Georgia and have plans to return. Emigration appears to have declined in the last couple of years as the economic and political situation has given some cause for hope. The table below includes official figures from the State Department for Statistics, which include only those registering as permanent emigrants, and much larger estimates of the real total, calculated by the National Centre for Population Studies.

**Official and expert estimates of immigration and emigration, 1990-1997**

	SDS estimates			National Centre for Population Studies estimates		
	Arrived	Left	Balance	Arrived	Left	Balance
<b>1990</b>	20.0	59.0	-39.0	30.0	60.0	-30.0
<b>1991</b>	16.6	60.6	-44.0	25.0	85.0	-60.0
<b>1992</b>	8.0	49.6	-41.6	70.0	280.0	-210.0
<b>1993</b>	12.6	42.9	-30.3	74.0	264.0	-190.0
<b>1994</b>	12.7	44.2	-31.5	79.0	277.0	-198.0
<b>1995</b>	3.7	23.9	-20.2	70.0	246.0	-176.0
<b>1996</b>	1.2	12.9	-11.7	57.0	200.0	-143.0
<b>1997</b>	0.4	0.9	-0.5	56.0	126.0	-70.0

Source: SDS and National Centre for Population Studies

Although members of ethnic minorities have numbered highly among émigrés, Georgia remains a very multi-ethnic society. Historically Georgia has frequently offered shelter to displaced groups. Some Georgian kings encouraged foreigners, particularly Armenians and Greeks, to settle in order to encourage commerce and economic development. Throughout the Caucasus there was considerable mixing of cultures. Loyalty was traditionally more to local dynasties or supranational religions than to ethnicity, and for example Armenians could serve Georgian kings as commander in chief or master of the king's estates. The trend in the Soviet period and after has been to greater homogenisation of republics and attempts to unify people around exclusive nationalist goals. It is becoming increasingly clear to most people that this has not been sufficient to legitimise government, and needs to be replaced by inclusive democracy and a prosperous economy.

The situation of ethnic minorities varies widely. Caucasian people tend to have migrated less, as they have more effective local networks, and less attractive options in their home countries. Armenians remain the largest minority in Georgia, although their number has clearly declined from the 277,000 (excluding in Abkhazia) registered in the 1989 census. Most Armenians living in Tbilisi are well integrated into Georgian political and cultural life. Those living in Javakheti in south Georgia tend not to speak Georgian and to retain closer contact with Armenia. Azeris, who form the majority of the population in the rural south-east, are similarly unintegrated. Yet separatist movements remain very weak. The Azeri population in particular is relatively well off, and governments of both countries have little interest in stirring up further ethnic strife.

Other minorities have left in much greater numbers. Mostly this has been for economic reasons, although some may have suffered discrimination in the months immediately after independence. The number of Russians and Ukrainians has fallen dramatically. Those that remain are frequently old and single, often with no-one to look after them and particularly reliant on humanitarian aid. There are also still some villages of Russian sectarians, Dukhobors and Molokans, in central and south Georgia. A Presidential decree was issued recently aiming at the improvement of social conditions in the Dukhobor community. The Greek minority has also been very severely affected. Large numbers of Greek-speaking Greeks, previously concentrated in central Georgia and Abkhazia, have left for Greece. Turkophone Greeks remain concentrated in the Tsalka region of south Georgia and appear to be both disproportionately poor and increasingly isolated by the reduction in the use of Russian language.

Other ethnic and religious minorities are also represented. About 80% of the Jewish community has emigrated, although anti-Semitism has been rare. By

contrast the Kurdish minority, mostly Yezidi by religion, appears to have been growing. Most of the population is Orthodox Christian but a wide range of other religions are freely observed. Armenians mostly follow the Armenian Apostolic form of Christianity. About 7% of the population, particularly Azeris, are Shia Muslims. About 4%, including Acharan Georgians, Tatars, Turks, and some North Caucasians are Sunni Muslims. New Christian minorities including Baptists and Jehovah's Witnesses have also developed quite freely since independence. Despite some calls to intolerance, religious freedom has been the norm.

#### Ethnic composition of Georgian society, 1997

	urban areas			rural areas			Total		
	'000 households	%	average size of household	'000 households	%	average size of household	'000 households	%	average size of household
Georgian	496.6	75.4	3.7	457.3	83.7	3.7	953.9	78.9	3.7
Azeri	3.6	0.6	3.2	34.1	6.2	4.7	37.8	3.1	4.6
Abkhaz	0.5	0.1	1	0.4	0.1	3.7	0.9	0.1	2.3
Greek	6.7	1	2.7	3.9	0.7	2.7	10.7	0.9	2.7
Ossetian	5.9	0.9	2.4	3.4	0.6	2.3	9.3	0.8	2.4
Russian	22	3.3	1.8	1	0.2	1.3	23	1.9	1.7
Armenian	46.3	7	3.6	16.2	3	3.9	62.5	5.2	3.7
Ukrainian	1.7	0.3	1.4	0	0	1.5	1.7	0.1	1.4
Other	12.5	1.9	3.2	1.6	0.3	2.4	14.2	1.2	3.1
Mixed	62.5	9.5	4	28.3	5.2	4.4	90.8	7.5	4.1
Not indicated	1.8	0.3	2.4	2	0.4	3.1	3.8	0.3	2.8
Total	658.5	100	3.55	546.3	100	3.62	1,208.50	100	3.6

Source: Data from SDS Household Survey

Some outstanding sources of ethnic tension, apart from the conflicts in Abkhazia and Ossetia, do remain. Many still accuse elements in the Russian government of trying to exploit ethnic differences in the Caucasus. Russian military bases are a source of political and economic influence, though economic turmoil in Russia may reduce this. Internal disagreements are now more prominent. Friction with Achara is not an ethnic issue but Acharan and other politicians have attempted, so far unsuccessfully, to use ethnic discontent as a basis for alliances with political clans in Javakheti. Opposition to the likely return of Meskhetian Muslims, deported by Stalin from the same area, has been used as one basis for agitation. There are currently about 300,000 Meskhetians in Russia, Azerbaijan and Central Asia. Some wish to return and Georgia's full membership of the Council of Europe has been linked to allowing them to do so. A repatriation programme was adopted in 1996 but for both political and financial reasons has had very few results so far. There are currently only about 200 Meskhetians in Georgia. Unlike other groups, they have yet to be formally legally rehabilitated.

On the whole ethnic harmony has improved beyond recognition since the early days of independence. The 1997 Law on Culture obliges local authorities

to promote equal cultural development for all regions and groups. Minority non-governmental organisations are also active. Despite financial constraints newspapers are published in Ossetian, Azeri, Armenian and Russian. Tbilisi has one Armenian and two Russian theatres. There are currently 133 Armenian, 155 Azeri, 88 Russian and 4 Ossetian secondary schools operating. Still a number of issues remain unresolved. According to the Constitution, Georgian is a state language, but a detailed law on language has yet to be adopted. The Law on Education attempts to increase the teaching of Georgian in minority-populated regions, while allowing the development of minority languages. Russian is still an effective means of communication, but the right to use minority languages in for example local government proceedings and contact with state authorities is undecided. The main obstacle to fully resolving all such questions is continuing indecision on the administrative-territorial structure of Georgia and the extent of the authority of local government. This in turn depends above all on progress in resolving the conflicts with Abkhazia and south Ossetia.

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### Ethnic conflicts

In south Ossetia there has been recent progress in establishing peace despite an absence of political agreement. On both sides radical nationalists have been replaced by more pragmatic ex or current communists and there has been regular high-level dialogue since 1997. Facing its own problems in Ingushetia, the North Ossetian government has also expressed its desire to find an agreement that would allow refugees to return home. Committees have been set up to prepare a political settlement on the basis of 'asymmetric federalism', and to supervise rehabilitation and the return of refugees and IDPs.

Although such committees have not reached concrete agreement, relations have been warm enough to allow some return of IDPs and some work on rehabilitation. Relatively few people have returned permanently but many former inhabitants now spend the summer in south Ossetia and the winter in Tbilisi or north Ossetia. Most say that the main obstacle to a permanent return is not security but economic conditions. War and neglect, combined with the effects of a large earthquake in 1991, have left very little in the way of working infrastructure. Most families who left have had their houses taken over. Opportunities for employment are minimal and the current authorities in Tskhinvali are not inclined to economic liberalisation. The war has destroyed extended families and left large numbers of old people with no means of support.

Humanitarian aid, notably from UNDP and UNHCR, has been supplied on an increasingly large scale. Work has started on the reconstruction of bridges, roads and telecommunication networks. Projects have been elaborated for the rehabilitation of the railway and of water supplies, and for rebuilding schools. Such programmes, with joint supervision, can do much to restore confidence. Although resentments remain, Georgians can cross freely in and out of the territory. Ossetians still live in most regions of Georgia and there is a very high rate of intermarriage. Full reconciliation will require legally defining the status of south Ossetia and of returnees, and there is much work to be done on rehabilitation, but the work already undertaken has greatly improved prospects.

In Abkhazia, by contrast, a lack of progress on the political front has held up all aspects of peace building. The past year has actually seen a worsening of the situation, with the expulsion of about 30,000 ethnic Georgians from the Gali area after a flare up of fighting. Ethnic suspicions and hatred remain much stronger, with many on both sides continuing to argue that peaceful reconciliation is impossible. The Abkhazian leadership insists on sovereignty in an equal federation and fears that the return of displaced people before a final agreement on legal status will undermine its position by leaving Abkhazians in a minority again. The Georgian leadership insists on the return of IDPs before the issue of Abkhazia's status can be defined.

Negotiations are largely limited to the question of Gali and are proceeding with great difficulty. A meeting between Shevardnadze and the Abkhaz President, Vladislav Ardzinba, was scheduled for November 1998 but postponed because substantial agreement seemed impossible. A recent Abkhaz proposal to allow the return of IDPs to Gali has been rejected by the Georgian side as having too many conditions attached. Both sides would like to appear to their electorates to be controlling the discussion.

In Tbilisi the 'Abkhaz government-in-exile' insists that force is the only way to return ethnic Georgians to Abkhazia. Guerrilla activities have been frequent and were instrumental in reigniting open fighting in May. In Sukhumi the economic blockade has helped to reinforce anti-Georgian feeling and a siege mentality. With living conditions worsening, the media and politicians spend a great deal of time re-running the glories of the war. Both sides accuse Russia of exacerbating tension for its own purposes. Certainly the peace-keeping force has failed to separate the opposing sides.

Meanwhile living standards for current and previous inhabitants continue to decline. The Abkhaz government is secretive about economic details but it is clear that up to a quarter of the population depends on humanitarian aid and official social safety nets are effectively non-existent. Conditions for the over 250,000 IDPs in Georgia are not a great deal better. Monthly cash benefits amount to less than \$10 per person. About 85% live in communal centres, usually a single room in a former hotel per family. A 1997 survey by the Norwegian Refugee Council found that 79% of IDP households reported lacking food and 51% said they lacked clothing. Two thirds of respondents were unemployed, and of those that had work, half were engaged in street trading. Health and education levels were both in decline. The incidence of stress-related disease seems to have risen particularly fast. Thirteen percent of IDP children did not attend school, usually because they had inadequate clothes and shoes. There appears to be little chance, as Abkhaz negotiators may hope, of IDPs becoming happily integrated into the rest of Georgian society.

International assistance on rehabilitation is greatly limited by the lack of trust on each side. Some of the most important work of outsiders is thus in helping confidence-building. There have been some achievements. In early 1998 telephone restrictions between Tbilisi and Sukhumi were eased. In October 1998 a bilateral meeting was held in Athens that represented the largest-scale contact between the two sides since the war. A widening of such contacts will be essential. The war was so brutal that each side fears acts of revenge from the other if the IDPs return. Disputes over occupied land and houses will be hard to avoid. Governments have been better at raising expectations and stirring up hostility than at encouraging a realistic debate on such issues.

## HUMAN DEVELOPMENT AND SOCIETY

*'Give your evidence' said the King, 'and don't be nervous, or I'll have you executed on the spot.'*

*Alice in Wonderland*

*A poem uttered with surfeit of words lacks grace and excellence*

*Shota Rustaveli (trans. Urushadze)*

### 1.1. General

Georgia is still recovering from one of the worst collapses suffered by any post-communist country. The past year has seen both progress and setbacks. Order has been largely re-established, and democracy and a free press appear to be taking root. Local elections in November were a crucial advance, and the arrival of new ministers in government reshuffles has increased the optimism of reformers. At the same time the uprising in Senaki in October and November's Constitutional Court decision reversing judicial reform have underlined the fragility of political achievements. Economic successes have also started to look precarious. Latent entrepreneurial talent has been released and there is much wider availability of goods, an increasing number of them Georgian. However the great majority of the population still has a standard of living far worse than at the end of the communist period. The end of the year has seen a sharp loss of confidence in the currency, caused partly by infection from the Russian financial crisis and partly by very weak tax collection. A lack of accountability in public spending has led to widespread non-payment of state wages and pensions. Very little has been done about rampant corruption. Inequality remains conspicuous. While casinos are opening in the centre of Tbilisi, most of the population is living below the official poverty line and standards of education and health care have fallen dramatically. Despite such economic hardship, nearly half the population still sees the unresolved conflict in Abkhazia as Georgia's most pressing problem. Here the fighting in Gali in May has reduced hopes of an early settlement and increased the number of internally displaced people. 73% of household survey respondents in September described their situation as bad or very bad.

Although some of the optimism and consensus of the early stages of reform has been lost, 45% of the population still said in September that they believed that, on the whole, the country was going in the right direction. Very few regret the passing of the Soviet Union. Yet many now complain that coherent aims and reasonable discussion about reform are still lacking. Over the past few centuries Georgia has become accustomed to instability, and to the fate of the country being decided by outside powers. Before the Soviet period there was little tradition of training for government service. Reform programmes such as there were depended on the whims of tsars, and the distribution of government posts depended on patronage and loyalty rather than talent. Georgian bureaucratic culture is almost entirely Soviet. Unlike in the Baltic states there was no conscious attempt to prepare civil servants for independence before it happened. Now hyperinflation and near anarchy have left people particularly unaccustomed to making long term plans for investment and development. A resumption of economic growth has been natural as the imprisonment of bandits has allowed other people to venture out of their houses and most have had to realise that they can no longer rely on the state for support. Sustaining growth and converting it into improved living standards will be more difficult.

It is now widely recognised that there is more to reform and development than increasing gross domestic product (GDP). Most countries now have a broader set of aims, including democracy, equity and sustainability. The 1997 UNDP Human Development Report argued that policy makers 'can be mesmerised by the quantity of growth. They need to be concerned with its structure and quality.' In short, the world should be suspicious of the sort of economic growth that makes a few people rich and the rest poorer, does not create employment and, moreover, wastes irreplaceable natural resources. It is increasingly accepted that improvements in education or health are not just means to an end of increased output, but are ends in themselves. Growth by itself does not ensure that the fruits will be equably shared. The costs of economic insecurity, both to individuals and society, are better understood. The environment is less taken for granted and it is less easy to justify deforestation or poisoning the Black Sea in order to increase GDP. Democratic development and responsiveness to people's wishes are important for their own sake.

Human development is an attempt to provide a concept of progress and development that takes into account such priorities. It is defined as a process of enlarging people's choices. The three essential factors in this are people's desire to lead long and healthy lives, to be knowledgeable and to have access to the resources needed for a decent standard of living. If these basic capabilities are not achieved, many choices are simply not available and many opportunities remain inaccessible. The Human Development Index (HDI) is based on these three dimensions and is designed to improve on GDP in presenting a simple measure of a population's well-being.

#### Calculation of the Human Development Index (HDI):

The HDI is based on three indicators:

**longevity**, as measured by life expectancy at birth

**educational attainment**, as measured by a combination of adult literacy (two thirds weight) and the combined primary, secondary and higher gross enrolment ratio (one third weight)

**wealth** as measured by real GDP per capita in purchasing power parity dollars (i.e. adjusted to take account of different prices in different countries).

Since these indicators are all measured in different units, they are made comparable by being related to the best and worst performances in the world. For each component, x, international maximum and minimum values are calculated and an index is produced according to the general formula:

$$\text{Index} = (\text{Actual } x \text{ value} - \text{minimum } x \text{ value}) / (\text{Maximum } x \text{ value} - \text{minimum } x \text{ value})$$

For the income index values above a world average of PPP\$ 5,990 are discounted to take account of the fact that extra income is less useful to the rich than it is to the poor. Atkinson's formula for the utility of income is used, where  $y$  is actual PPP income and  $y^*$  is the threshold, \$5,990:

$$Y = y^* \text{ for } 0 < y < y^*$$

$$Y = y^* + 2[(y - y^*)^{1/2}] \text{ for } y^* < y < 2y^*$$

$$Y = y^* + 2(y^*)^{1/2} + 3[(y - 2y^*)^{1/3}] \text{ for } 2y^* < y < 3y^*$$

and so on for GDPs greater than  $3y^*$

The HDI index is then calculated as a simple average of the life expectancy, education and income indices.

Georgia currently ranks 108th out of 174 countries with an HDI score of 0.633. This is a slight fall on its previous ranking of 105. However inevitable statistical delays mean that calculations for all countries are based on data for 1995. They thus do not reflect Georgia's recent improvements in national income. Serious and continuing problems with data in Georgia and other poor countries also mean that such rankings are fairly approximate. What is clear is that Georgia's HDI has fallen sharply since independence. In 1994, with data from 1991 and 1992, Georgia had an HDI of 0.747, ranking 66th in the world. It is also striking that Georgia's HDI ranking is now 33 places above its GDP ranking. Georgia's health and education achievements are on a par with far richer countries. For a country that has suffered a sudden fall in income this is not entirely surprising, as health and education indicators will decline more slowly. However continuing impoverishment, or growth that favours only the rich, will soon show through in health and education performance. The point of the HDI is that health and education will have to be watched as closely as GDP in gauging the success of transition.

#### Human Development Index rankings - top 120 countries

1	Canada	31	Chile	61	Mauritius	91	Paraguay
2	France	32	Bahamas	62	Brazil	92	<b>Latvia</b>
3	Norway	33	Portugal	63	Belize	93	<b>Kazakhstan</b>
4	USA	34	Costa Rica	64	Libya	94	Western Samoa
5	Iceland	35	Brunei	65	Surinam	95	Maldives
6	Finland	36	Argentina	66	Lebanon	96	Indonesia
7	Netherlands	37	<b>Slovenia</b>	67	<b>Bulgaria</b>	97	Botswana
8	Japan	38	Uruguay	68	<b>Belarus</b>	98	Philippines
9	New Zealand	39	<b>Czech Rep</b>	69	Turkey	99	<b>Armenia</b>
10	Sweden	40	Trinidad	70	Saudi Arabia	100	Guyana
11	Spain	41	Dominica	71	Oman	101	<b>Mongolia</b>
12	Belgium	42	<b>Slovakia</b>	72	<b>Russia</b>	102	<b>Ukraine</b>
13	Austria	43	Bahrain	73	Ecuador	103	<b>Turkmenistan</b>
14	United Kingdom	44	Fiji	74	<b>Romania</b>	104	<b>Uzbekistan</b>
15	Australia	45	Panama	75	Korea, Dem Rep of	105	<b>Albania</b>
16	Switzerland	46	Venezuela	76	<b>Croatia</b>	106	China
17	Ireland	47	<b>Hungary</b>	77	<b>Estonia</b>	107	Namibia
18	Denmark	48	UAE	78	Iran	108	<b>GEORGIA</b>
19	Germany	49	Mexico	79	<b>Lithuania</b>	109	<b>Kyrgyzstan</b>
20	Greece	50	St. Kitts	80	<b>Macedonia</b>	110	<b>Azerbaijan</b>

21	Italy	51	Grenada	81	Syria	111	Guatemala
22	Israel	52	<b>Poland</b>	82	Algeria	112	Egypt
23	Cyprus	53	Colombia	83	Tunisia	113	<b>Moldova</b>
24	Barbados	54	Kuwait	84	Jamaica	114	El Salvador
25	Hong Kong	55	St. Vincent	85	Cuba	115	Swaziland
26	Luxembourg	56	Seychelles	86	Peru	116	Bolivia
27	Malta	57	Qatar	87	Jordan	117	Cape Verde
28	Singapore	58	St. Lucia	88	Dominican Rep	118	<b>Tajikistan</b>
29	Antigua	59	Thailand	89	South Africa	119	Honduras
30	Korea, Rep of	60	Malaysia	90	Sri Lanka	120	Gabon

The bases for comparison in the HDI are by no means perfect. In Georgia adult literacy is not a current problem, although it may recur. With education and health indicators still high, Georgia's HDI depends largely on its income. Among rich countries, with high literacy and income far above the point of diminishing returns, the HDI ranking becomes largely a measure of life expectancy. While the HDI does represent a very useful starting point for comparing achievements, it needs to be supplemented by other information. UNDP also compiles a Gender-related Development Index, which is the HDI adjusted downwards for gender inequality. Georgia's ranking here is two places higher than in the HDI, reflecting traditionally high Soviet standards of equality in education and health care. There is also a separate Human Poverty Index, but the state of Georgian statistics does not yet allow its use in Georgia. Another obvious omission from the HDI is any measure of political freedom. Life in Georgia is surely on average more pleasant than in North Korea or Algeria, despite their much higher HDI ranking. There have been many attempts by UNDP and others to construct indices of political freedom, and the main reason for their continuing omission from the HDI is strong opposition from some governments that would find it harder to explain away poor performance on this measure than on economic ones.

Many aspects of human development are harder to capture in an index. The originator of the human development paradigm, Mahbub ul Haq, distinguishes four essential components: equity, sustainability, productivity and empowerment. People need fair access to opportunities. The next generation should be able to enjoy the same well-being as the present one. Investment in people and a stable economic environment is needed to allow everyone to reach their potential. They should also enjoy self-respect, a sense of belonging to a community, and be able to participate in the activities and processes that shape their lives.

Often discussions of human development present false dichotomies. A focus on human development need not mean neglecting economic growth. Only if Georgia grows rapidly will it be able to provide its citizens with a decent standard of living. Improved living standards do ultimately depend on increased production of goods and services. Yet the provision of good education and health services, a reliable legal system and effective labour markets can all be important contributors to economic growth. Neglect of human capital in the present can lead to significant costs in the future. Failing to pay adequate attention to relieving poverty can be a false economy if the result is malnutrition, illness and crime. Some east Asian economies have demonstrated that rapid growth can be compatible with increased equality. Public investment in improved methods of financing and administering health care can hugely reduce public costs. Employment services can reduce the average duration of unemployment. Environmental protection can be economically sensible as well as an end in itself. Care of the environment can prevent the loss of productive land to soil erosion, reduce threats to public health, and contribute to potential eco-tourism. Addressing externalities by measures like pollution taxes forces producers to take environmental costs into account and ensures resources are sensibly used. All these measures can also promote a sense of the public good that is valuable in any society.

It is also no longer so widely believed that there is a trade-off between rapid growth and democracy. People living under totalitarian regimes like the USSR sacrificed both freedom and economic growth. Experience has shown that without a free press millions can suffer and even starve without public outrage mobilising efforts to help them. Above all successful human development depends on the national priorities chosen by a society or its rulers. A link between growth and human lives has to be created consciously through deliberate public policy, such as public spending on social services and fiscal policy to redistribute income and assets. It requires the removal of barriers to entry in economic and political spheres and the establishment of temporary social safety nets for those who may be bypassed by the markets or public policy actions.

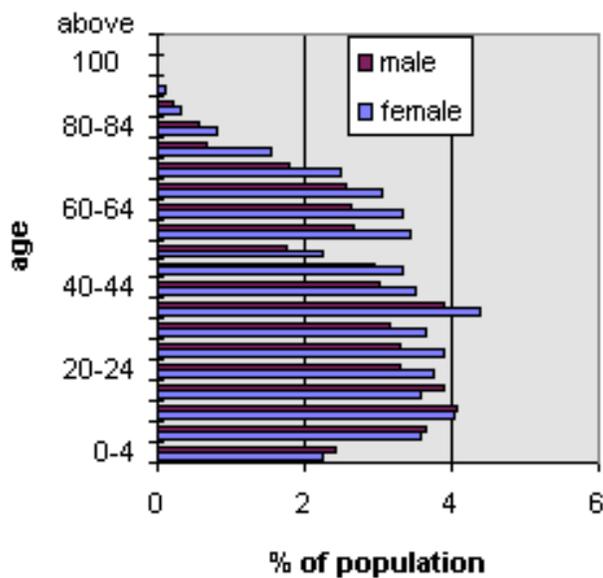
The role of the state will certainly have to change. For fiscal reasons the state cannot afford to do most of what it used to, and few would want it to. Ideologically, the move to private markets implies the state being less a public provider than an enabler of private activity. Governments and markets are increasingly seen as complements rather than substitutes. Where there are imperfections of information or competition, both common in Georgia, well-designed government interventions can potentially improve living standards. The government may have to help create markets, and it has to provide the institutional infrastructure that markets need in order to work effectively. It has to be responsive to people's needs, and can be helped in this by decentralisation. Low-income countries that have directed their (modest) public spending to ensuring that the poor have access to public services have achieved relatively high health and education indicators. Schools and clinics that are locally managed seem to suffer

less from absenteeism and waste. Elites interested in large projects and large subsidies for powerful interest groups have been the worst enemies of development. New and expensive cars driven by mayors and ministers represent not only a waste of money but an indication to taxpayers that the government has different priorities. Reform will fail for political as well as economic reasons if it is unable to improve earnings opportunities, provide better education and health care, and increase individual choice. In Georgia people have made many sacrifices and seen few results.

The past few years have been extraordinarily painful, but Georgian society has also proved itself to be resilient. A focus on small groups, usually family and friends, has traditionally been a characteristic of Georgian culture. Despite the collapse of government and effective anarchy between 1992 and 1994, the links and obligations embodied by such in-groups kept society from complete disintegration. While the level of crime has been high, frequent contract killings and the extraordinary nihilism and ruthlessness of some post-Soviet societies have not been a normal feature of Georgian life. The social support system of extended families has saved many from destitution and despair. However a corollary of this has been a low level of faith in political action and civil society. Adapting to a new economic and political system will take a long time yet.

The effects of recent hardship are immediately visible in recent demographic figures. It must be emphasised that the quality of data has worsened, but recent changes are large enough to be incontrovertible. The decline in recent births is comparable to that seen during the Second World War. The population is currently 53% female, although younger births are significantly more often male. Among older people there are far more women, largely because men are more likely to die from stress, violence and alcoholism.

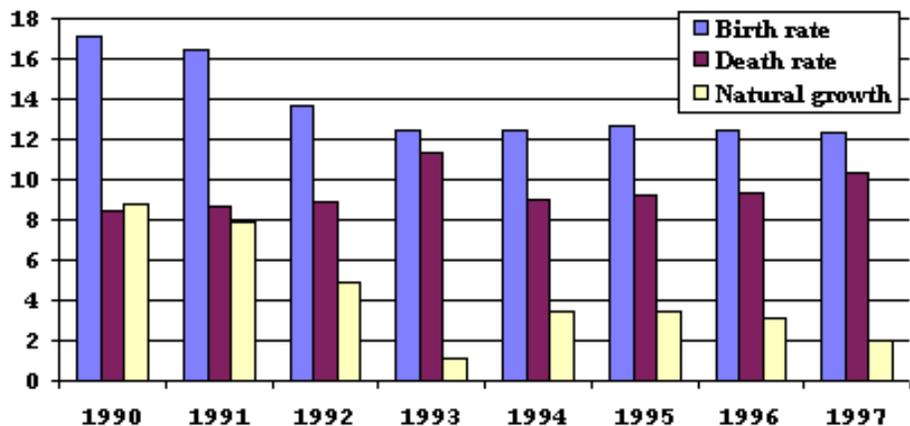
### Age and sex structure of the population, 1997



Source: Data from SDS Household survey

The birth rate seems to be stabilising at a low level. The death rate peaked sharply in 1993, perhaps the worst year of Georgia's transition. It is now climbing again, which may be due both to the long term effects of increased stress levels and worsening health-care, and to improving registration systems.

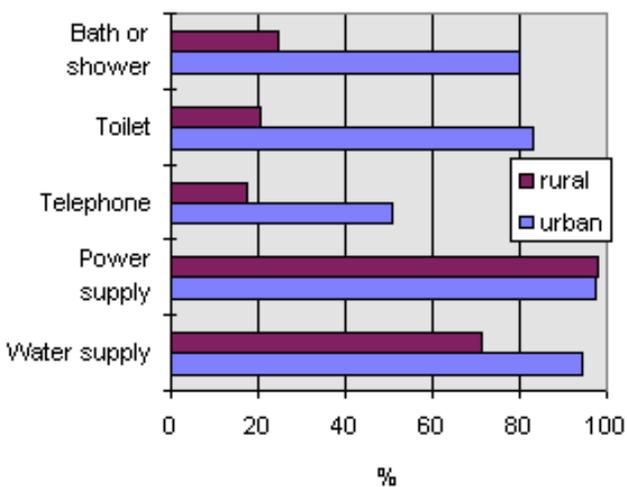
### Birth, death and natural population growth rates, per thousand population, 1990-7



Source: National Centre for Population Studies

Access to physical amenities is uneven and declining. Electrification was an achievement of which the Soviet Union was particularly proud, but in villages very few actually now have any electric power even if the infrastructure exists. In other amenities the difference between rural and urban areas is still striking. Relatively few households have telephones and lines that exist are mostly of poor quality. It is precisely such investment that is needed for economic development.

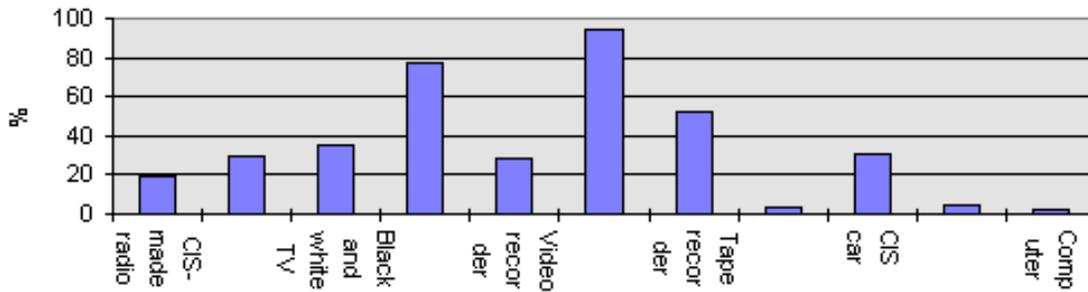
**Households' access to basic amenities, 1997**



Source: Data from SDS household survey

A positive aspect of transition has been greater access to consumer goods. It has been widely observed in post-communist countries that, despite increasing levels of poverty, household ownership of expensive items like fridges and video recorders has risen hugely. Car ownership has also risen fast from very low levels. However consumption is clearly very uneven and many of those with expensive assets are very poor in income terms.

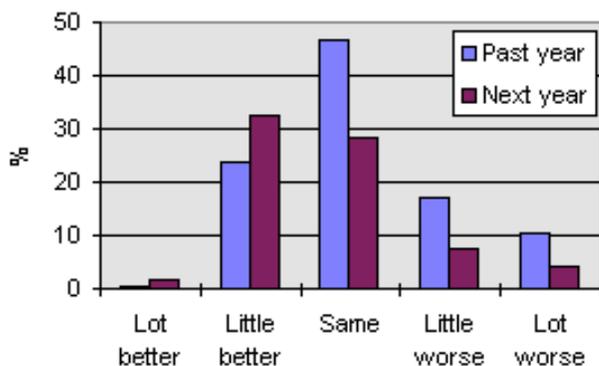
**Households' possession of selected consumer goods, July 1998**



Source: Georgian Opinion Research Business International

Very few people have noticed any recent improvement in their living standards. In the survey detailed in the figure below just 24% of households said that their situation had improved slightly over the past year. The benefits of growth do not seem to be widely spread. Yet levels of optimism are surprisingly high. Other sociological research surveys conducted in 1995 and repeated in 1998 suggest that the overall level of fatalism has fallen significantly and that people's belief in their own power to change and decide things has risen significantly. Passivity and despair was a common response to the worst years of transition, and this appears to be dissipating. However again there are very wide differences between population groups. The same sociological study was conducted in Belarus, Hungary, Russia and Ukraine, among students, entrepreneurs, civil servants, manual workers and pensioners. Georgian manual workers proved to be the most pessimistic group of any studied, and the most apathetic and authoritarian- inclined. Georgian entrepreneurs and students, by contrast, were unusually optimistic. All these results do predate the autumn financial crisis, which looks likely to deal optimism another blow.

**Households assessment of how their living standard has changed in the past year and how it is likely to change in the next year, September 1998**

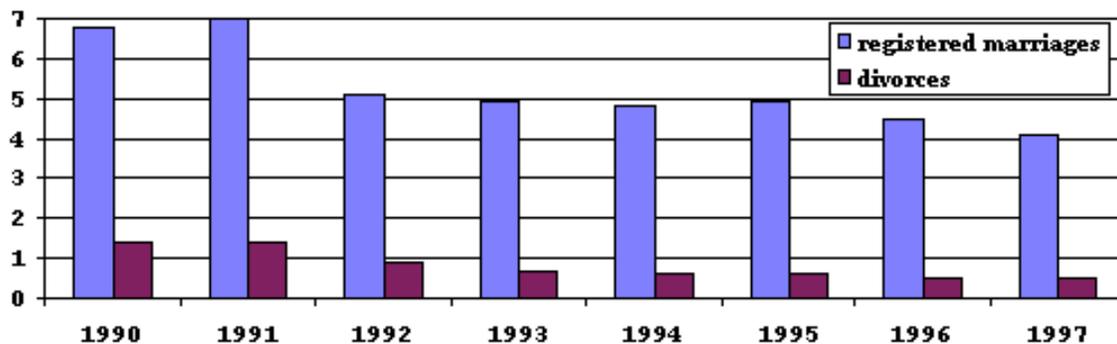


Source: US Embassy

Of the countries in the 1995 survey Georgia was the only one where female respondents exceed men in their optimism, belief in their own abilities and faith in public and political activism. While Georgian society is traditionally male-led it seems that women are typically more flexible and often take on the responsibility of stretching family income to meet essential needs at time of crisis. With less pride at stake it was often women who would maintain a family by selling goods on the street. In the 1998 survey it seems that men have caught up in their adjustment, and once again men's optimism exceeds that of women. However many men who have lost their jobs still do not spend much time on household work and bringing up children, leaving many aimless and losing respect from their children. It is also increasingly common for young people to find it easier to get work than their parents, who often feel their traditional roles undermined.

For many the family has become the only refuge from an otherwise insecure and stressful life where previously held values and certainties have disappeared. The number of divorces has fallen very sharply. Many have noted that divorces among internally displaced people (IDPs) seem to be particularly uncommon. The frequency of recorded marriages has declined as many feel they cannot take on the financial responsibility of a family, but an increasing number of church marriages may not be officially registered.

**Registered marriages and divorces per thousand population, 1990-7**



Source: National Centre for Population Studies

One symptom of social breakdown that has drawn much attention from society and the press is the appearance of street children, begging and often living on the streets. The Ministry of Internal Affairs had recorded over 2000 such children in Tbilisi by the summer of 1998. Many are orphans who have left government homes where conditions have become unbearable. Others leave or are sent out from poor families in search of food. A survey by the NGO Child and Environment found that a third of child beggars questioned were orphans and a quarter were giving their incomes to their families. The majority did not attend school and 40% complained of health problems. Those living around Tbilisi railway station were in particularly dangerous circumstances, sometimes being employed unloading railway carriages, and apparently sometimes in prostitution. Under pressure from public opinion the government has established a commission to find ways of improving conditions in orphanages and ensuring that such children attend school. Inevitably the main problem is a lack of financing. The most effective work has been done by a small number of local NGOs financed by international grants.

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## Civil society

A major obstacle to developing sensible social policy is that civil society remains undeveloped. Even the more democratic politicians operate in a small world of friends and cronies. Reform initiatives come from outside and above, and the government is rarely responsive to people's concerns. Consultation in law-making is still rare, as there are few formal interest groups, and political parties are rarely representative of voters. As a result many decisions are unpopular and unrealistic, making their enforcement difficult and providing fertile ground for corruption. If reform is to be successful it requires greater participation from the people it concerns.

In many ways Georgian society remains strong and cohesive. Under the Soviet system of vertical power relations, a network of horizontal relations focused on families, and colleagues in work or leisure. Although private and outside the legal sphere, such relationships played an effective role in transmitting ideas and information, maintaining trust and preserving traditional ethical norms. Social skills and hospitality are a Georgian speciality, and have been an important asset in foreign relations. The Georgian language is also a powerful uniting factor. Radical nationalism has been effectively discredited, but patriotism and a general belief in the importance of independence are major sources of strength. Economic success stories in countries like the Baltic states, Slovenia, south Korea and Taiwan have often been stimulated by the need to escape the orbit of a powerful and predatory neighbour. The government of Belarus is kindly demonstrating that a return to communist economics is not a viable option if independence is to be preserved. Although some are still inclined to blame Russia for everything bad that happens, Georgia is also generally open to foreign ideas and assistance. In the sociological survey of transition countries mentioned above Georgians are the people least inclined to blame the west for their troubles and to complain about the introduction of western culture.

*'Those societies which retain in changing circumstances a lively sense of their own identity and continuity, which are without hatred of their own experience which makes them desire to efface it, are to be counted fortunate, not because they possess what others lack but because they have already mobilised what none is without and all, in fact, rely on.'*

Michael Oakshott

Such social strength allowed Georgia to adapt easily to the Soviet system while retaining its language and many of its traditions. In many ways the USSR allowed considerable leeway to its constituent republics, with political cultures varying from almost feudal despotism in central Asia to a European style in the Baltic republics. After Stalin the authorities turned a blind eye to a certain amount of private enterprise and misuse of state funds, in return for political and ideological loyalty. In Georgia this was readily accepted and many look back on the period from the 1960s to the 1980s as one of the most prosperous periods in Georgian history. Internal stability and external security were guaranteed. Subsidies and state jobs were plentiful. Among locals and visitors Georgia had the reputation of the happiest Soviet republic. There was little tradition of dissidence, and what there was was based on nationalism more than democracy. One effect of this adaptation was that Georgia was entirely unprepared for independence.

The strength of traditional social links has also weakened formal and political ties. A low level of faith in public activity is a characteristic legacy of the USSR, where laws and politicians could hardly inspire respect and most public organisations were facades. But this is particularly so in

Georgia, perhaps partly because power has for many centuries been held outside the country. Issues like security and finance were settled in Russia or Persia and political careers depended on patronage and loyalty. People focused on small in-groups and considered that others should worry about public and national problems. The traditional sphere of concern and responsibility hardly applies to wider social groups like state or nation, and even less to abstract norms such as the law. Social norms and obligations have priority over official or legal ones - people would always be expected to give up work to travel to the funeral of a distant relative for example. In as far as people are interested in politics the interest is usually personalised and officials are seen very much as people from particular regions and with particular interests. Responsibility is limited in time as well as space. In an environment of war or arbitrary government there was little point in investing for the future. A culture of self-government will take time to reappear.

A new generation is increasingly prominent in politics but new and more formal civil relationships are developing only slowly. The extent of poverty is such that most people are still primarily concerned with finding enough money and food to satisfy their most basic and immediate needs. They are unable to invest labour or money, or to bear temporary losses to achieve long-term aims. Political activity is for many a luxury. The weakness of the tax system creates a vicious circle where people's unwillingness to pay for the state means it is unable to do anything useful to justify its demands for money. Previously high expectations of the government have dissipated fast. Most people understand that the official budget is nearly empty and have largely lost faith in the authorities' ability or desire to aid the population. The weakness of the legal system means that few feel their rights are protected, which lowers trust between citizens and hinders the development of collective activities. Many are also still very unsure of their place in society. Although many highly educated people have had to take on menial work, this may not yet reflect on the opportunities of their children. The need to engage in many and often temporary activities weakens people's sense of social groupings and their particular long-term interests. The continuing passivity of the population does not mean there is not considerable discontent.

People are having to work out new value systems and strategies with little help from politicians. The separation of ideology and the state have led more to bureaucratisation than to the competition of different political and strategic programmes that each citizen might evaluate according to his own priorities. There have been frequent calls for a 'national ideology' to replace the certainties of communism. Some would like to see this based on nationalism and Orthodoxy, while others regard this as dangerously exclusive and inflexible. So far such attempts to find a unifying aim have led only to rhetoric and improbable claims about a new Silk Road and pipelines.

The most active informal interest groups are now those of large business and the bureaucracy. The government is still dominated by members of the old nomenklatura, who inevitably have the most inclination for and experience of governing. Many continue to operate in much the same way as they always have, although now legal restrictions are if anything less effective. A lot of time is spent trying to increase their power to extract bribes. They represent a powerful interest group, whose income is in many cases extremely high. In many bureaucratic departments most employees receive a share of the proceeds of corruption and all thus become compromised. In the most corrupted, such as the tax and customs services, this is connected with clear breaches of the law. In others such as the parliamentary apparatus it may consist in turning a blind eye to extravagant spending on office refurbishment that the budget can ill afford.

Political and economic power in Georgia have long been close. The shadow economy in Soviet times depended on patronage, and many officials actively encouraged it as a source of bribes. While shadow activity may have nurtured entrepreneurialism it differed fundamentally from capitalism in that competition did not play a part. It also left businessmen accustomed to depending on the goodwill of the government, and with the idea that any law can be overcome with money. Now a senior government job offers such significant advantages in business, legal or illegal, that almost all large scale activity falls within the sphere of influence of a small number of officials. In the absence of significant raw material deposits, trade appears to offer the greatest rents and the most profitable lines, notably fuel and cigarettes, are controlled by groups with strong political connections. They can usually obtain privileged access to credit, investment, and licensing and can sometimes ensure government pressure on their competitors. Well-connected large businesses manage not to pay their full taxes and in return pay off parts of the government and bureaucracy. The government publicly blames large businesses for its inability to pay pensions and state wages, and usually responds by increasing the bureaucracy's power over business, which bureaucrats use to further enrich themselves. Advocates of greater public spending on health, education or social security are weak and disorganised by comparison.

Such a system may not be stable. There is some competition among government-protected businesses and economic battles are often carried out in the political arena. Some of the recent changes of ministers were widely seen as having less to do with their corruption per se than their reluctance to share the proceeds of corruption with more powerful figures. Most political developments are widely discussed in such terms. The behaviour of some threatens to reduce the authority and popular legitimacy of the whole government. Although frequent exposes in the press are encouraging, the lack of response or shame encourages cynicism from the public, many of whom say that they consider corruption to be the only significant difference between the current regime and the Soviet one. Democratic pressures are likely to become increasingly important as national elections approach. The authorities may risk losing future elections if their clients continue not to pay taxes and the government cannot raise social spending. However crackdowns on tax evasion and corruption are rarely taken seriously. Tax payment can be seen as a non-cooperative game, where although it may be in the interest of many businesses to pay a little tax and ensure the survival of the current system, no single business is willing to be the first to pay.

Other previously influential groups are having trouble adapting to new ways. Leaders of old Soviet industry have attempted to become a lobbying force. Many of the managers of old Soviet factories argue that their weakness is due to unfair competition from imports and from small businesses in the shadow economy, who take advantage of corruption to avoid paying taxes and import duties. Some enterprise directors have attempted to fund their own political operations, but are hampered by the weakness of their enterprises. The Union of Industrialists of Georgia has proposed an alternative tax code, but the government continues to be closer to importers and also experiences pressure from the IMF. The latter argues for an open trading regime and is not surprisingly suspicious of allowing tax payers to write the tax code. Previously powerful intellectuals, including film and theatre directors, are also finding that a new financial climate has weakened their influence. Trade unions also mostly survive only by renting out their buildings. They face considerable mistrust as a result of their role in Soviet times, and attempts to organise demonstrations have met with little support.

New small businesses also remain disorganised and usually low profile. Engaging in business is still frequently seen as a matter of shame and

entrepreneurs often identify themselves as teachers, engineers and so on who have had to take up business, perhaps only temporarily. Many say that their relatives are ashamed of what they do. An Orthodox tradition of disapproval of wealth is still influential. Money is to be spent on the needs of family and friends rather than to be invested. While some businessmen are inclined to co-operate with large industrialists in lobbying for lower taxes and less regulation, many prefer simply to opt out of the legal sector.

There have been some cases of public discontent with the bureaucracy turning into open protest. Non-payment of wages has driven teachers to staging strikes. In some cases political pressure has restrained some of the more shameless attempts to create bribing opportunities, including for example recent proposals to change all driving licences. In Tbilisi the most frequent protests have followed attempts to restrict informal trading. Traders are often refugees and include many highly qualified people, mostly operating just above subsistence level for 2 to 3 lari per day. When the owners of more permanent shops, municipal governments and police conspire to impose taxes and restrictions on this trading, mass demonstrations often follow as traders usually have no other means of surviving.

Recently there are also signs that democratic institutions are starting to develop. The non-governmental organisation (NGO) sector has expanded rapidly in the last few years, stimulated by the availability of funds from the Soros and Eurasia foundations. Highly educated people have accepted that their old research jobs will not return and are turning to other activity. Large numbers of people returning from education abroad have also had a strong effect. Over three thousand NGOs are currently registered, although many exist only formally and inevitably some are conventional businesses looking for tax privileges and foreign grants. Most represent the views of a relatively young, educated and liberal section of urban society. The largest have not more than a few hundred members. Yet, being independent from the government and less vulnerable to financial and political pressure, they are becoming influential. Members of the government who are keen to be seen as reformers have understood the importance of co-operation with the NGO sector. In 1998 a consultative council of NGOs was created within the State Chancellery. Funding organisations are also very keen to encourage NGOs outside Tbilisi. The gap between Tbilisi and the provinces is still large but in some areas, notably in Khashuri and Ozurgeti, the establishment of one NGO has led others to see the possibilities and start their own. The increasing quantity and quality of NGOs, and of media organisations, suggests that democracy is well entrenched.

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### Migration and inter-ethnic relations

Georgians have not traditionally been inclined to migration, internal or external. However the economic crisis has driven large numbers, usually the most dynamic and educated, to leave the country. Many are not complete emigrants in that they retain close links with Georgia and have plans to return. Emigration appears to have declined in the last couple of years as the economic and political situation has given some cause for hope. The table below includes official figures from the State Department for Statistics, which include only those registering as permanent emigrants, and much larger estimates of the real total, calculated by the National Centre for Population Studies.

#### Official and expert estimates of immigration and emigration, 1990-1997

	SDS estimates			National Centre for Population Studies estimates		
	Arrived	Left	Balance	Arrived	Left	Balance
<b>1990</b>	20.0	59.0	-39.0	30.0	60.0	-30.0
<b>1991</b>	16.6	60.6	-44.0	25.0	85.0	-60.0
<b>1992</b>	8.0	49.6	-41.6	70.0	280.0	-210.0
<b>1993</b>	12.6	42.9	-30.3	74.0	264.0	-190.0
<b>1994</b>	12.7	44.2	-31.5	79.0	277.0	-198.0
<b>1995</b>	3.7	23.9	-20.2	70.0	246.0	-176.0
<b>1996</b>	1.2	12.9	-11.7	57.0	200.0	-143.0
<b>1997</b>	0.4	0.9	-0.5	56.0	126.0	-70.0

Source: SDS and National Centre for Population Studies

Although members of ethnic minorities have numbered highly among émigrés, Georgia remains a very multi-ethnic society. Historically Georgia

has frequently offered shelter to displaced groups. Some Georgian kings encouraged foreigners, particularly Armenians and Greeks, to settle in order to encourage commerce and economic development. Throughout the Caucasus there was considerable mixing of cultures. Loyalty was traditionally more to local dynasties or supranational religions than to ethnicity, and for example Armenians could serve Georgian kings as commander in chief or master of the king's estates. The trend in the Soviet period and after has been to greater homogenisation of republics and attempts to unify people around exclusive nationalist goals. It is becoming increasingly clear to most people that this has not been sufficient to legitimise government, and needs to be replaced by inclusive democracy and a prosperous economy.

The situation of ethnic minorities varies widely. Caucasian people tend to have migrated less, as they have more effective local networks, and less attractive options in their home countries. Armenians remain the largest minority in Georgia, although their number has clearly declined from the 277,000 (excluding in Abkhazia) registered in the 1989 census. Most Armenians living in Tbilisi are well integrated into Georgian political and cultural life. Those living in Javakheti in south Georgia tend not to speak Georgian and to retain closer contact with Armenia. Azeris, who form the majority of the population in the rural south-east, are similarly unintegrated. Yet separatist movements remain very weak. The Azeri population in particular is relatively well off, and governments of both countries have little interest in stirring up further ethnic strife.

Other minorities have left in much greater numbers. Mostly this has been for economic reasons, although some may have suffered discrimination in the months immediately after independence. The number of Russians and Ukrainians has fallen dramatically. Those that remain are frequently old and single, often with no-one to look after them and particularly reliant on humanitarian aid. There are also still some villages of Russian sectarians, Dukhobors and Molokans, in central and south Georgia. A Presidential decree was issued recently aiming at the improvement of social conditions in the Dukhobor community. The Greek minority has also been very severely affected. Large numbers of Greek-speaking Greeks, previously concentrated in central Georgia and Abkhazia, have left for Greece. Turkophone Greeks remain concentrated in the Tsalka region of south Georgia and appear to be both disproportionately poor and increasingly isolated by the reduction in the use of Russian language.

Other ethnic and religious minorities are also represented. About 80% of the Jewish community has emigrated, although anti-Semitism has been rare. By contrast the Kurdish minority, mostly Yezidi by religion, appears to have been growing. Most of the population is Orthodox Christian but a wide range of other religions are freely observed. Armenians mostly follow the Armenian Apostolic form of Christianity. About 7% of the population, particularly Azeris, are Shia Muslims. About 4%, including Acharan Georgians, Tatars, Turks, and some North Caucasians are Sunni Muslims. New Christian minorities including Baptists and Jehovah's Witnesses have also developed quite freely since independence. Despite some calls to intolerance, religious freedom has been the norm.

#### Ethnic composition of Georgian society, 1997

	urban areas			rural areas			Total		
	'000 households	%	average size of household	'000 households	%	average size of household	'000 households	%	average size of household
Georgian	496.6	75.4	3.7	457.3	83.7	3.7	953.9	78.9	3.7
Azeri	3.6	0.6	3.2	34.1	6.2	4.7	37.8	3.1	4.6
Abkhaz	0.5	0.1	1	0.4	0.1	3.7	0.9	0.1	2.3
Greek	6.7	1	2.7	3.9	0.7	2.7	10.7	0.9	2.7
Ossetian	5.9	0.9	2.4	3.4	0.6	2.3	9.3	0.8	2.4
Russian	22	3.3	1.8	1	0.2	1.3	23	1.9	1.7
Armenian	46.3	7	3.6	16.2	3	3.9	62.5	5.2	3.7
Ukrainian	1.7	0.3	1.4	0	0	1.5	1.7	0.1	1.4
Other	12.5	1.9	3.2	1.6	0.3	2.4	14.2	1.2	3.1
Mixed	62.5	9.5	4	28.3	5.2	4.4	90.8	7.5	4.1
Not indicated	1.8	0.3	2.4	2	0.4	3.1	3.8	0.3	2.8
Total	658.5	100	3.55	546.3	100	3.62	1,208.50	100	3.6

Source: Data from SDS Household Survey

Some outstanding sources of ethnic tension, apart from the conflicts in Abkhazia and Ossetia, do remain. Many still accuse elements in the Russian government of trying to exploit ethnic differences in the Caucasus. Russian military bases are a source of political and economic influence, though economic turmoil in Russia may reduce this. Internal disagreements are now more prominent. Friction with Achara is not an ethnic issue but Acharan and other politicians have attempted, so far unsuccessfully, to use ethnic discontent as a basis for alliances with political clans in

Javakheti. Opposition to the likely return of Meskhetian Muslims, deported by Stalin from the same area, has been used as one basis for agitation. There are currently about 300,000 Meskhetians in Russia, Azerbaijan and Central Asia. Some wish to return and Georgia's full membership of the Council of Europe has been linked to allowing them to do so. A repatriation programme was adopted in 1996 but for both political and financial reasons has had very few results so far. There are currently only about 200 Meskhetians in Georgia. Unlike other groups, they have yet to be formally legally rehabilitated.

On the whole ethnic harmony has improved beyond recognition since the early days of independence. The 1997 Law on Culture obliges local authorities to promote equal cultural development for all regions and groups. Minority non-governmental organisations are also active. Despite financial constraints newspapers are published in Ossetian, Azeri, Armenian and Russian. Tbilisi has one Armenian and two Russian theatres. There are currently 133 Armenian, 155 Azeri, 88 Russian and 4 Ossetian secondary schools operating. Still a number of issues remain unresolved. According to the Constitution, Georgian is a state language, but a detailed law on language has yet to be adopted. The Law on Education attempts to increase the teaching of Georgian in minority-populated regions, while allowing the development of minority languages. Russian is still an effective means of communication, but the right to use minority languages in for example local government proceedings and contact with state authorities is undecided. The main obstacle to fully resolving all such questions is continuing indecision on the administrative-territorial structure of Georgia and the extent of the authority of local government. This in turn depends above all on progress in resolving the conflicts with Abkhazia and south Ossetia.

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### Ethnic conflicts

In south Ossetia there has been recent progress in establishing peace despite an absence of political agreement. On both sides radical nationalists have been replaced by more pragmatic ex or current communists and there has been regular high-level dialogue since 1997. Facing its own problems in Ingushetia, the North Ossetian government has also expressed its desire to find an agreement that would allow refugees to return home. Committees have been set up to prepare a political settlement on the basis of 'asymmetric federalism', and to supervise rehabilitation and the return of refugees and IDPs.

Although such committees have not reached concrete agreement, relations have been warm enough to allow some return of IDPs and some work on rehabilitation. Relatively few people have returned permanently but many former inhabitants now spend the summer in south Ossetia and the winter in Tbilisi or north Ossetia. Most say that the main obstacle to a permanent return is not security but economic conditions. War and neglect, combined with the effects of a large earthquake in 1991, have left very little in the way of working infrastructure. Most families who left have had their houses taken over. Opportunities for employment are minimal and the current authorities in Tskhinvali are not inclined to economic liberalisation. The war has destroyed extended families and left large numbers of old people with no means of support.

Humanitarian aid, notably from UNDP and UNHCR, has been supplied on an increasingly large scale. Work has started on the reconstruction of bridges, roads and telecommunication networks. Projects have been elaborated for the rehabilitation of the railway and of water supplies, and for rebuilding schools. Such programmes, with joint supervision, can do much to restore confidence. Although resentments remain, Georgians can cross freely in and out of the territory. Ossetians still live in most regions of Georgia and there is a very high rate of intermarriage. Full reconciliation will require legally defining the status of south Ossetia and of returnees, and there is much work to be done on rehabilitation, but the work already undertaken has greatly improved prospects.

In Abkhazia, by contrast, a lack of progress on the political front has held up all aspects of peace building. The past year has actually seen a worsening of the situation, with the expulsion of about 30,000 ethnic Georgians from the Gali area after a flare up of fighting. Ethnic suspicions and hatred remain much stronger, with many on both sides continuing to argue that peaceful reconciliation is impossible. The Abkhazian leadership insists on sovereignty in an equal federation and fears that the return of displaced people before a final agreement on legal status will undermine its position by leaving Abkhazians in a minority again. The Georgian leadership insists on the return of IDPs before the issue of Abkhazia's status can be defined.

Negotiations are largely limited to the question of Gali and are proceeding with great difficulty. A meeting between Shevardnadze and the Abkhaz President, Vladislav Ardzinba, was scheduled for November 1998 but postponed because substantial agreement seemed impossible. A recent Abkhaz proposal to allow the return of IDPs to Gali has been rejected by the Georgian side as having too many conditions attached. Both sides would like to appear to their electorates to be controlling the discussion.

In Tbilisi the 'Abkhaz government-in-exile' insists that force is the only way to return ethnic Georgians to Abkhazia. Guerrilla activities have been frequent and were instrumental in reigniting open fighting in May. In Sukhumi the economic blockade has helped to reinforce anti-Georgian feeling and a siege mentality. With living conditions worsening, the media and politicians spend a great deal of time re-running the glories of the war. Both sides accuse Russia of exacerbating tension for its own purposes. Certainly the peace-keeping force has failed to separate the opposing sides.

Meanwhile living standards for current and previous inhabitants continue to decline. The Abkhaz government is secretive about economic details but it is clear that up to a quarter of the population depends on humanitarian aid and official social safety nets are effectively non-existent. Conditions for the over 250,000 IDPs in Georgia are not a great deal better. Monthly cash benefits amount to less than \$10 per person. About 85% live in communal centres, usually a single room in a former hotel per family. A 1997 survey by the Norwegian Refugee Council found that 79% of IDP households reported lacking food and 51% said they lacked clothing. Two thirds of respondents were unemployed, and of those that had work, half were engaged in street trading. Health and education levels were both in decline. The incidence of stress-related disease seems to have risen

particularly fast. Thirteen percent of IDP children did not attend school, usually because they had inadequate clothes and shoes. There appears to be little chance, as Abkhaz negotiators may hope, of IDPs becoming happily integrated into the rest of Georgian society.

International assistance on rehabilitation is greatly limited by the lack of trust on each side. Some of the most important work of outsiders is thus in helping confidence-building. There have been some achievements. In early 1998 telephone restrictions between Tbilisi and Sukhumi were eased. In October 1998 a bilateral meeting was held in Athens that represented the largest-scale contact between the two sides since the war. A widening of such contacts will be essential. The war was so brutal that each side fears acts of revenge from the other if the IDPs return. Disputes over occupied land and houses will be hard to avoid. Governments have been better at raising expectations and stirring up hostility than at encouraging a realistic debate on such issues.

## Governance and Democracy

[2.1. General](#)[2.2. Governance](#)[2.3. Local Government](#)[Local Elections](#)[Local Environment](#)[2.4. Politics and Parties](#)[Social basis of political parties](#)[Party programmes](#)[Organisational Development](#)[2.5. Human Rights](#)[2.6. Press Freedom](#)[Regulation of the media](#)[Pressure on the Press](#)[Financial independence](#)[Local Media](#)

*A statesman is an easy man,  
He tells his lies by rote;  
A journalist makes up his lies  
And takes you by the throat;  
The Old Stone Cross, W. B. Yeats*

*For it is said that even in hell a bribe settles matters.  
Shota Rustaveli*

**2.1. General**

Georgia is well advanced on a process of democratisation and political institution building. The first few years of independence were characterised by concerns about civil turmoil, economic collapse and democratic reversal, but also by sweeping changes in external orientations, political institutions and economic structures. The transformations taking place now are likely to be more incremental and less dramatic, but no less difficult or crucial for the consolidation of stable, viable democracy.

It may be still too early to say that the process is irreversible, but given the inheritance, the achievements of the last few years are impressive. Democracy still has shallow roots in a country that moved from a semi-feudal kingdom to colonialism under the Russian Empire, with just three years' interval of independence, to an even more oppressive and totalitarian Soviet state. With its recent experience of war and anarchy it may be surprising that Georgia has emerged as stable and democratic as it is now. Most political institutions, including the government and leading political parties, explicitly acknowledge and support democratic values and rights. By the standards of the region democracy works well in practice. The local elections that took place at the end of 1998 were a particularly important development. The independent press continues to multiply and should do much to ensure that imperfections in democracy are scrutinised and to make the government more responsive to the population.

Nevertheless there is much to be done. Democracy remains a vaguely understood notion for many in power and for much of the population. Lip service is often paid to general liberal principles, while in practice pluralism of opinions is denigrated for the sake of economic expediency or national unity. Perpetrators of human rights violations, mostly concentrated in the state bureaucracy and law enforcement agencies, are only starting to learn, often with unhidden resentment, the restrictions that democracy may bring to their activities. The government remains remote from people's needs and in many areas highly corrupt. The majority of the population is still too concerned with daily economic survival to participate in the emergent civil society. There is no tradition of long-term thinking and investment in a country which has hardly ever been stable and independent at the same time. Government officials prefer to secure their futures by corruption rather than by building up a reputation if they are unsure about the regime that might follow. People living on the poverty line can hardly risk complaining. Newspapers that would like to print the truth are vulnerable to financial inducements from the very rich. Georgia is in danger of reaching an equilibrium where people expect nothing from the state and feel no obligation to contribute anything towards it. Very determined effort will be needed to break out of this situation and make government genuinely representative and accountable.

*Nothing is so important for economic development and the human condition as stable reliable, competent and honest government.*

*J.K. Galbraith, Human Development Report 1998*

The past year has seen several changes at the top of the government, and the arrival of some new ministers has raised the hopes of reformers. A second assassination attempt on the President in February 1998 and a number of terrorist acts, including the kidnapping of UN observers in February, have not seriously threatened political stability. The speed with which the October anti-government uprising in Senaki disintegrated was seen as reassuring by many. However this may be complacent. The political system still appears to work mainly by patronage. Political jobs are seen as a source of wealth and immunity from the law. In many regions resentment of central government is widespread. In Samegrelo in particular there is still extensive bitterness as a result of the civil war and the failings of government afterwards. Achara also remains a source of concern, with the local leadership keen to run its own political and economic system. In Tbilisi this is understandably dismissed as nepotistic, paternalist and corrupt. Yet many still see central government as little better.

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**2.1. Governance**

*Just as it is impossible not to taste the honey (or the poison) that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up at least a bit of the king's revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, so government servants employed in government work cannot be found out while taking money for themselves.  
Kautilya, Arthashastra, (India, fourth century BC)*

As the quotation above (from Pranhb Bardan 1997) suggests, corruption is by no means a new problem. Rustaveli (also above) was aware of the effectiveness of bribes. In Georgian society the main focus of responsibility has long been small social groups, and stealing from society at large to provide for one's own family or friends is often not a matter for shame. Georgia's history of subjection to foreign countries has also made stealing from the state often something to be proud of. Under the Soviet system Georgia was famous and widely admired for the amount of money it managed to divert from Moscow.

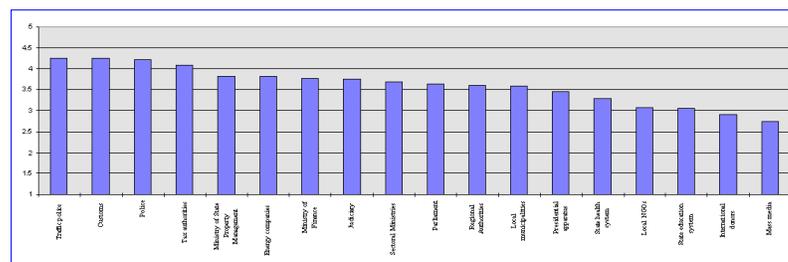
The rigidities of communism greatly exacerbated previous tendencies. The economic power of officials tempted them to use their positions for private gain, and forced customers and clients to make payoffs. The rules were not backed by an impartial legal system but by higher bureaucrats, who often had their own reasons for bending or changing the rules, and many of whom are still in power now. Subordinates could not appeal to the law as a reason for resisting the demands of

superiors. The system was not only rigid but arbitrary. Its requirements and irrationalities turned almost everyone into a law breaker. The widespread complicity of the population in corrupt transactions then became a method of social control. Since everyone was guilty of something it was always possible to develop a case against anyone who caused trouble. Corruption cases were more often used to punish dissidents or rivals than to improve the working of the bureaucracy.

Now the source of corrupt incentives has changed from the bottlenecks created by a rigid and intrusive state to the uncertainties of one that is weak and disorganised. Mentalities change slowly and the practice of registering very expensive cars with government number-plates suggests that for many corruption is still not something to be particularly ashamed of. Foreign aid and the privatisation process have provided new opportunities for windfall gains for the well connected. During the period of complete budgetary collapse officials were effectively told that they should get money for their institutions however they could, and if that meant taking some for themselves then a blind eye would be turned. Many state structures quickly became effectively commercialised. With the legal system still not functioning, businessmen who require certainty have to pay for it.

Reliable data on the extent of corruption are obviously unobtainable, but it is possible to measure the public's perception of the problem. USAID and the World Bank sponsored a survey on public attitudes in the summer of 1998. The public's ranking of organisations according to honesty may be affected by the frequency with which they come into contact with them. Organisations where corruption is a matter of stealing humanitarian aid or protecting large businessmen are likely to get off lightly in such an assessment. Still the rankings of businessmen and public officials are largely similar. All agree that the police and customs are the most corrupt institutions in the country.

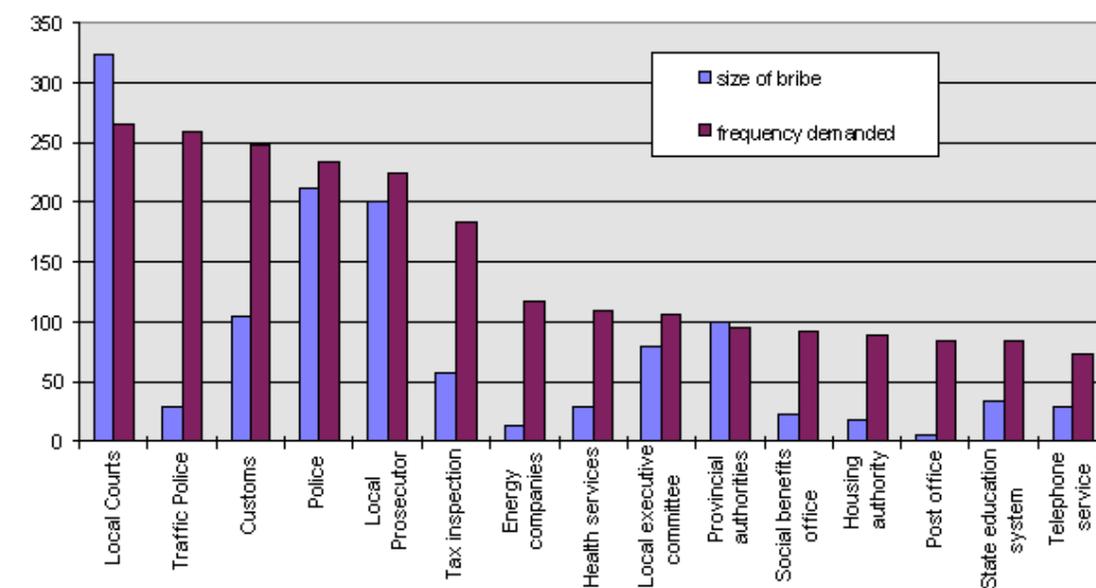
**Public perceptions of dishonesty according to USAID, World Bank survey, summer 1998**  
(scale of 1 to 5, where 5 is very dishonest)



Source: USAID, World Bank

Some are inclined to downplay the problem, pointing to corrupt countries that still grow fast, or suggesting that it is an inevitable part of the growing pains of capitalism. Recent events in Russia and east Asia should have done much to discredit this argument. Corruption is now clearly the greatest threat to business development in Georgia, and it is a major expense for most of the population. The public reported paying an average of 109 lari in bribes per household in the last year. Given the size of average incomes and the fact that in many rural areas government is largely non-existent, this is an extraordinary amount. In Russia corruption has largely undermined the whole transition process. In Georgia things have not yet gone so far. People are not yet demanding authoritarian solutions, but it is largely responsible for the current distorted distribution of income and wealth, and has been a major factor in the recent fiscal crisis.

**Frequency of payment demanded and average size of payment**  
(frequency, scale of 1-350, where 1=never and 350=always size of payment in lari)  
based on respondents who had contact in the last year



Source: USAID, World Bank

The challenge is to establish legitimate state organs operating under a rule of law without recreating the rigidities of the former state-controlled system. Clearly this is not easy and will take time. The obvious place to start is by eliminating the state programmes that exist simply to generate bribes. Many of the rules enforced by the traffic police fall into this category. Other programmes could be simplified to reduce official discretion. The opportunities for corruption are reduced

when the government uses transparent market-like mechanisms and auctions both for procurement and disposing government assets. Freedom of information is essential. Financial data should be independently audited and properly and clearly classified. Ministers should not have access to secret funds. Citizens need to be able to find out what the government is doing and to use this information to hold the government accountable.

Although many economists consider that low level corruption is economically more damaging, the fact that low level officials are often forced into corruption by low pay suggests that it would be more just and effective to start by going after the senior officials. Despite the impressive work of the Control Chamber there has still been no case of a senior official being tried for corruption. This is largely a question of political will. If, as happens now, ministers about whom the rumours become too embarrassing are simply allowed to leave with their ill-gotten gains, the lesson for successors and subordinates is that corruption is a very low risk game. If high officials start to fear the law and a few turn honest, then the risks for those proposing corrupt deals become much greater, as they can never be sure with whom they are dealing. The communist mentality of preferring corrupt subordinates, over whom one has an easy hold, needs to be overcome.

A crucial early measure is to address the quality of courts and public prosecutors. These are among the least respected institutions in Georgian society, not only for their dishonesty but also their incompetence. A new Law on the Courts, designed to enhance judicial independence, was passed in June 1997. Reform received a severe setback in October 1998 when the Constitutional Court rejected the principle of testing and reappointing judges, but popular and political opinion is such that this looks likely to be overcome. District courts are now subject to regional courts of appeal, whose geographical areas do not coincide with political regions in order to reduce the ability of political officials to exert pressure on them. Administration of the court system has been moved from the Ministry of Justice to a new Council of Justice with 12 members, 4 selected from within each branch of government. The irony is that while the independence of the judiciary is crucial in the long term, improvements in the short term require active interference by committed reformers.

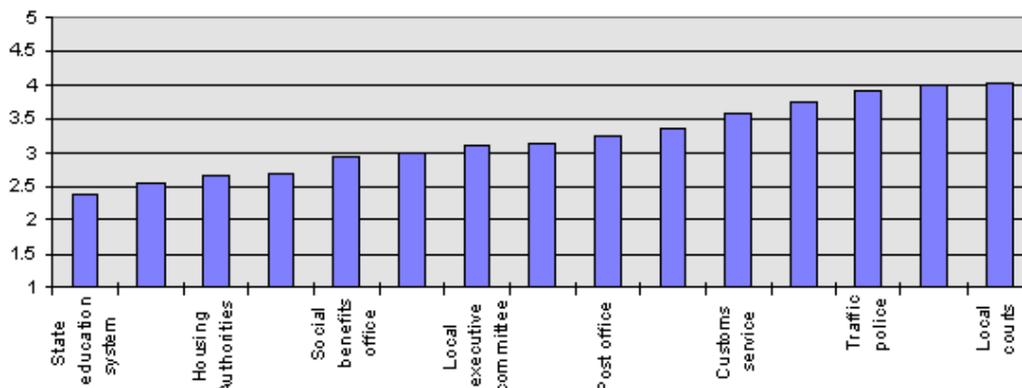
Once an honest and effective enforcement system has been established, the state can move on to the reform of political and bureaucratic institutions. Raising salaries to levels comparable with the private sector will be essential, or only the unqualified or those happy to take bribes will be willing to work for the state. Pay levels have risen significantly over the last two years but at the lower levels it is still not possible to survive on a state wage. Improving this will require further revenue collection improvements, reductions in staff numbers and private sector growth to make these reductions politically possible. Still, the continuing existence of corruption at higher levels suggests that monitoring is also required. It is very encouraging that the Control Chamber is considered the most honest public organisation by bureaucrats in the USAID survey. Without political will however its conclusions can always be buried. Apart from a cultural change, which will take time, perhaps the most important long term anti-corruption measures will be the development of a genuinely representative democracy, a free press and a dense network of non-governmental organisations. Some of these issues are addressed in more detail in later sections.

Reform could focus not just on corruption but on creating a culture of service within government. The unpleasantness of dealing with bureaucracy remains a major source of worry and hardship. Although nothing could be further from communist traditions, it is possible to attempt to increase consumer orientation within a bureaucracy. Performance measures can be effective in drawing attention to relevant measures, and perhaps in motivating individual officials. The length of time it takes to respond to an application is an example. Surveys can evaluate customer satisfaction. Private companies conduct such monitoring exercises all the time. It should be possible to compare the administrative costs on items like travel with those achieved by the private sector, and to use performance as a basis for rewards. Still some things are more difficult to monitor. It is still hard to measure the quality of administrative decisions, let alone individual contributions to those decisions. In education it is possible to measure basic skills but much more difficult to measure higher order and more cognitive skills. However the recent testing programme for teachers is a step towards making rewards depend on performance. Unfortunately some institutions prefer to respond to surveys like the one below with vague threats towards the organisers rather than by examining their performance. Again the press, NGOs and the political system have a crucial role to play in publicising such results and making the public feel they have some influence on the performance of the government.

**Public perception of quality of service**

(1=excellent, 5=very poor)

based on respondents who had contact in the past year



Source: USAID, World Bank

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**2.3 Local Government**

Local democracy is crucial to this process of improving accountability. Building local political organisations sensitive to

local needs is an essential part of national democracy. Local information can often identify cheaper and more appropriate ways of providing basic services. Evidence from other countries suggests that absenteeism by rural teachers and doctors can fall sharply when schools and clinics are made accountable to the local community. Even when the state does spend a significant part of its budget on antipoverty programmes often very little can reach the real poor if there is no organised pressure from the intended beneficiaries and the programmes are administered by a distant, corrupt and unaccountable bureaucracy. Community institutions can do much for poverty alleviation by providing an informal framework for co-ordinating the design and implementation of projects like water management, environmental protection, and the provision of other local public goods. This is by no means a panacea. The weak administrative and revenue-raising capacity of local administrations can seriously restrict their financial autonomy. In situations of severe social and economic inequality local institutions can easily be captured by local overlords, whose priority is not usually to help the poor. The geographic concentration of production will mean that redistribution from the centre is always needed. Central government will have to help raise outside finance, underwrite risks, supply training and support services, invest in larger infrastructure and co-ordinate externalities across localities. In Georgia this is still only beginning.

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### Local elections

The November 1998 local elections have probably been the most important political event of 1998. Local councils, sakrebulo, were created under President Gamsakhurdia, but never started work. Since then the process of real decentralisation has been subject to many obstacles and delays. Local authorities have remained authoritarian and largely untouched by reform, severely hampering the social and political development of the regions. The Constitution, passed in 1995, declared that the issue of local self-government would be addressed when the territorial integrity of the country was restored. However increasing political pressure, and the realisation that a settlement in Abkhazia will take a great deal longer than first thought, have combined to force the question to be addressed earlier. External pressure and the desire for integration into structures like the Council of Europe have also played a role.

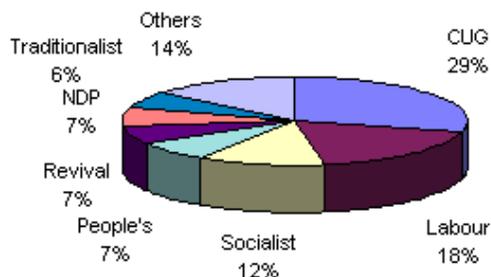
The 'Law on Local Self-government and administration' was passed by Parliament in the autumn of 1997. In villages and small towns the electorate chooses a sakrebulo which forms the local executive authority. The main powers of sakrebulo are to approve local budgets and socio-economic plans, and to supervise their execution. They can also remove the local authority by a vote of no-confidence. However local democracy remains significantly limited. In large towns and at the regional level, central government retains ultimate control with the President keeping the right to appoint mayors and governors and their deputies.

The details of the election law caused considerable political controversy and the final draft was passed only in June 1998. The parties represented in Parliament eventually agreed that the Tbilisi sakrebulo would have 55 deputies, those of other major towns 30 deputies, and those of smaller areas between 5 and 25 deputies according to the size of the electorate. Areas with an electorate of less than 2000 would be elected by a majoritarian system, and larger ones by a proportional system, with a 5% barrier for areas with over 21 deputies. The importance of the proportional system and the 5% hurdle gives a significant advantage to already established parties, although the population's faith in these is generally low.

31 parties and blocs applied for registration for the local elections, and 11 were eventually decided to have satisfied the criteria for participation, mainly on the basis of signatures collected. The United Communist Party was originally rejected by the Central Electoral Commission and then accepted on appeal, but then decided not to participate. Only the Citizens Union of Georgia, the Socialist party, the Union of Democratic Revival and the National Democratic Party stood for election in every sakrebulo. Most concentrated their efforts on the urban and regional levels. The NGO Fair Elections reported widespread violations of the election law, mostly due to very poor organisation.

Campaigning was dominated by social and economic themes, rather than geopolitical ones. However the final turnout was considerably lower than in the 1995 national election. Protest votes in local elections are common but the results do also suggest weariness with established parties and politicians. The era of grand national ideological debates appears to be over but most of the votes that previously went to nationalists or communists went to parties concentrating on social protest, above all the left-wing and populist Labour party. The state of the health and education systems and continuing poverty and corruption became a major theme in criticisms of the Citizens Union.

### Preliminary results of proportional representation voting in local elections



Source: Svobodnaya Gruzija

Note: Results from first-past-the post voting are not yet available.

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### Local environment

The newly elected councils will face huge obstacles. The effectiveness of local democracy will for a long time be limited by appalling socio-economic conditions in the regions, with most local infrastructure destroyed and the population mostly surviving from day to day. The electorate is still largely alienated from local authorities (and from government in general), and does not see them as bodies that might defend their interests. With society divided and unequal there are few public institutions operating between government and the population. Local government employees usually continue to worry more about the opinions of the central government than of local people. Local deputies, like national ones, have wide immunity from the law for no apparent good reason, and there may be some danger of criminals being attracted to such privileges, as has happened in Russia. Democratic attitudes will take some time to get established.

Perhaps the greatest problems are financial. The revenue raising capabilities of most authorities are very limited, and redistribution systems are undeveloped. Many local authorities used transfers received from the centre in 1998 to cover dues back to the centre and failed to pay wages and pensions locally. A great deal was also clearly stolen. In some cases this has caused unrest. Teachers have declared strikes over unpaid wages in all regions. Some local authorities have taken extremely expensive loans from commercial banks in order to pay current expenses, and now find that most of their income goes on debt servicing. In Kakheti there has been social tension as local budgets have been forced to pay for loans taken by wine producers under local authority guarantees. Most wine producers proved unable or unwilling to pay off their loans and local authorities have little left for other expenses. Fulfilment of revenue plans varies hugely across regions, suggesting that targets are still more arbitrary than realistic. Genuine local initiatives are hardly possible in such circumstances, and almost all policy decisions come from the centre. Laws on 'Economic foundations for local government' and 'Local finances and taxation' are expected in 1999. Serious training in financial and administrative skills will also be needed if local authorities are to respond to the demands and opportunities of decentralisation.

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### 2.4 POLITICS AND PARTIES

The local elections were an important spur to general political development. Still, political parties remain extremely weak, not because of political oppression, but largely for organisational and financial reasons. Their activities and programmes suggest that political views are of secondary importance in forming alliances and gaining financial support. The development of a genuinely representative political system takes time but the problem also lies in the current distribution of income and political influence. While most of the population is struggling to survive, political activity is left to those in the bureaucracy, financial-political clans and people searching for business protection. Very few people trust parties to represent them, and politically oriented young people tend to prefer to join NGOs. The media and NGOs still play a far more significant role in expressing peoples wishes and safeguarding democracy.

Party building is a key aspect of post-totalitarian democratisation, and political parties have a crucial role to play in making politics more representative and competitive, and less corrupt. In general parties in Georgia are still weak and are not effective means for people to make their voices heard. Although about seventy parties are now registered there are still few clear ideological differences between them. For the most part society is deeply sceptical about parties and prefers to express its hopes and preferences in terms of personalities. The notion of party discipline is widely detested by the political elite (being associated with Communism), but internal democracy is also undeveloped. There is thus little in the way of organisation or efficiency. Usually a party is identified with the leader or a narrow circle of leadership, with others being followers rather than active members with any influence on decision-making.

A result of this is that parties are continually disappearing, regrouping and finding new alliances. The collapse of the Communist regime was accompanied by the establishment of very diverse political organisations, from radical nationalist organisations and right-wing monarchist groups on one side, to followers of Bolshevism and Stalinism on the other. Despite the fact that Georgian legislation prohibited and still prohibits the establishment of parties representing separate regional and ethnic groups, many regional and ethnic parties were also established. The revolutionary nationalist parties tended to depend greatly on charismatic leaders, and the only one with still significant influence, the National Democratic Party, lost a lot of support when it split on the grounds of personal rivalry within its leadership. More intellectual groupings like the Republican Party failed to find strong leaders or popular support. Now alliances of convenience are formed and collapse every month. The Communist party and Labour party hint at alliance with the Acharan Union of Democratic Revival. The pro-business Socialist party have relations with the Stalin party. The dominant party, the Citizens Union, provides a home for a huge spectrum from former communists to reformers and ecologists. Short lived parties and blocs are created before each election, often around popular candidates who are otherwise uninterested in party politics. It is thus still extremely difficult to forecast future developments.

The most positive recent development is the increasing moderation of Georgian politics. Now, as in the past, the majority of parties declare themselves committed to the principles of peaceful political engagement and general patriotic ideas. The manifestos of most parties revolve around variations on the slogans of stability, democracy and sovereignty. Yet between 1989 and 1993 a characteristic feature of political life was the establishment of military branches of parties and the armament of political organisations like Lemi and the Merab Kostava Society. Now, despite the continuing existence of radical organisations, more moderate and centrist views have come to the fore. Increasing pragmatism is visible in parties' foreign policy ideas, national and ethnic policies, social and economic prescriptions, and their practical activities. Political culture appears to be maturing fast.

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### Social basis of political parties

In the early years of reform few parties bothered to worry much about their social base and attempt to find lasting sources of democratic support. Now many attempt to appeal through their names to entrepreneurs, the intelligentsia or workers. Registered political parties in 1998 include the Union of Intelligentsia, the Union for Protection of Pensioners' Rights, the Party for Protection of the Poor, the Labour party, the Union for Protection of Women, and the Bourgeois-democratic Party. Parties whose titles do not suggest class priorities are trying to find other niches in an increasingly stratified society. During the 1998 local election campaign it has been very popular to talk about the interests of the middle classes.

Regional and ethnic groups also still exist, particularly in mountainous regions. They usually avoid legal censure by including general Georgian programmes in their manifestos or by opening offices outside their local region. A number of social-political unions of IDPs from Abkhazia are also gaining in influence. Yet the only regional party with significant power is now the Acharan Union for Democratic Revival, which is attempting to spread its activities all over Georgia and does not stress its regional roots.

In general social and regional interests still provide an inadequate basis for political support and most of the parties mentioned above remain weak. This is a legacy not only of nationalism and the popularity of ideas of equality, but also the new fluidity of society and interests. Economic and social regrouping in Georgia is still at an early stage. Now the strongest political parties have their social base only in the government bureaucracy and financial-political clans. The most important electorate are influential patrons and people looking for protection. The large parties are held together by patronage and clan loyalty. Under these conditions, and with large numbers in the regions still poor and politically disaffected, there is potential for populism and instability.

#### 'Voting give people like me some influence on how the government runs things'



Source: US Embassy

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#### Party programmes

There are now about 10 parties that stress nationalism even in their title, for example the Union of Georgian Nationalists and Shield of the Motherland. Others with more neutral titles also stress the concept of nation, sometimes understood as a primordial and genetic union of peoples. These include the United Republican, People's and National-Democratic parties. A further manifestation of nationalism is the fact that about two thirds of parties now oppose or doubt the idea of federation. Most also oppose land privatisation in border areas inhabited by non-Georgians. Pro-federal parties are very small, such as the Christian-Democratic Union or the United Party for Protection of the Poor. Larger parties tend to avoid details when talking about regional self-management and the restoration of Abkhazia. The Union of Democratic Revival states that it supports the idea of federation, but has not put forward a clear plan for the territorial and political structure of the country. In the bad relations between the Acharan and Tbilisi nomenklatura the opposition of financial-political clans and feudal patronage plays a greater role than the choice of federation as a suitable system for the country.

Apart from the Communist Party and its associated sects all parties support the principle of a market economy. Some parliamentary parties, notably the Socialist and Labour parties, and some groups outside parliament call for free education and health care, and for protection for local enterprises. This has proved particularly popular in the local elections. Many call for restrictions on the market and criticise the IMF. The Citizens Union (CUG) has generally moved away from calls for more regulation towards a more liberal economic policy. The CUG and other parties are notably vague on the question of privatisation of land and large enterprises.

Most parties are also democratically oriented. The responsibilities of Parliament are notably broader than in most other post-Soviet countries. The Chairmen of many parliamentary commissions are active in policy management and formation. A free press is also generally supported. The CUG is somewhat cautious on the idea of local self-government and ensured that the Law on Local Government passed in 1997 did not include measures for the election of regional governors and mayors of large cities. Parties with a less democratic image, including the Union of Democratic Revival, showed more democratic inclinations here. Only 20 parties of the registered 70 decided to take part in the local elections, many using the excuse that the election law was not democratic.

The majority of parties aim at integration with Europe, which is usually seen as a way to increase sovereignty. There are differences in tactics however. The CUG accepts the current relationship between Georgia and Russia, including participation in the CIS security system, allowing Russian military bases to stay for the time being, and widening the mandate of Russian peacekeepers in Abkhazia. One of the largest opposition groups in Parliament, the People's party, campaigns for the withdrawal of Russian peacekeepers and regular troops. Representatives of the radical nationalist groups outside parliament demand that Russia bases be recognised as occupation forces.

While still a minority, supporters of the idea of CIS integration and deepening relations with Russia are becoming more active. The newly popular Labour party, as well as the Union of Democratic Revival and the pro-USSR Communist party, accuse the ruling elite of ruining the country by excessive pro-westernism. Relations with Russia are seen by some as a measure of protection against 'western cultural expansion'. Closer Caucasian integration, while a matter of pragmatic co-operation for some like the CUG, has cultural and mythological anti-western overtones for others.

Party programmes are still hard to understand in conventional political terms. Many contain quite contradictory views and apparently incompatible ideals. The Union of Citizens supports a liberal economic policy while declaring itself a left-wing party and having observer status in international socialist groups. The National Democratic party considers itself a European Christian-democratic party but proposes giving the orthodox church a special role in political life. The Green party declares that it follows different policies from European Green parties, and fully supports the current government. Members of the right wing Union of Traditionalists have resigned to join the very left wing Labour party. Changes in

programmes are usually influenced less by the electorate than by the balance of power within the elite and financial-bureaucratic clans.

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### Organisational Development

There are some tendencies towards consolidation and improving organisation, both in and outside parliament. The CUG has built a national network and retained almost all of its deputies in parliament. However unity may be more a result of the widespread wish to be a member of the dominant party than of consensus and political maturity. Autonomous units like the Progress League and the Acharan Mother Georgia organisation exist within the party. Parties supporting the government, including the CUG, the bloc National Consent, the Green Party, Sportsman's' Georgia and Lemi have in common mainly support for the President. They stood separately at the local elections, and preliminary results suggest they were less successful than they expected.

On the opposition side there has also been some fragile coalition. Since 1997 some steps have been taken towards establishing a People's Patriotic Front, with negotiations including representatives of the Communist party, some ultranationalist organisations, the Labour party, and the Union of Democratic Revival. The alliance between the latter two is both more formal and more successful, though based largely on opposition to the CUG and the large financial resources of the Acharan leader. They also share a relatively pro-Russian orientation. The Labour party appears to have been successful in mobilising voters dissatisfied with health and education reforms, and the Union of Democratic Revival appears to be guaranteed most of the Acharan vote. The Union of Democratic Revival has attempted to spread its activity to Javakheti, where there are also some separatist tensions, but with less success. Its position is still entirely defined by that of its leader, who also does not rule out co-operating with the government in parliament again if concessions are received.

The more moderate opposition is more fragmented. In 1998 four deputies left the People's party to establish four new parliamentary groups: the Democratic party, Agrarian-Democratic party, League of Intellectuals and Union for Protection of Pensioners' Rights. The National-Democratic party shares the Peoples' party's demands for the withdrawal of Russian bases but is slightly less critical of the government. The Socialist party has a leading role in the Majority-Socialist faction in parliament but its position also seems to depend largely on its leader's complicated relations with the President.

The extreme opposition remains terminally divided. The Communist party largely represents old nomenklatura figures who were until relatively recently supporters of the President. Two rival groups claim to have inherited the title of the party of Zviad Gamsakhurdia, Round Table - Free Georgia. The Zviadists retain influence in some regions and among the poorest part of the population but are extremely diffused. Since they consider the current government a Russian imposed junta, they tend to concentrate more on street demonstrations than representative politics. There may still be some danger of this lack of representation spilling over into violence, as the October uprising in Senaki indicated.

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## 2.5. HUMAN RIGHTS

Message on the Occasion of Human Rights Day 10 December 1998

In commemorating the 50th Anniversary of the Universal Declaration of Human Rights this year, the international community bears witness to the growing support for human rights everywhere.

The Declaration is the cornerstone of a global human rights movement embracing wide-ranging concerns within diverse cultures, religions, traditions and legal systems. But despite progress in all areas of human rights, the goals of the Universal Declaration remain elusive for the billions of the world's people who live in extreme poverty.

Poverty is a brutal denial of human rights. Lack of access to safe drinking water and health care means that almost a third of the people in the world's least developed countries have a life expectancy of just forty years. For them, poverty is a denial of the most basic of all human rights: the right to life. In the poorest countries, thirty per cent of all children under five are malnourished, and thirty-eight per cent of all adult women are illiterate. Women in poverty, who are victims of the same deprivations as men, carry the additional burden of unequal access to services, legal status, and the financial credit necessary to break the shackles of poverty.

The United Nations Development Programme strives to end extreme poverty, to empower poor people to escape from social exclusion and participate in public decisions that affect their lives. Increasingly, governments are requesting our assistance to develop policies and programmes to reform judicial systems, to promote democratisation and to support a free and independent press and the respect of all human rights.

As we commemorate the 50th Anniversary of the Universal Declaration, we call for greater links between the human rights and

the development communities. This growing partnership is bringing fresh ideas and vigour to our mission for the eradication of poverty. We strongly support an embracing commitment to all human rights, including the right to development. The Universal Declaration of Human Rights remains as valid today as it was fifty years ago.

*James Gustave Speth, UNDP*

Until quite recently the problem of defence of human rights in Georgian society was rarely raised. At a time of hyperinflation and banditism few expected or demanded scrupulous government policy in this area. Firstly the influence of armed criminals was so clear that representatives of state structures could simply respond to complaints by citing their own powerlessness. Secondly there were no effective non-governmental organisations and the political opposition was interested almost exclusively in Russo-Georgian relations and in accusing the President of betraying the ideals of independence.

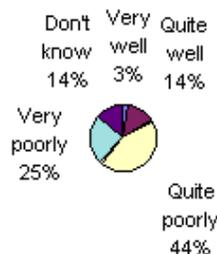
The situation has changed fundamentally since 1995. As the situation in the country has stabilised and state structures have acquired real power, expectations towards the authorities have also grown. The nationalist opposition has lost influence and the role of NGOs has greatly strengthened, with many of the latter focusing on questions of human rights.

The human rights situation has clearly improved, but much remains to be desired. By the ratings of Freedom House Georgia can now be categorised as 'partially free'. Those who remember the criminality of five years ago find much to be happy about, yet human rights activists point out that gratitude for stabilisation can not be expected to last for ever. Every satisfied demand, quite understandably, gives rise to new demands.

The view is very widely expressed that in Georgia now the laws are reasonable, but that problems arise because government structures systematically break them. In the human rights sphere this is generally true, with some exceptions. While the constitution does guarantee the fundamental rights and freedoms of citizens, some claim that there are still normative acts in force that do not correspond to the standards of a free society, and may be unconstitutional.

Thus the constitution guarantees freedom of association but amendments made by Parliament in May 1998 to the law 'On demonstrations' effectively require advance notice to be given to the authorities of all demonstrations. While the Constitution declares freedom of conscience and belief and the separation of church and state, representatives of some religious groups complain about the privileged position of the Georgian Orthodox Patriarchy, which has some official authority over school curricula and enjoys tax exemptions. In relations with the press, the frequent use against journalists of the Eighteenth Article of the Civil Code, 'On the defence of honour and integrity', raises some concern. Under this code the burden of proof lies with the defendant, who in recent experience tends to lose. Still complaints about the legal code now more often relate to areas of omission. In 1999 Parliament plans to introduce a law on freedom of information and an administrative code, which should go some way to clearing up existing grey areas.

#### **Does the government protect all citizens' political rights?**



Source: US Embassy

The most serious problems do indeed relate to enforcement. The most widespread and prominent human rights abuses now come in the form of beating and torture by the police, and the frequently violent dispersal of demonstrations by the radical opposition. It is extremely hard to establish the true number of policemen in Georgia. Declarations by representatives of the Ministry of Internal Affairs are often contradictory, but suggest a figure in the region of 30 to 35 thousand. Some consider the true figure may be up to twice this. Even if not, the ratio of police to citizens remains extremely high. Training levels are generally low. The frequency of violence used during preliminary investigations can often be explained by a lack of understanding of how to gather evidence in other ways, evidence not being a crucial factor in the Soviet criminal legal system. Wages are relatively high by local standards, but not high enough to prevent pervasive corruption. The police are far from apolitical and the political importance of senior police officers has apparently sometimes induced political authorities to turn a blind eye to particularly blatant misuse of funds. Fortunately the press is not so circumspect.

Accusations of brutality against the special OMON division of the police are particularly common. Many journalists report having been beaten up by officers from this division, including even by the head of the division himself. Court cases are underway concerning two of these incidents, but human rights NGOs claim the cases are being deliberately delayed. In July 1997 a police captain was sentenced to four years in prison for beating to death a man who crashed into his car, but such cases remain uncommon. Beatings and torture are reportedly particularly common in Kutaisi and in Isolator number 5 in the basement of the Ministry of Internal Affairs. Cases of suspects falling to their death from the windows of this ministry are still not unknown. In general the most important power structures remain notably unreformed. Not only they but the public also have some difficulty in freeing themselves from traditional totalitarian expectations. The fact that a person was beaten up in police custody or at a demonstration still often raises little surprise or indignation, except on the part of human rights NGOs or the relatives of the victim.

The army, while generally considered less corrupt at the top, also preserves many totalitarian traditions. If the police have started to become used to the attentions of journalists and human rights activists many in the military still view such attentions as subversive interference in matters of state importance. Human rights violations during military service are

widespread. Conscripts now tend to come mainly from families who can not afford to pay bribes. NGOs recently adopted the case of Giorgy Tobulov, who was conscripted despite suffering from a chronic inherited illness. His certificate of disability was lost or deliberately misplaced and while in the army his condition quickly worsened. The military hospital refused to treat him as this would cast doubt on the original decision to recruit him. Seriously ill, the soldier apparently had to return home himself for treatment, and for this was put in prison as a deserter. After the intervention of the deputy Ombudsman the sentence was cancelled, yet at the time of writing Tobulov remains in custody. With the case now widely known there seems to be a high chance of him being released on bail. The chances of those responsible being investigated seem more slim.

While most areas of human rights protection have recently taken significant steps forward, a few aspects have stagnated or regressed. The recent decision of the Constitutional Court reversing the retesting and reappointment of judges has been seen as a major step backwards. Widespread corruption in the system still denies justice to the poor. Soviet-era judges continue to identify themselves with the government and still rarely go against the government's will. Evidence that is obtained illegally is rarely excluded. The recent case of the trial of Jaba Ioseliani and other Mkhedrioni leaders was an interesting example. While few in society doubted the guilt of the accused the Prosecutor's office was unable or considered it unnecessary to provide significant proof beyond confessions obtained in preliminary investigation. The defendants claimed these were extracted under torture. It also took 27 months to bring the accused to trial, well in excess of even the Soviet legal limit. The US State Department considers that similar violations, including torture, use of forced confessions, fabricated or planted evidence, denial of legal counsel, and expulsion of defendants from the court room, took place during the trials of members of the Zviadist government like Kobalia, Zarandia, and Molodinashvili.

Opposition political parties are often slow to raise such violations as a serious political issue. Indeed, NGO representatives claim that in 1998 political parties have largely abandoned the human rights theme to NGOs. Several dozen of these are now operating mainly on human rights questions. Some, such as the Association for the Defence of Human Rights, focus almost exclusively on the rights of the supporters of ex-President Gamsakhurdia, but most are relatively apolitical. There are also very encouraging signs of human rights concerns becoming more institutionalised. A deputy secretary has been appointed to the Security Council charged with defence of human rights. The Parliamentary Sub-Committee for the Reform of the Prison system has continued to be notably active. The Constitutional Court continues to interpret its human rights mandate narrowly, only hearing cases where the complaint alleges a violation was sanctioned by law, and rejecting allegations of illegal violations of human rights. However the long awaited appointment of an Ombudsman could do something to fill in this gap. Under Article 43 of the Constitution the Ombudsman is to investigate violations of people's rights and freedoms and pass on his conclusions to the appropriate bodies. The Ombudsman's decisions are recommendations only. To date there have not been many visible results, but the institution could in the future play a crucial role in the defence of human rights.

As with many aspects of human development, the difference between the situation in Tbilisi and the regions is still striking. There remain very few regional NGOs and little in the way of independent media. Because of this little information on abuses is publicised. The greater number of recorded violations in Tbilisi is purely due to the fact that in the capital it is easier to draw the attention of the press and public to such problems. More people in rural areas are concerned exclusively with social problems, like non-payment of state wages and pensions. Surveys suggest that many, deprived of means of communication, still have a very hazy idea of their civil rights.

The situation in the Acharan autonomous republic is particularly difficult. Many local observers describe the region as a police state. It is certainly the only place in Georgia where people are frequently afraid to talk about politics. In 1998 there was almost complete political calm in the region, since domestic opposition appears to have been largely rooted out. The government's complaints are now addressed mostly to the Tbilisi based media. During the local elections unofficial observers reported severe violations of electors' rights, yet central authorities are forced to turn a blind eye. Such electoral violations are by no means confined to Achara, yet the Acharan authorities particularly distinguish themselves, ensuring themselves over 90% of the vote.

The current situation in human rights can perhaps be characterised as good in parts. The government's declaration of liberal-democratic values and desire to join European political structures like the Council of Europe has brought much progress. If much is still superficial, impressively active NGOs and newspapers do much to draw out the failings. The heritage of totalitarianism, especially in the law-enforcement agencies, and widespread disrespect for the law and lack of knowledge of rights among the population, mean much more time will be required.

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## 2.6. PRESS FREEDOM

Over the last several years Georgians have become quite accustomed to the existence of an independent press. 45% of Tbilisi inhabitants surveyed by Black Sea Press in October 1998 said they considered the media to be free, 35% as partially free, and only 10% as not free at all. 54% said that one can trust the media, but only the private media; 22% said they trusted both private and official media; and 10% did not trust the media at all. 80% of editors and 50% of journalists characterised the media as free. While standards are not always high, the market is competitive and largely fearless.

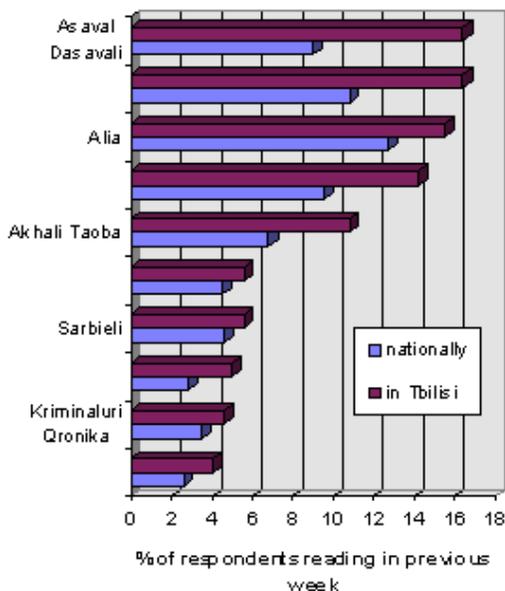
The free press has its origin in the newspapers printed by political parties in the *glasnost* period of 1990 to 1991. In 1992 and 1993 many of these newspapers managed to evade party control and the active division in the press became less one between official and opposition, and more between official and independent. It was at this time that some of the most popular current newspapers began publication, including for example Rezonansi, and the first private television channels were formed. 1995 and 1996, was a time of dramatic quantitative and qualitative changes. As the number of periodicals, information agencies, TV and radio companies grew, fierce competition forced many to raise their standards. While in previous years much of the independent media had seen itself mainly as a means of self-expression after Soviet dictatorship, many gradually came to consider themselves more as businesses. Now over 600 private newspapers, over 150 independent TV and radio companies and around 50 information agencies, are registered. Many exist only on paper, but the Ministry of Justice estimates that about half of these are actually operating.

As the figures below suggest, television is overwhelmingly the most popular form of media, and nationally viewing is still

dominated by the Georgian and Russian state channels which have the most powerful transmission. While still state controlled, the standard of journalism on Channels 1 and 2 is generally thought to have improved substantially recently, partly helped by competition from channels like Rustavi 2. Radio is also highly competitive though most channels concentrate on the young and do not attempt to provide a serious news service. Newspaper circulations are much more limited, because distribution systems have collapsed and most of the population can not afford regular purchase. The market is still a vibrant mixture of serious and popular, with most of the state organs hardly figuring in circulation tables.

**Most popular newspapers, nationally and in Tbilisi**

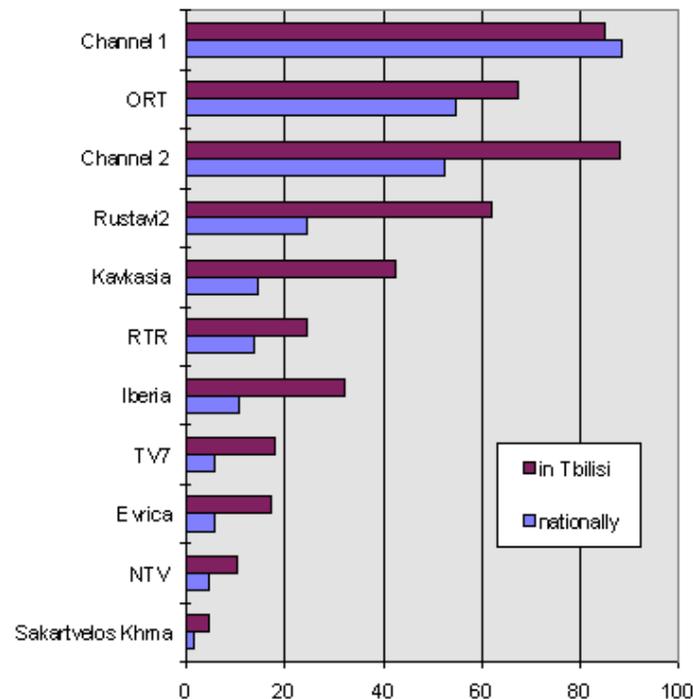
(percentage of survey respondents having read in the previous week, July 1998)



Source: GORBI Geomedia

**Most popular television channels, in Tbilisi and nationally**

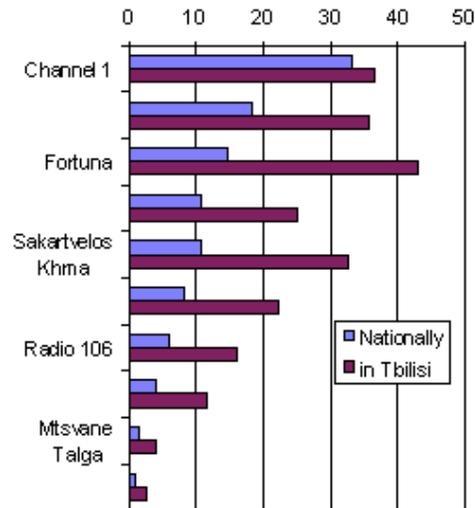
% of respondents having watched in last week



Source: GORBI Geomedia

**Most popular radio stations, nationally and in Tbilisi**

(% of respondents having heard in previous week)



Source: GORBI Geomedia

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### Regulation of the media

Media activity is regulated by the Constitution, by the law 'On the press and other media', as well as by the law 'On enterprises', the tax code and a number of sublegal acts.

'The Georgian press and other forms of mass media are free, their freedom being guaranteed by the constitution. Citizens of Georgia have the right to express, propagate and defend their opinion by any means. They also have the right to receive information on social and state issues: censorship of the press or other media is forbidden.'

*Law on the press and other media*

Article 14 of the Constitution guarantees freedom of speech, thought, conscience and faith. Article 24 establishes the right to receive and transmit information and opinions in any form: 'the media is free, censorship is inadmissible, and neither the state nor individuals have the right to monopolise the media or its transmission.' Article 41 gives citizens the right to view information held about them in state organisations, and also to view official documents that do not contain state, commercial or professional secrets.

At the same time these freedoms can be limited if they impinge on the rights of others, in the interests of public or state security, or to avoid a crime. Article 17 makes a person's honour and worth inviolable. Article 20 gives the right to a private life, a right which can be overturned only by court decision or in limited circumstances laid out in the law. The Criminal Code limits blasphemy, pornography and incitement to violence. Under the press law, in a State of Emergency the President can limit a journalist's freedom of action and access, though the reasons for this have to be explained. Only a court decision can suspend or stop the activity of a media organisation. However in practice local authorities in some areas continue to exercise close control over the activities of the local press, and in Achara newspapers are frequently closed.

Anyone over 18, including foreigners, and any political party, state or public organisation has the right to set up any media organisations, providing their ownership does not exceed 25% of any one form of media. However the law on privatisation forbids state organisations other than the Ministry of State Property Management from owning shares in commercial organisations. This new measure is aimed at limiting the propagandising activity of state ministries and departments, but is currently little applied in practice. Ministries and local authorities retain shares in many commercial organisations, including media ones.

Like other businesses, media organisations have to register under the law 'On enterprises.' Under the law 'On the press and other media' they also have to register separately for the right to propagate information or print more than 500 copies of any publication. Registration can legally be refused only if:

- the aims of the publication are against the law
- there exists an organisation with the same name
- an organisation with the same name closed less than one year ago

Non-registration can be punished by fines and by confiscation of the publication, and some journalists fear that although this law is reasonably applied at the moment, it has the potential to be used to restrict the media.

As in other countries, the question of licensing and allocation of frequencies for electronic broadcasts is particularly controversial. These are controlled by a licensing commission within the Ministry of Post and Telecommunications, and many consider that in the past relatives and political friends have received favourable treatment.

Georgian law is relatively liberal on the question of openness of information. Under Article 19 of the Media Law journalists have the right to receive information from government departments or officials, and if refused can appeal to the courts. Refusal has to be justified by the keeping of state or commercial secrets. A series of legal and sublegal acts gives journalists the right to attend and record court and parliamentary meetings. Some problems remain. Many news agencies

complain that the state information agency, Sakinkformi, also operates as the President's press service and fails to provide information about the President's activities on time to those it sees as competitors. Corruption and low pay in the government is another problem. Many journalists find that government press-services demand money to ensure press releases are sent on time.

Article 24 of the Law on the Press obliges journalists 'to check the truth of information they have received.' Article 20 gives citizens and organisations the right to demand correction of information unfairly damaging their honour or reputation, or concerning their private life, or to seek compensation in court. Articles 139 and 192 of the Criminal Code make it a crime to insult a Parliamentary deputy or a judge or prosecutor. Slander and libel are also defined under the Criminal Code (articles 137 and 138). However, since criminal law puts the burden of proof on the accuser, actions under civil law, where a journalist has to prove that what was written is justified, are much more common. Many journalists consider that such actions are so frequent that they have effectively come to limit freedom of speech. At the same time it is clear that many newspapers do not take their legal responsibilities seriously. The right to reply to accusations, laid out in the Press Law, is rarely enforced.

The weakness and unpredictability of the court system is, as in all sectors, a fundamental problem. The fate of many cases, particularly concerning corruption allegations, still depends on the current balance of political forces. When a case attracts enough public attention it can be possible for a journalist to win a case against a state organisation, but enforcement is usually a different matter. A well known recent example is that of the independent newspaper Orioni from Akhaltsikhe, which in April published an article on homosexual abuse in local army barracks. The local military prosecutor began to exert pressure on the newspaper and arrested the journalist concerned for evasion of military service. He was refused the right to an alternative form of service and sent to serve at the same army base he had written about. After several months and several further court cases involving a number of human rights NGOs, it was agreed that the journalist had the right to non-military service, but since the law on this is still not active, he is now only temporarily exempted from service.

The law on the press was adopted in 1991, under President Gamsakhurdia, and though it was liberal for its time, things have changed so fast that many now consider the law hopelessly outdated. Work on a new version began over two years ago, both in the Parliamentary sub-committee on the press and in a number of independent media organisations and NGOs. By January 1998 there were about fourteen alternative versions of the law. The interested groups met together and agreed to cooperate on a single version. The NGO Liberty Institute has prepared proposals to strengthen the freedom of information aspects of the law. In particular these set higher thresholds for the law on libel and slander. Public figures will not be able to sue for libels that are only value judgements, and will have to prove that a libel had evil or criminal intent. The Liberty Institute proposals also envisage the creation of an independent agency to regulate public television, award licenses for frequencies, and monitor the openness of government.

Georgian journalists still lack any form of self-regulation, with no working professional bodies or agreed ethical code. The Union of Journalists has survived from the Soviet era but shows few signs of adaptation and is not popular among independent journalists. The most successful attempt to form an independent organisation was the Association of Independent Press, formed by seven leading newspapers in 1993. However its formation was a reaction to the then state monopoly on printing facilities, and after this problem was solved the Association fell apart. The main media organisations are still discussing the creation of a new professional organisation, but so far none that has been set up has achieved the necessary critical mass and authority.

In the absence of such an organisation NGOs have been carrying out some of its functions. From May 1998 the Caucasian Institute for Peace, Democracy and Development has been monitoring violations of journalists' rights. The Liberty Institute has conducted training seminars and organised protests about abuses of journalists. Still media organisations now tend to co-operate only in cases of the most flagrant abuse. An organisation is still required that would campaign consistently on protection of journalists, on raising their professional standards, and address other problems facing the sector.

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### Pressure on the press

Almost all the editors of leading media companies surveyed by Black Sea Press declared that the government attempted to exert pressure on the media in one way or another. All acknowledged that in the last few years the situation has improved significantly. There is no direct censorship and attacks on media offices by armed groups are now a thing of the past. Yet the problem of constraints on the media has not been solved completely. When editors were asked to name subjects for articles that they knew would seriously complicate their lives, almost all mentioned the situation in Achara and the financial dealings of very senior officials and their families.

According to the Liberty Institute 27 cases of journalists being beaten up have been reported in the last three years. Policemen took part directly in most of these cases and no-one responsible has ever been punished. The head of the OMON section of the police, famous for his radical attitude to the press, is accused of personally taking part in a number of these beatings. After the beating of two journalists during the dispersal of a protest meeting in September, the head of Tbilisi police approved the police action at a press conference. Sixteen of the largest media organisations issued a statement in response that: 'only detailed scrutiny by the public and press can ensure the establishment of a civil society in Georgia, and raise the professionalism of the police force.'

Still nowadays more indirect forms of coercion are more common. It is very common for a journalist who has written a critical piece to find that officials then deny him or her the right to visit a government office, or refuse access to information. Attempts at 'post-censorship' are frequent. Although no official can forbid publication of a story, after writing unflattering material journalists are often threatened by telephone and summoned for interview in various government offices. Often it is demanded that journalists reveal their sources. A particularly common and effective means of pressure is the organisation of extra tax inspections. These can be extremely protracted and effectively paralyse a newspaper's operations.

At the extended government session at the end of the summer devoted to the problem of corruption in government, the majority of high officials demanded a new law limiting the rights of journalists. Many fail to understand the role of the media in a free society and would prefer to work with journalists in the same way that they did in Soviet times.

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### Financial independence

Comments from editors along the lines of 'if we only had money we would be afraid of no-one' are frequently heard. All agree that without financial independence, the political independence of the press is almost impossible. Complete financial independence is rare everywhere in the world but in Georgia the problem takes extreme forms. Among newspapers only the most popular can afford print runs that might make them viable. The most widely read national newspaper, Alia, has a maximum print run of about 11,000. Advertising income is generally even lower than that from the cover price. All editors complain that they are unable to invest and raise standards for financial reasons.

The result is that it is now extremely hard to define the line between media organisations that act partly as propaganda tools of a financial backer, and those that are genuinely independent. The Acharan authorities, the largest political parties and a number of ministers are generally thought to be major providers of newspaper funds. Many newspapers and television companies that have not sold themselves to a single backer, are prepared to sell articles and airtime, not as open advertisements but as biased reporting. The press is still at a very early stage as far as its development as a business is concerned, and the distribution of income and power in the country is such that it is likely to remain a tool of political interests and a forum for the settling of political accounts for some time. The period leading up to the next Presidential elections will keep the large press sponsors very active. After that professionalism and quality of journalism may play a more important role in deciding which media organisations survive.

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### Local media

The continuing existence of an independent press in the Georgian regions can only be explained by the irrepressible optimism of journalists. The very low purchasing power of the population, the collapse of distribution systems and the greater scope for official interference, all greatly restrict the local press.

Achara is a special case, where the local authorities exert practically complete control over the local press. The few organs that are technically independent in practice never risk criticism of the regional government. Local journalists tend to be highly reluctant to discuss this question, and usually claim to agree with the local leadership on everything.

In other regions local governments are less authoritarian but financial problems tend to be overwhelming. In Gori for example all attempts to set up an independent newspaper have ended in financial collapse and the gap is filled by 14 local authority controlled or supported newspapers. Such organs mainly chronicle the activities of local government, and lose any shred of objectivity during election campaigns. Since readers are usually not very interested, most are in debt to their printers and appear irregularly. The main source of income is obligatory subscription, where the local government compels regional offices and organisations to buy the papers.

There are also a surprisingly large number (over 30) local television stations. Many of these were founded by self-taught enthusiasts who even constructed the transmission equipment themselves, and survive largely due to paid obituaries announcing funeral times. However the viability and strength of many has been greatly enhanced by the establishment of an Association of Independent Television Companies. During the local elections the Association established a centre in Tbilisi gathering and broadcasting information on the violation of the rights of voters and journalists. Such assertiveness looks very encouraging for the future of Georgian democracy.

## GOVERNANCE AND DEMOCRACY

*A statesman is an easy man,  
He tells his lies by rote;  
A journalist makes up his lies  
And takes you by the throat;  
The Old Stone Cross, W. B. Yeats*

*For it is said that even in hell a bribe settles matters.  
Shota Rustaveli*

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### 2.1. General

Georgia is well advanced on a process of democratisation and political institution building. The first few years of independence were characterised by concerns about civil turmoil, economic collapse and democratic reversal, but also by sweeping changes in external orientations, political institutions and economic structures. The transformations taking place now are likely to be more incremental and less dramatic, but no less difficult or crucial for the consolidation of stable, viable democracy.

It may be still too early to say that the process is irreversible, but given the inheritance, the achievements of the last few years are impressive. Democracy still has shallow roots in a country that moved from a semi-feudal kingdom to colonialism under the Russian Empire, with just three years' interval of independence, to an even more oppressive and totalitarian Soviet state. With its recent experience of war and anarchy it may be surprising that Georgia has emerged as stable and democratic as it is now. Most political institutions, including the government and leading political parties, explicitly acknowledge and support democratic values and rights. By the standards of the region democracy works well in practice. The local elections that took place at the end of 1998 were a particularly important development. The independent press continues to multiply and should do much to ensure that imperfections in democracy are scrutinised and to make the government more responsive to the population.

Nevertheless there is much to be done. Democracy remains a vaguely understood notion for many in power and for much of the population. Lip service is often paid to general liberal principles, while in practice pluralism of opinions is denigrated for the sake of economic expediency or national unity. Perpetrators of human rights violations, mostly concentrated in the state bureaucracy and law enforcement agencies, are only starting to learn, often with unhidden resentment, the restrictions that democracy may bring to their activities. The government remains remote from people's needs and in many areas highly corrupt. The majority of the population is still too concerned with daily economic survival to participate in the emergent civil society. There is no tradition of long-term thinking and investment in a country which has hardly ever been stable and independent at the same time. Government officials prefer to secure their futures by corruption rather than by building up a reputation if they are unsure about the regime that might follow. People living on the poverty line can hardly risk complaining. Newspapers that would like to print the truth are vulnerable to financial inducements from the very rich. Georgia is in danger of reaching an equilibrium where people expect nothing from the state and feel no obligation to contribute anything towards it. Very determined effort will be needed to break out of this situation and make government genuinely representative and accountable.

*Nothing is so important for economic development and the human condition as stable reliable, competent and honest government.  
J.K. Galbraith, Human Development Report 1998*

The past year has seen several changes at the top of the government, and the arrival of some new ministers has raised the hopes of reformers. A second assassination attempt on the President in February 1998 and a number of terrorist acts, including the kidnapping of UN observers in February, have not seriously threatened political stability. The speed with which the October anti-government uprising in Senaki disintegrated was seen as reassuring by many. However this may be complacent. The political system still appears to work mainly by patronage. Political jobs are seen as a source of wealth and immunity from the law. In many regions resentment of central government is widespread. In Samegrelo in particular there is still extensive bitterness as a result of the civil war and the failings of government afterwards. Achara also remains a source of concern, with the local leadership keen to run its own political and economic system. In Tbilisi this is understandably dismissed as nepotistic, paternalist and corrupt. Yet many still see central government as little better.

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## 2.1. Governance

*Just as it is impossible not to taste the honey (or the poison) that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up at least a bit of the king's revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, so government servants employed in government work cannot be found out while taking money for themselves.*

*Kautilya, Arthashastra, (India, fourth century BC)*

As the quotation above (from Pranhab Bardan 1997) suggests, corruption is by no means a new problem. Rustaveli (also above) was aware of the effectiveness of bribes. In Georgian society the main focus of responsibility has long been small social groups, and stealing from society at large to provide for one's own family or friends is often not a matter for shame. Georgia's history of subjection to foreign countries has also made stealing from the state often something to be proud of. Under the Soviet system Georgia was famous and widely admired for the amount of money it managed to divert from Moscow.

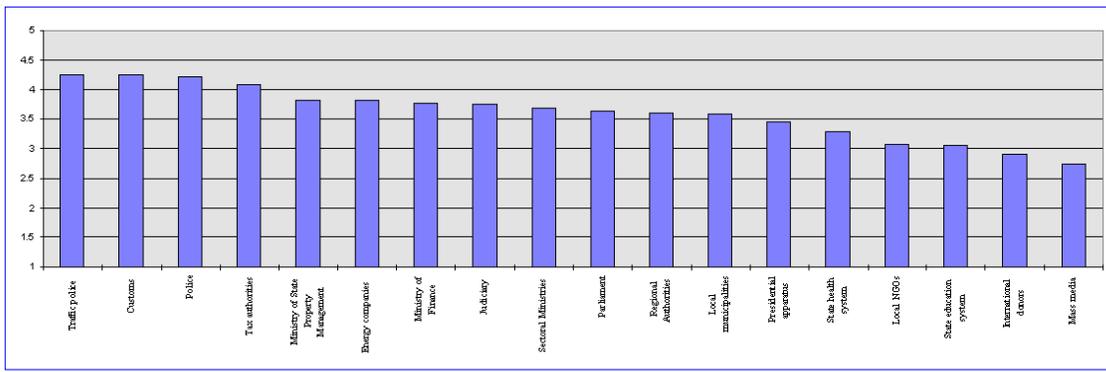
The rigidities of communism greatly exacerbated previous tendencies. The economic power of officials tempted them to use their positions for private gain, and forced customers and clients to make payoffs. The rules were not backed by an impartial legal system but by higher bureaucrats, who often had their own reasons for bending or changing the rules, and many of whom are still in power now. Subordinates could not appeal to the law as a reason for resisting the demands of superiors. The system was not only rigid but arbitrary. Its requirements and irrationalities turned almost everyone into a law breaker. The widespread complicity of the population in corrupt transactions then became a method of social control. Since everyone was guilty of something it was always possible to develop a case against anyone who caused trouble. Corruption cases were more often used to punish dissidents or rivals than to improve the working of the bureaucracy.

Now the source of corrupt incentives has changed from the bottlenecks created by a rigid and intrusive state to the uncertainties of one that is weak and disorganised. Mentalities change slowly and the practice of registering very expensive cars with government number-plates suggests that for many corruption is still not something to be particularly ashamed of. Foreign aid and the privatisation process have provided new opportunities for windfall gains for the well connected. During the period of complete budgetary collapse officials were effectively told that they should get money for their institutions however they could, and if that meant taking some for themselves then a blind eye would be turned. Many state structures quickly became effectively commercialised. With the legal system still not functioning, businessmen who require certainty have to pay for it.

Reliable data on the extent of corruption are obviously unobtainable, but it is possible to measure the public's perception of the problem. USAID and the World Bank sponsored a survey on public attitudes in the summer of 1998. The public's ranking of organisations according to honesty may be affected by the frequency with which they come into contact with them. Organisations where corruption is a matter of stealing humanitarian aid or protecting large businessmen are likely to get off lightly in such an assessment. Still the rankings of businessmen and public officials are largely similar. All agree that the police and customs are the most corrupt institutions in the country.

### **Public perceptions of dishonesty according to USAID, World Bank survey, summer 1998**

(scale of 1 to 5, where 5 is very dishonest)

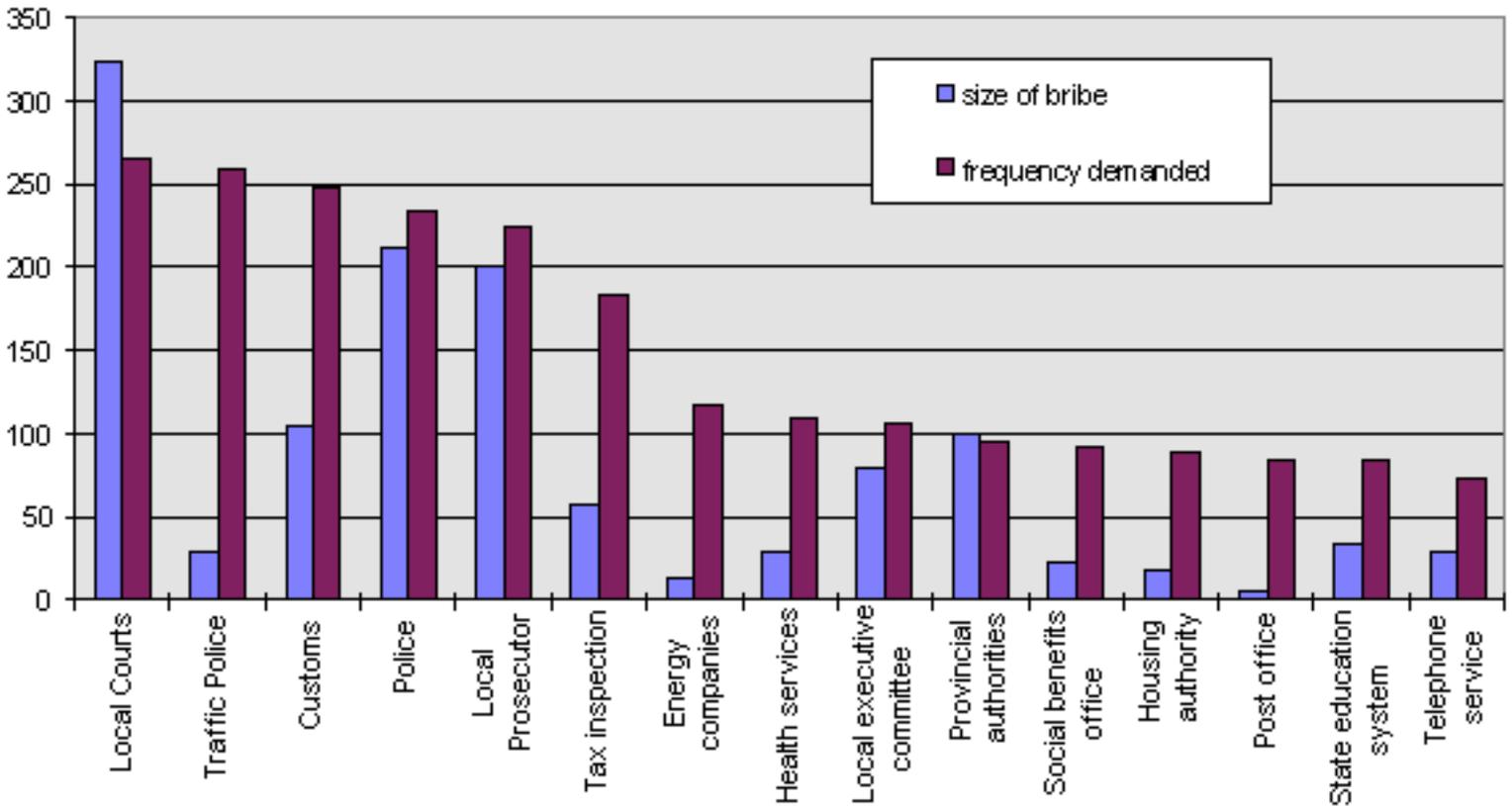


Source: USAID, World Bank

Some are inclined to downplay the problem, pointing to corrupt countries that still grow fast, or suggesting that it is an inevitable part of the growing pains of capitalism. Recent events in Russia and east Asia should have done much to discredit this argument. Corruption is now clearly the greatest threat to business development in Georgia, and it is a major expense for most of the population. The public reported paying an average of 109 lari in bribes per household in the last year. Given the size of average incomes and the fact that in many rural areas government is largely non-existent, this is an extraordinary amount. In Russia corruption has largely undermined the whole transition process. In Georgia things have not yet gone so far. People are not yet demanding authoritarian solutions, but it is largely responsible for the current distorted distribution of income and wealth, and has been a major factor in the recent fiscal crisis.

**Frequency of payment demanded and average size of payment**

(frequency, scale of 1-350, where 1=never and 350=always size of payment in lari) based on respondents who had contact in the last year



Source: USAID, World Bank

The challenge is to establish legitimate state organs operating under a rule of law without recreating the rigidities of the former state-controlled system. Clearly this is not easy and will take time. The obvious place to start is by eliminating the state programmes that exist simply to generate bribes. Many of the rules enforced by the traffic police fall into this

category. Other programmes could be simplified to reduce official discretion. The opportunities for corruption are reduced when the government uses transparent market-like mechanisms and auctions both for procurement and disposing government assets. Freedom of information is essential. Financial data should be independently audited and properly and clearly classified. Ministers should not have access to secret funds. Citizens need to be able to find out what the government is doing and to use this information to hold the government accountable.

Although many economists consider that low level corruption is economically more damaging, the fact that low level officials are often forced into corruption by low pay suggests that it would be more just and effective to start by going after the senior officials. Despite the impressive work of the Control Chamber there has still been no case of a senior official being tried for corruption. This is largely a question of political will. If, as happens now, ministers about whom the rumours become too embarrassing are simply allowed to leave with their ill-gotten gains, the lesson for successors and subordinates is that corruption is a very low risk game. If high officials start to fear the law and a few turn honest, then the risks for those proposing corrupt deals become much greater, as they can never be sure with whom they are dealing. The communist mentality of preferring corrupt subordinates, over whom one has an easy hold, needs to be overcome.

A crucial early measure is to address the quality of courts and public prosecutors. These are among the least respected institutions in Georgian society, not only for their dishonesty but also their incompetence. A new Law on the Courts, designed to enhance judicial independence, was passed in June 1997. Reform received a severe setback in October 1998 when the Constitutional Court rejected the principle of testing and reappointing judges, but popular and political opinion is such that this looks likely to be overcome. District courts are now subject to regional courts of appeal, whose geographical areas do not coincide with political regions in order to reduce the ability of political officials to exert pressure on them. Administration of the court system has been moved from the Ministry of Justice to a new Council of Justice with 12 members, 4 selected from within each branch of government. The irony is that while the independence of the judiciary is crucial in the long term, improvements in the short term require active interference by committed reformers.

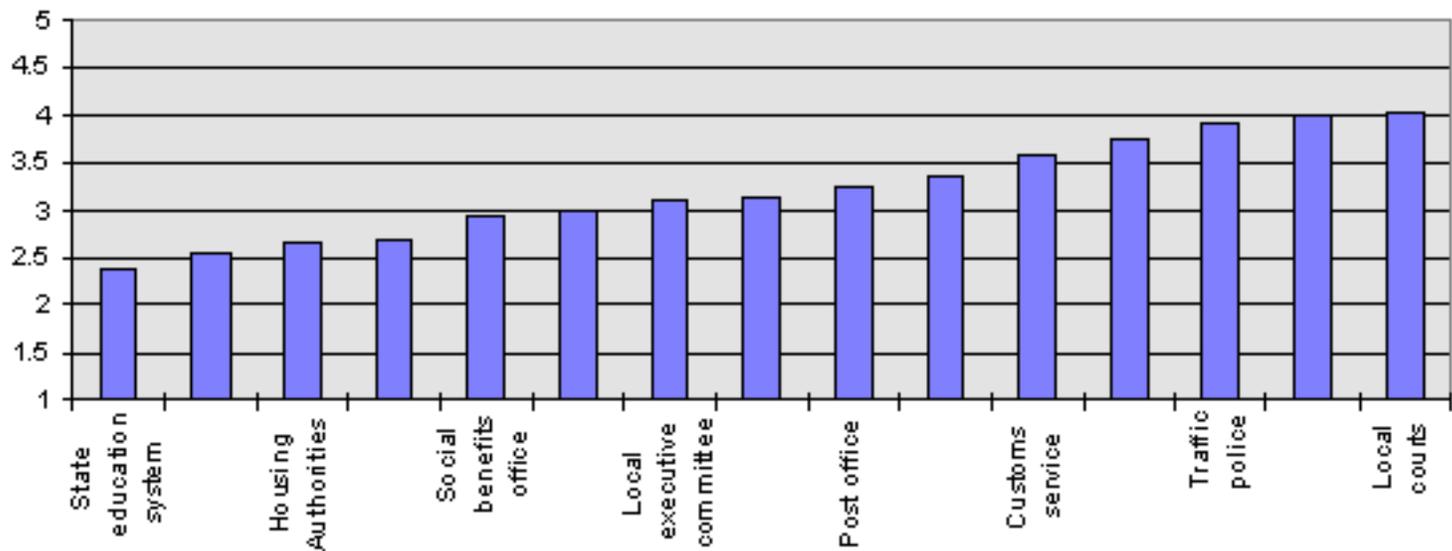
Once an honest and effective enforcement system has been established, the state can move on to the reform of political and bureaucratic institutions. Raising salaries to levels comparable with the private sector will be essential, or only the unqualified or those happy to take bribes will be willing to work for the state. Pay levels have risen significantly over the last two years but at the lower levels it is still not possible to survive on a state wage. Improving this will require further revenue collection improvements, reductions in staff numbers and private sector growth to make these reductions politically possible. Still, the continuing existence of corruption at higher levels suggests that monitoring is also required. It is very encouraging that the Control Chamber is considered the most honest public organisation by bureaucrats in the USAID survey. Without political will however its conclusions can always be buried. Apart from a cultural change, which will take time, perhaps the most important long term anti-corruption measures will be the development of a genuinely representative democracy, a free press and a dense network of non-governmental organisations. Some of these issues are addressed in more detail in later sections.

Reform could focus not just on corruption but on creating a culture of service within government. The unpleasantness of dealing with bureaucracy remains a major source of worry and hardship. Although nothing could be further from communist traditions, it is possible to attempt to increase consumer orientation within a bureaucracy. Performance measures can be effective in drawing attention to relevant measures, and perhaps in motivating individual officials. The length of time it takes to respond to an application is an example. Surveys can evaluate customer satisfaction. Private companies conduct such monitoring exercises all the time. It should be possible to compare the administrative costs on items like travel with those achieved by the private sector, and to use performance as a basis for rewards. Still some things are more difficult to monitor. It is still hard to measure the quality of administrative decisions, let alone individual contributions to those decisions. In education it is possible to measure basic skills but much more difficult to measure higher order and more cognitive skills. However the recent testing programme for teachers is a step towards making rewards depend on performance. Unfortunately some institutions prefer to respond to surveys like the one below with vague threats towards the organisers rather than by examining their performance. Again the press, NGOs and the political system have a crucial role to play in publicising such results and making the public feel they have some influence on the performance of the government.

### **Public perception of quality of service**

(1=excellent, 5=very poor)

based on respondents who had contact in the past year



Source: USAID, World Bank

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## 2.3 Local Government

Local democracy is crucial to this process of improving accountability. Building local political organisations sensitive to local needs is an essential part of national democracy. Local information can often identify cheaper and more appropriate ways of providing basic services. Evidence from other countries suggests that absenteeism by rural teachers and doctors can fall sharply when schools and clinics are made accountable to the local community. Even when the state does spend a significant part of its budget on antipoverty programmes often very little can reach the real poor if there is no organised pressure from the intended beneficiaries and the programmes are administered by a distant, corrupt and unaccountable bureaucracy. Community institutions can do much for poverty alleviation by providing an informal framework for co-ordinating the design and implementation of projects like water management, environmental protection, and the provision of other local public goods. This is by no means a panacea. The weak administrative and revenue-raising capacity of local administrations can seriously restrict their financial autonomy. In situations of severe social and economic inequality local institutions can easily be captured by local overlords, whose priority is not usually to help the poor. The geographic concentration of production will mean that redistribution from the centre is always needed. Central government will have to help raise outside finance, underwrite risks, supply training and support services, invest in larger infrastructure and co-ordinate externalities across localities. In Georgia this is still only beginning.

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## Local elections

The November 1998 local elections have probably been the most important political event of 1998. Local councils, sakrebulo, were created under President Gamsakhurdia, but never started work. Since then the process of real decentralisation has been subject to many obstacles and delays. Local authorities have remained authoritarian and largely untouched by reform, severely hampering the social and political development of the regions. The Constitution, passed in 1995, declared that the issue of local self-government would be addressed when the territorial integrity of the country was restored. However increasing political pressure, and the realisation that a settlement in Abkhazia will take a great deal longer than first thought, have combined to force the question to be addressed earlier. External pressure and the desire for integration into structures like the Council of Europe have also played a role.

The 'Law on Local Self-government and administration' was passed by Parliament in the autumn of 1997. In villages and small towns the electorate chooses a sakrebulo which forms the local executive authority. The main powers of sakrebulo are to approve local budgets and socio-economic plans, and to supervise their execution. They can also remove the local authority by a vote of no-confidence. However local democracy remains significantly limited. In large towns and at the

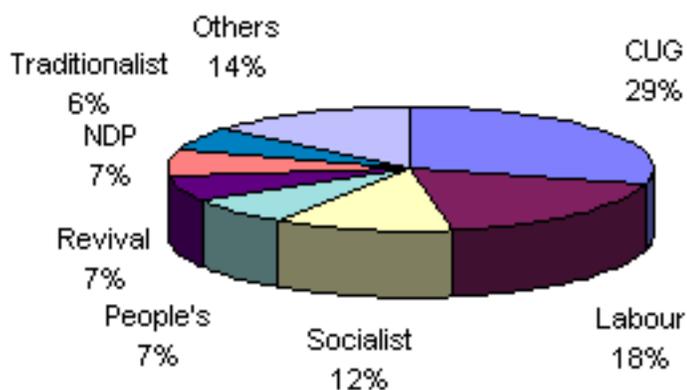
regional level, central government retains ultimate control with the President keeping the right to appoint mayors and governors and their deputies.

The details of the election law caused considerable political controversy and the final draft was passed only in June 1998. The parties represented in Parliament eventually agreed that the Tbilisi sakrebulo would have 55 deputies, those of other major towns 30 deputies, and those of smaller areas between 5 and 25 deputies according to the size of the electorate. Areas with an electorate of less than 2000 would be elected by a majoritarian system, and larger ones by a proportional system, with a 5% barrier for areas with over 21 deputies. The importance of the proportional system and the 5% hurdle gives a significant advantage to already established parties, although the population's faith in these is generally low.

31 parties and blocs applied for registration for the local elections, and 11 were eventually decided to have satisfied the criteria for participation, mainly on the basis of signatures collected. The United Communist Party was originally rejected by the Central Electoral Commission and then accepted on appeal, but then decided not to participate. Only the Citizens Union of Georgia, the Socialist party, the Union of Democratic Revival and the National Democratic Party stood for election in every sakrebulo. Most concentrated their efforts on the urban and regional levels. The NGO Fair Elections reported widespread violations of the election law, mostly due to very poor organisation.

Campaigning was dominated by social and economic themes, rather than geopolitical ones. However the final turnout was considerably lower than in the 1995 national election. Protest votes in local elections are common but the results do also suggest weariness with established parties and politicians. The era of grand national ideological debates appears to be over but most of the votes that previously went to nationalists or communists went to parties concentrating on social protest, above all the left-wing and populist Labour party. The state of the health and education systems and continuing poverty and corruption became a major theme in criticisms of the Citizens Union.

### Preliminary results of proportional representation voting in local elections



Source: Svobodnaya Gruzija

Note: Results from first-past-the post voting are not yet available.

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### Local environment

The newly elected councils will face huge obstacles. The effectiveness of local democracy will for a long time be limited by appalling socio-economic conditions in the regions, with most local infrastructure destroyed and the population mostly surviving from day to day. The electorate is still largely alienated from local authorities (and from government in general), and does not see them as bodies that might defend their interests. With society divided and unequal there are few public institutions operating between government and the population. Local government employees usually continue to worry more about the opinions of the central government than of local people. Local deputies, like national ones, have wide immunity from the law for no apparent good reason, and there may be some danger of criminals being attracted to such privileges, as has happened in Russia. Democratic attitudes will take some time to get established.

Perhaps the greatest problems are financial. The revenue raising capabilities of most authorities are very limited, and redistribution systems are undeveloped. Many local authorities used transfers received from the centre in 1998 to cover dues back to the centre and failed to pay wages and pensions locally. A great deal was also clearly stolen. In some cases this has caused unrest. Teachers have declared strikes over unpaid wages in all regions. Some local authorities have taken extremely expensive loans from commercial banks in order to pay current expenses, and now find that most of their income goes on debt servicing. In Kakheti there has been social tension as local budgets have been forced to pay for loans taken by wine producers under local authority guarantees. Most wine producers proved unable or unwilling to pay off their loans and local authorities have little left for other expenses. Fulfilment of revenue plans varies hugely across regions, suggesting that targets are still more arbitrary than realistic. Genuine local initiatives are hardly possible in such circumstances, and almost all policy decisions come from the centre. Laws on 'Economic foundations for local government' and 'Local finances and taxation' are expected in 1999. Serious training in financial and administrative skills will also be needed if local authorities are to respond to the demands and opportunities of decentralisation.

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## 2.4 POLITICS AND PARTIES

The local elections were an important spur to general political development. Still, political parties remain extremely weak, not because of political oppression, but largely for organisational and financial reasons. Their activities and programmes suggest that political views are of secondary importance in forming alliances and gaining financial support. The development of a genuinely representative political system takes time but the problem also lies in the current distribution of income and political influence. While most of the population is struggling to survive, political activity is left to those in the bureaucracy, financial-political clans and people searching for business protection. Very few people trust parties to represent them, and politically oriented young people tend to prefer to join NGOs. The media and NGOs still play a far more significant role in expressing peoples wishes and safeguarding democracy.

Party building is a key aspect of post-totalitarian democratisation, and political parties have a crucial role to play in making politics more representative and competitive, and less corrupt. In general parties in Georgia are still weak and are not effective means for people to make their voices heard. Although about seventy parties are now registered there are still few clear ideological differences between them. For the most part society is deeply sceptical about parties and prefers to express its hopes and preferences in terms of personalities. The notion of party discipline is widely detested by the political elite (being associated with Communism), but internal democracy is also undeveloped. There is thus little in the way of organisation or efficiency. Usually a party is identified with the leader or a narrow circle of leadership, with others being followers rather than active members with any influence on decision-making.

A result of this is that parties are continually disappearing, regrouping and finding new alliances. The collapse of the Communist regime was accompanied by the establishment of very diverse political organisations, from radical nationalist organisations and right-wing monarchist groups on one side, to followers of Bolshevism and Stalinism on the other. Despite the fact that Georgian legislation prohibited and still prohibits the establishment of parties representing separate regional and ethnic groups, many regional and ethnic parties were also established. The revolutionary nationalist parties tended to depend greatly on charismatic leaders, and the only one with still significant influence, the National Democratic Party, lost a lot of support when it split on the grounds of personal rivalry within its leadership. More intellectual groupings like the Republican Party failed to find strong leaders or popular support. Now alliances of convenience are formed and collapse every month. The Communist party and Labour party hint at alliance with the Acharan Union of Democratic Revival. The pro-business Socialist party have relations with the Stalin party. The dominant party, the Citizens Union,

provides a home for a huge spectrum from former communists to reformers and ecologists. Short lived parties and blocs are created before each election, often around popular candidates who are otherwise uninterested in party politics. It is thus still extremely difficult to forecast future developments.

The most positive recent development is the increasing moderation of Georgian politics. Now, as in the past, the majority of parties declare themselves committed to the principles of peaceful political engagement and general patriotic ideas. The manifestos of most parties revolve around variations on the slogans of stability, democracy and sovereignty. Yet between 1989 and 1993 a characteristic feature of political life was the establishment of military branches of parties and the armament of political organisations like Lemi and the Merab Kostava Society. Now, despite the continuing existence of radical organisations, more moderate and centrist views have come to the fore. Increasing pragmatism is visible in parties' foreign policy ideas, national and ethnic policies, social and economic prescriptions, and their practical activities. Political culture appears to be maturing fast.

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## Social basis of political parties

In the early years of reform few parties bothered to worry much about their social base and attempt to find lasting sources of democratic support. Now many attempt to appeal through their names to entrepreneurs, the intelligentsia or workers. Registered political parties in 1998 include the Union of Intelligentsia, the Union for Protection of Pensioners' Rights, the Party for Protection of the Poor, the Labour party, the Union for Protection of Women, and the Bourgeois-democratic Party. Parties whose titles do not suggest class priorities are trying to find other niches in an increasingly stratified society. During the 1998 local election campaign it has been very popular to talk about the interests of the middle classes.

Regional and ethnic groups also still exist, particularly in mountainous regions. They usually avoid legal censure by including general Georgian programmes in their manifestos or by opening offices outside their local region. A number of social-political unions of IDPs from Abkhazia are also gaining in influence. Yet the only regional party with significant power is now the Acharan Union for Democratic Revival, which is attempting to spread its activities all over Georgia and does not stress its regional roots.

In general social and regional interests still provide an inadequate basis for political support and most of the parties mentioned above remain weak. This is a legacy not only of nationalism and the popularity of ideas of equality, but also the new fluidity of society and interests. Economic and social regrouping in Georgia is still at an early stage. Now the strongest political parties have their social base only in the government bureaucracy and financial-political clans. The most important electorate are influential patrons and people looking for protection. The large parties are held together by patronage and clan loyalty. Under these conditions, and with large numbers in the regions still poor and politically disaffected, there is potential for populism and instability.

## 'Voting give people like me some influence on how the government runs things'



Source: US Embassy

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## Party programmes

There are now about 10 parties that stress nationalism even in their title, for example the Union of Georgian Nationalists and Shield of the Motherland. Others with more neutral titles also stress the concept of nation, sometimes understood as a primordial and genetic union of peoples. These include the United Republican, People's and National-Democratic parties.

A further manifestation of nationalism is the fact that about two thirds of parties now oppose or doubt the idea of federation. Most also oppose land privatisation in border areas inhabited by non-Georgians. Pro-federal parties are very small, such as the Christian-Democratic Union or the United Party for Protection of the Poor. Larger parties tend to avoid details when talking about regional self-management and the restoration of Abkhazia. The Union of Democratic Revival states that it supports the idea of federation, but has not put forward a clear plan for the territorial and political structure of the country. In the bad relations between the Acharan and Tbilisi nomenklatura the opposition of financial-political clans and feudal patronage plays a greater role than the choice of federation as a suitable system for the country.

Apart from the Communist Party and its associated sects all parties support the principle of a market economy. Some parliamentary parties, notably the Socialist and Labour parties, and some groups outside parliament call for free education and health care, and for protection for local enterprises. This has proved particularly popular in the local elections. Many call for restrictions on the market and criticise the IMF. The Citizens Union (CUG) has generally moved away from calls for more regulation towards a more liberal economic policy. The CUG and other parties are notably vague on the question of privatisation of land and large enterprises.

Most parties are also democratically oriented. The responsibilities of Parliament are notably broader than in most other post-Soviet countries. The Chairmen of many parliamentary commissions are active in policy management and formation. A free press is also generally supported. The CUG is somewhat cautious on the idea of local self-government and ensured that the Law on Local Government passed in 1997 did not include measures for the election of regional governors and mayors of large cities. Parties with a less democratic image, including the Union of Democratic Revival, showed more democratic inclinations here. Only 20 parties of the registered 70 decided to take part in the local elections, many using the excuse that the election law was not democratic.

The majority of parties aim at integration with Europe, which is usually seen as a way to increase sovereignty. There are differences in tactics however. The CUG accepts the current relationship between Georgia and Russia, including participation in the CIS security system, allowing Russian military bases to stay for the time being, and widening the mandate of Russian peacekeepers in Abkhazia. One of the largest opposition groups in Parliament, the People's party, campaigns for the withdrawal of Russian peacekeepers and regular troops. Representatives of the radical nationalist groups outside parliament demand that Russia bases be recognised as occupation forces.

While still a minority, supporters of the idea of CIS integration and deepening relations with Russia are becoming more active. The newly popular Labour party, as well as the Union of Democratic Revival and the pro-USSR Communist party, accuse the ruling elite of ruining the country by excessive pro-westernism. Relations with Russia are seen by some as a measure of protection against 'western cultural expansion'. Closer Caucasian integration, while a matter of pragmatic co-operation for some like the CUG, has cultural and mythological anti-western overtones for others.

Party programmes are still hard to understand in conventional political terms. Many contain quite contradictory views and apparently incompatible ideals. The Union of Citizens supports a liberal economic policy while declaring itself a left-wing party and having observer status in international socialist groups. The National Democratic party considers itself a European Christian-democratic party but proposes giving the orthodox church a special role in political life. The Green party declares that it follows different policies from European Green parties, and fully supports the current government. Members of the right wing Union of Traditionalists have resigned to join the very left wing Labour party. Changes in programmes are usually influenced less by the electorate than by the balance of power within the elite and financial-bureaucratic clans.

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## Organisational Development

There are some tendencies towards consolidation and improving organisation, both in and outside parliament. The CUG has built a national network and retained almost all of its deputies in parliament. However unity may be more a result of the widespread wish to be a member of the dominant party than of consensus and political maturity. Autonomous units like the Progress League and the Acharan Mother Georgia organisation exist within the party. Parties supporting the government, including the CUG, the bloc National Consent, the Green Party, Sportsman's' Georgia and Lemi have in common mainly support for the President. They stood separately at the local elections, and preliminary results suggest they were less successful than they expected.

On the opposition side there has also been some fragile coalition. Since 1997 some steps have been taken towards establishing a People's Patriotic Front, with negotiations including representatives of the Communist party, some ultranationalist organisations, the Labour party, and the Union of Democratic Revival. The alliance between the latter two is both more formal and more successful, though based largely on opposition to the CUG and the large financial resources of the Acharan leader. They also share a relatively pro-Russian orientation. The Labour party appears to have been successful in mobilising voters dissatisfied with health and education reforms, and the Union of Democratic Revival appears to be guaranteed most of the Acharan vote. The Union of Democratic Revival has attempted to spread its activity to Javakheti, where there are also some separatist tensions, but with less success. Its position is still entirely defined by that of its leader, who also does not rule out co-operating with the government in parliament again if concessions are received.

The more moderate opposition is more fragmented. In 1998 four deputies left the People's party to establish four new parliamentary groups: the Democratic party, Agrarian-Democratic party, League of Intellectuals and Union for Protection of Pensioners' Rights. The National-Democratic party shares the Peoples' party's demands for the withdrawal of Russian bases but is slightly less critical of the government. The Socialist party has a leading role in the Majority-Socialist faction in parliament but its position also seems to depend largely on its leader's complicated relations with the President.

The extreme opposition remains terminally divided. The Communist party largely represents old nomenklatura figures who were until relatively recently supporters of the President. Two rival groups claim to have inherited the title of the party of Zviad Gamsakhurdia, Round Table - Free Georgia. The Zviadists retain influence in some regions and among the poorest part of the population but are extremely diffused. Since they consider the current government a Russian imposed junta, they tend to concentrate more on street demonstrations than representative politics. There may still be some danger of this lack of representation spilling over into violence, as the October uprising in Senaki indicated.

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## 2.5. HUMAN RIGHTS

Message on the Occasion of Human Rights Day 10 December 1998

In commemorating the 50th Anniversary of the Universal Declaration of Human Rights this year, the international community bears witness to the growing support for human rights everywhere.

The Declaration is the cornerstone of a global human rights movement embracing wide-ranging concerns within diverse cultures, religions, traditions and legal systems. But despite progress in all areas of human rights, the goals of the Universal Declaration remain elusive for the billions of the world's people who live in extreme poverty.

Poverty is a brutal denial of human rights. Lack of access to safe drinking water and health care means that almost a third of the people in the world's least developed countries have a life expectancy of just forty years. For them, poverty is a denial of the most basic of all human rights: the right to life. In the poorest countries, thirty per cent of all children under five are malnourished, and thirty-eight per cent of all adult women are illiterate. Women in poverty, who are victims of the same deprivations as men, carry the additional burden of unequal access to services, legal status, and the financial credit necessary to break the shackles of poverty.

The United Nations Development Programme strives to end extreme poverty, to empower poor people to escape from social exclusion and participate in public decisions that affect their lives. Increasingly, governments are requesting our assistance to develop policies and programmes to reform judicial systems, to promote democratisation and to support a free and independent press and the respect of all human rights.

As we commemorate the 50th Anniversary of the Universal Declaration, we call for greater links between the human rights and the development communities. This growing partnership is bringing fresh ideas and vigour to our mission for the eradication of poverty. We strongly support an embracing commitment to all human rights, including the right to development. The Universal Declaration of Human Rights remains as valid today as it was fifty years ago.

Until quite recently the problem of defence of human rights in Georgian society was rarely raised. At a time of hyperinflation and banditism few expected or demanded scrupulous government policy in this area. Firstly the influence of armed criminals was so clear that representatives of state structures could simply respond to complaints by citing their own powerlessness. Secondly there were no effective non-governmental organisations and the political opposition was interested almost exclusively in Russo-Georgian relations and in accusing the President of betraying the ideals of independence.

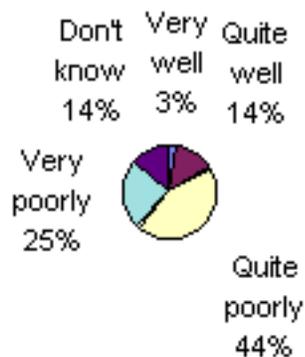
The situation has changed fundamentally since 1995. As the situation in the country has stabilised and state structures have acquired real power, expectations towards the authorities have also grown. The nationalist opposition has lost influence and the role of NGOs has greatly strengthened, with many of the latter focusing on questions of human rights.

The human rights situation has clearly improved, but much remains to be desired. By the ratings of Freedom House Georgia can now be categorised as 'partially free'. Those who remember the criminality of five years ago find much to be happy about, yet human rights activists point out that gratitude for stabilisation can not be expected to last for ever. Every satisfied demand, quite understandably, gives rise to new demands.

The view is very widely expressed that in Georgia now the laws are reasonable, but that problems arise because government structures systematically break them. In the human rights sphere this is generally true, with some exceptions. While the constitution does guarantee the fundamental rights and freedoms of citizens, some claim that there are still normative acts in force that do not correspond to the standards of a free society, and may be unconstitutional.

Thus the constitution guarantees freedom of association but amendments made by Parliament in May 1998 to the law 'On demonstrations' effectively require advance notice to be given to the authorities of all demonstrations. While the Constitution declares freedom of conscience and belief and the separation of church and state, representatives of some religious groups complain about the privileged position of the Georgian Orthodox Patriarchy, which has some official authority over school curricula and enjoys tax exemptions. In relations with the press, the frequent use against journalists of the Eighteenth Article of the Civil Code, 'On the defence of honour and integrity', raises some concern. Under this code the burden of proof lies with the defendant, who in recent experience tends to lose. Still complaints about the legal code now more often relate to areas of omission. In 1999 Parliament plans to introduce a law on freedom of information and an administrative code, which should go some way to clearing up existing grey areas.

### Does the government protect all citizens' political rights?



Source: US Embassy

The most serious problems do indeed relate to enforcement. The most widespread and prominent human rights abuses now come in the form of beating and torture by the police, and the frequently violent dispersal of demonstrations by the radical opposition. It is extremely hard to establish the true number of policemen in Georgia. Declarations by representatives of the Ministry of Internal Affairs are often contradictory, but suggest a figure in the region of 30 to 35 thousand. Some consider the true figure may be up to twice this. Even if not, the ratio of police to citizens remains extremely high. Training levels are generally low. The frequency of violence used during preliminary investigations can often be explained by a lack

of understanding of how to gather evidence in other ways, evidence not being a crucial factor in the Soviet criminal legal system. Wages are relatively high by local standards, but not high enough to prevent pervasive corruption. The police are far from apolitical and the political importance of senior police officers has apparently sometimes induced political authorities to turn a blind eye to particularly blatant misuse of funds. Fortunately the press is not so circumspect.

Accusations of brutality against the special OMON division of the police are particularly common. Many journalists report having been beaten up by officers from this division, including even by the head of the division himself. Court cases are underway concerning two of these incidents, but human rights NGOs claim the cases are being deliberately delayed. In July 1997 a police captain was sentenced to four years in prison for beating to death a man who crashed into his car, but such cases remain uncommon. Beatings and torture are reportedly particularly common in Kutaisi and in Isolator number 5 in the basement of the Ministry of Internal Affairs. Cases of suspects falling to their death from the windows of this ministry are still not unknown. In general the most important power structures remain notably unreformed. Not only they but the public also have some difficulty in freeing themselves from traditional totalitarian expectations. The fact that a person was beaten up in police custody or at a demonstration still often raises little surprise or indignation, except on the part of human rights NGOs or the relatives of the victim.

The army, while generally considered less corrupt at the top, also preserves many totalitarian traditions. If the police have started to become used to the attentions of journalists and human rights activists many in the military still view such attentions as subversive interference in matters of state importance. Human rights violations during military service are widespread. Conscripts now tend to come mainly from families who can not afford to pay bribes. NGOs recently adopted the case of Giorgy Tobulov, who was conscripted despite suffering from a chronic inherited illness. His certificate of disability was lost or deliberately misplaced and while in the army his condition quickly worsened. The military hospital refused to treat him as this would cast doubt on the original decision to recruit him. Seriously ill, the soldier apparently had to return home himself for treatment, and for this was put in prison as a deserter. After the intervention of the deputy Ombudsman the sentence was cancelled, yet at the time of writing Tobulov remains in custody. With the case now widely known there seems to be a high chance of him being released on bail. The chances of those responsible being investigated seem more slim.

While most areas of human rights protection have recently taken significant steps forward, a few aspects have stagnated or regressed. The recent decision of the Constitutional Court reversing the retesting and reappointment of judges has been seen as a major step backwards. Widespread corruption in the system still denies justice to the poor. Soviet-era judges continue to identify themselves with the government and still rarely go against the government's will. Evidence that is obtained illegally is rarely excluded. The recent case of the trial of Jaba Ioseliani and other Mkhedrioni leaders was an interesting example. While few in society doubted the guilt of the accused the Prosecutor's office was unable or considered it unnecessary to provide significant proof beyond confessions obtained in preliminary investigation. The defendants claimed these were extracted under torture. It also took 27 months to bring the accused to trial, well in excess of even the Soviet legal limit. The US State Department considers that similar violations, including torture, use of forced confessions, fabricated or planted evidence, denial of legal counsel, and expulsion of defendants from the court room, took place during the trials of members of the Zviadist government like Kobalia, Zarandia, and Molodinashvili.

Opposition political parties are often slow to raise such violations as a serious political issue. Indeed, NGO representatives claim that in 1998 political parties have largely abandoned the human rights theme to NGOs. Several dozen of these are now operating mainly on human rights questions. Some, such as the Association for the Defence of Human Rights, focus almost exclusively on the rights of the supporters of ex-President Gamsakhurdia, but most are relatively apolitical. There are also very encouraging signs of human rights concerns becoming more institutionalised. A deputy secretary has been appointed to the Security Council charged with defence of human rights. The Parliamentary Sub-Committee for the Reform of the Prison system has continued to be notably active. The Constitutional Court continues to interpret its human rights mandate narrowly, only hearing cases where the complaint alleges a violation was sanctioned by law, and rejecting allegations of illegal violations of human rights. However the long awaited appointment of an Ombudsman could do something to fill in this gap. Under Article 43 of the Constitution the Ombudsman is to investigate violations of people's rights and freedoms and pass on his conclusions to the appropriate bodies. The Ombudsman's decisions are recommendations only. To date there have not been many visible results, but the institution could in the future play a crucial role in the defence of human rights.

As with many aspects of human development, the difference between the situation in Tbilisi and the regions is still striking. There remain very few regional NGOs and little in the way of independent media. Because of this little information on abuses is publicised. The greater number of recorded violations in Tbilisi is purely due to the fact that in the

capital it is easier to draw the attention of the press and public to such problems. More people in rural areas are concerned exclusively with social problems, like non-payment of state wages and pensions. Surveys suggest that many, deprived of means of communication, still have a very hazy idea of their civil rights.

The situation in the Acharan autonomous republic is particularly difficult. Many local observers describe the region as a police state. It is certainly the only place in Georgia where people are frequently afraid to talk about politics. In 1998 there was almost complete political calm in the region, since domestic opposition appears to have been largely rooted out. The government's complaints are now addressed mostly to the Tbilisi based media. During the local elections unofficial observers reported severe violations of electors' rights, yet central authorities are forced to turn a blind eye. Such electoral violations are by no means confined to Achara, yet the Acharan authorities particularly distinguish themselves, ensuring themselves over 90% of the vote.

The current situation in human rights can perhaps be characterised as good in parts. The government's declaration of liberal-democratic values and desire to join European political structures like the Council of Europe has brought much progress. If much is still superficial, impressively active NGOs and newspapers do much to draw out the failings. The heritage of totalitarianism, especially in the law-enforcement agencies, and widespread disrespect for the law and lack of knowledge of rights among the population, mean much more time will be required.

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## 2.6. PRESS FREEDOM

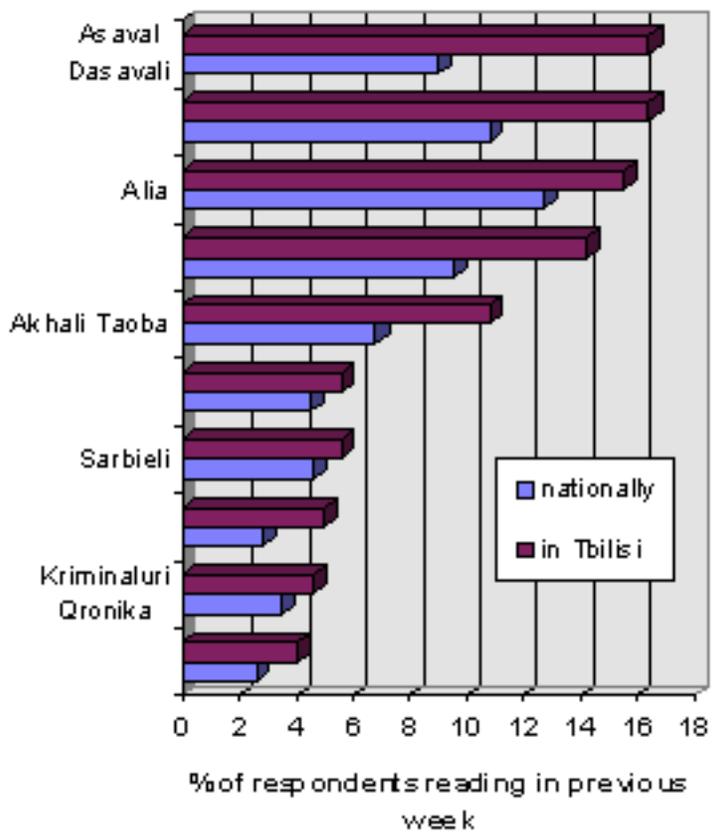
Over the last several years Georgians have become quite accustomed to the existence of an independent press. 45% of Tbilisi inhabitants surveyed by Black Sea Press in October 1998 said they considered the media to be free, 35% as partially free, and only 10% as not free at all. 54% said that one can trust the media, but only the private media; 22% said they trusted both private and official media; and 10% did not trust the media at all. 80% of editors and 50% of journalists characterised the media as free. While standards are not always high, the market is competitive and largely fearless.

The free press has its origin in the newspapers printed by political parties in the *glasnost* period of 1990 to 1991. In 1992 and 1993 many of these newspapers managed to evade party control and the active division in the press became less one between official and opposition, and more between official and independent. It was at this time that some of the most popular current newspapers began publication, including for example Rezonansi, and the first private television channels were formed. 1995 and 1996, was a time of dramatic quantitative and qualitative changes. As the number of periodicals, information agencies, TV and radio companies grew, fierce competition forced many to raise their standards. While in previous years much of the independent media had seen itself mainly as a means of self-expression after Soviet dictatorship, many gradually came to consider themselves more as businesses. Now over 600 private newspapers, over 150 independent TV and radio companies and around 50 information agencies, are registered. Many exist only on paper, but the Ministry of Justice estimates that about half of these are actually operating.

As the figures below suggest, television is overwhelmingly the most popular form of media, and nationally viewing is still dominated by the Georgian and Russian state channels which have the most powerful transmission. While still state controlled, the standard of journalism on Channels 1 and 2 is generally thought to have improved substantially recently, partly helped by competition from channels like Rustavi 2. Radio is also highly competitive though most channels concentrate on the young and do not attempt to provide a serious news service. Newspaper circulations are much more limited, because distribution systems have collapsed and most of the population can not afford regular purchase. The market is still a vibrant mixture of serious and popular, with most of the state organs hardly figuring in circulation tables.

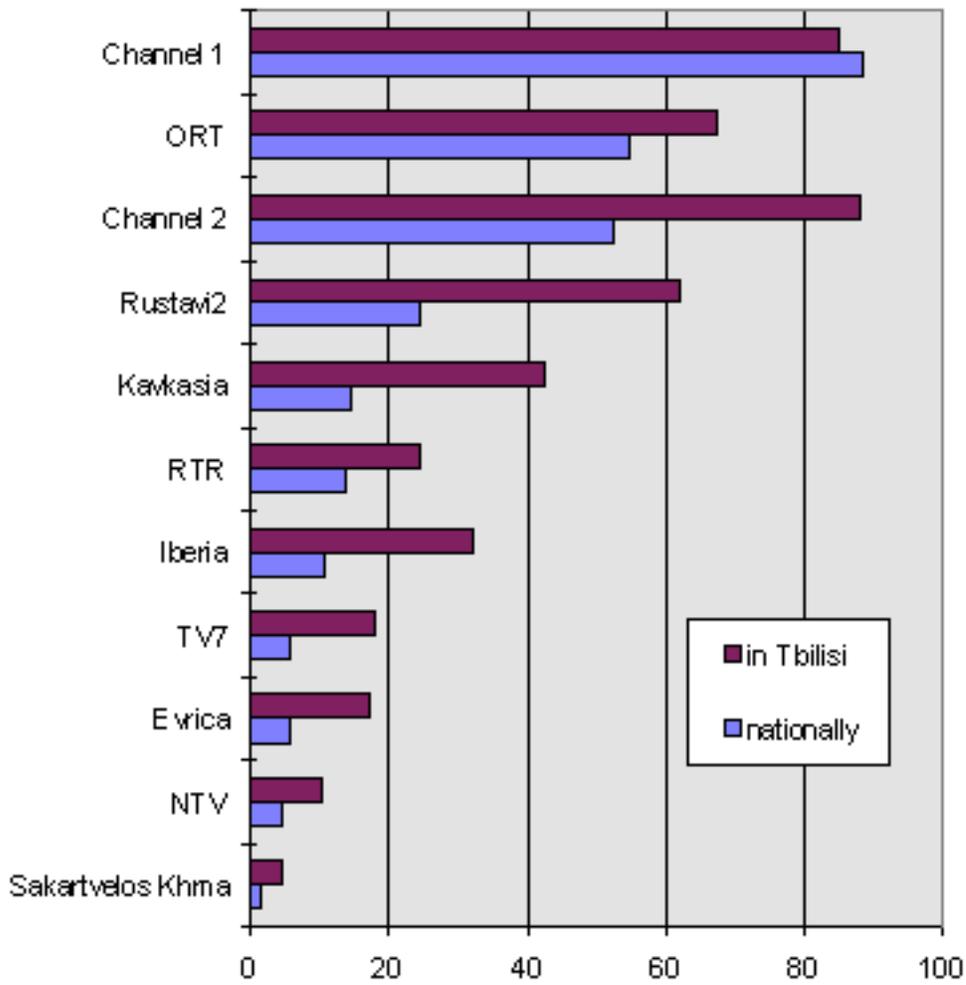
### **Most popular newspapers, nationally and in Tbilisi**

(percentage of survey respondents having read in the previous week, July 1998)



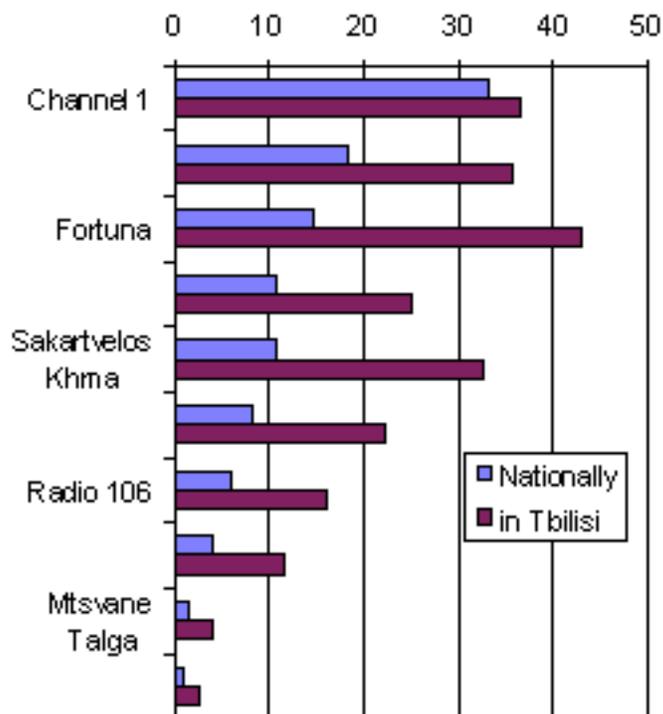
Source: GORBI Geomedia

**Most popular television channels, in Tbilisi and nationally**  
 % of respondents having watched in last week



Source: GORBI Geomedia

**Most popular radio stations, nationally and in Tbilisi**  
 (% of respondents having heard in previous week)



Source: GORBI Geomedia

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## Regulation of the media

Media activity is regulated by the Constitution, by the law 'On the press and other media', as well as by the law 'On enterprises', the tax code and a number of sublegal acts.

'The Georgian press and other forms of mass media are free, their freedom being guaranteed by the constitution. Citizens of Georgia have the right to express, propagate and defend their opinion by any means. They also have the right to receive information on social and state issues: censorship of the press or other media is forbidden.'

### *Law on the press and other media*

Article 14 of the Constitution guarantees freedom of speech, thought, conscience and faith. Article 24 establishes the right to receive and transmit information and opinions in any form: 'the media is free, censorship is inadmissible, and neither the state nor individuals have the right to monopolise the media or its transmission.' Article 41 gives citizens the right to view information held about them in state organisations, and also to view official documents that do not contain state, commercial or professional secrets.

At the same time these freedoms can be limited if they impinge on the rights of others, in the interests of public or state security, or to avoid a crime. Article 17 makes a person's honour and worth inviolable. Article 20 gives the right to a private life, a right which can be overturned only by court decision or in limited circumstances laid out in the law. The Criminal Code limits blasphemy, pornography and incitement to violence. Under the press law, in a State of Emergency the President can limit a journalist's freedom of action and access, though the reasons for this have to be explained. Only a court decision can suspend or stop the activity of a media organisation. However in practice local authorities in some areas continue to exercise close control over the activities of the local press, and in Achara newspapers are frequently closed.

Anyone over 18, including foreigners, and any political party, state or public organisation has the right to set up any media organisations, providing their ownership does not exceed 25% of any one form of media. However the law on privatisation forbids state organisations other than the Ministry of State Property Management from owning shares in commercial organisations. This new measure is aimed at limiting the propagandising activity of state ministries and departments, but is

currently little applied in practice. Ministries and local authorities retain shares in many commercial organisations, including media ones.

Like other businesses, media organisations have to register under the law 'On enterprises.' Under the law 'On the press and other media' they also have to register separately for the right to propagate information or print more than 500 copies of any publication. Registration can legally be refused only if:

- the aims of the publication are against the law
- there exists an organisation with the same name
- an organisation with the same name closed less than one year ago

Non-registration can be punished by fines and by confiscation of the publication, and some journalists fear that although this law is reasonably applied at the moment, it has the potential to be used to restrict the media.

As in other countries, the question of licensing and allocation of frequencies for electronic broadcasts is particularly controversial. These are controlled by a licensing commission within the Ministry of Post and Telecommunications, and many consider that in the past relatives and political friends have received favourable treatment.

Georgian law is relatively liberal on the question of openness of information. Under Article 19 of the Media Law journalists have the right to receive information from government departments or officials, and if refused can appeal to the courts. Refusal has to be justified by the keeping of state or commercial secrets. A series of legal and sublegal acts gives journalists the right to attend and record court and parliamentary meetings. Some problems remain. Many news agencies complain that the state information agency, Sakinkformi, also operates as the President's press service and fails to provide information about the President's activities on time to those it sees as competitors. Corruption and low pay in the government is another problem. Many journalists find that government press-services demand money to ensure press releases are sent on time.

Article 24 of the Law on the Press obliges journalists 'to check the truth of information they have received.' Article 20 gives citizens and organisations the right to demand correction of information unfairly damaging their honour or reputation, or concerning their private life, or to seek compensation in court. Articles 139 and 192 of the Criminal Code make it a crime to insult a Parliamentary deputy or a judge or prosecutor. Slander and libel are also defined under the Criminal Code (articles 137 and 138). However, since criminal law puts the burden of proof on the accuser, actions under civil law, where a journalist has to prove that what was written is justified, are much more common. Many journalists consider that such actions are so frequent that they have effectively come to limit freedom of speech. At the same time it is clear that many newspapers do not take their legal responsibilities seriously. The right to reply to accusations, laid out in the Press Law, is rarely enforced.

The weakness and unpredictability of the court system is, as in all sectors, a fundamental problem. The fate of many cases, particularly concerning corruption allegations, still depends on the current balance of political forces. When a case attracts enough public attention it can be possible for a journalist to win a case against a state organisation, but enforcement is usually a different matter. A well known recent example is that of the independent newspaper Orioni from Akhaltsikhe, which in April published an article on homosexual abuse in local army barracks. The local military prosecutor began to exert pressure on the newspaper and arrested the journalist concerned for evasion of military service. He was refused the right to an alternative form of service and sent to serve at the same army base he had written about. After several months and several further court cases involving a number of human rights NGOs, it was agreed that the journalist had the right to non-military service, but since the law on this is still not active, he is now only temporarily exempted from service.

The law on the press was adopted in 1991, under President Gamsakhurdia, and though it was liberal for its time, things have changed so fast that many now consider the law hopelessly outdated. Work on a new version began over two years ago, both in the Parliamentary sub-committee on the press and in a number of independent media organisations and NGOs. By January 1998 there were about fourteen alternative versions of the law. The interested groups met together and agreed to cooperate on a single version. The NGO Liberty Institute has prepared proposals to strengthen the freedom of information aspects of the law. In particular these set higher thresholds for the law on libel and slander. Public figures will not be able to sue for libels that are only value judgements, and will have to prove that a libel had evil or criminal intent. The Liberty Institute proposals also envisage the creation of an independent agency to regulate public television, award licenses for frequencies, and monitor the openness of government.

Georgian journalists still lack any form of self-regulation, with no working professional bodies or agreed ethical code. The Union of Journalists has survived from the Soviet era but shows few signs of adaptation and is not popular among independent journalists. The most successful attempt to form an independent organisation was the Association of Independent Press, formed by seven leading newspapers in 1993. However its formation was a reaction to the then state monopoly on printing facilities, and after this problem was solved the Association fell apart. The main media organisations are still discussing the creation of a new professional organisation, but so far none that has been set up has achieved the necessary critical mass and authority.

In the absence of such an organisation NGOs have been carrying out some of its functions. From May 1998 the Caucasian Institute for Peace, Democracy and Development has been monitoring violations of journalists' rights. The Liberty Institute has conducted training seminars and organised protests about abuses of journalists. Still media organisations now tend to co-operate only in cases of the most flagrant abuse. An organisation is still required that would campaign consistently on protection of journalists, on raising their professional standards, and address other problems facing the sector.

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### **Pressure on the press**

Almost all the editors of leading media companies surveyed by Black Sea Press declared that the government attempted to exert pressure on the media in one way or another. All acknowledged that in the last few years the situation has improved significantly. There is no direct censorship and attacks on media offices by armed groups are now a thing of the past. Yet the problem of constraints on the media has not been solved completely. When editors were asked to name subjects for articles that they knew would seriously complicate their lives, almost all mentioned the situation in Achara and the financial dealings of very senior officials and their families.

According to the Liberty Institute 27 cases of journalists being beaten up have been reported in the last three years. Policemen took part directly in most of these cases and no-one responsible has ever been punished. The head of the OMON section of the police, famous for his radical attitude to the press, is accused of personally taking part in a number of these beatings. After the beating of two journalists during the dispersal of a protest meeting in September, the head of Tbilisi police approved the police action at a press conference. Sixteen of the largest media organisations issued a statement in response that: 'only detailed scrutiny by the public and press can ensure the establishment of a civil society in Georgia, and raise the professionalism of the police force.'

Still nowadays more indirect forms of coercion are more common. It is very common for a journalist who has written a critical piece to find that officials then deny him or her the right to visit a government office, or refuse access to information. Attempts at 'post-censorship' are frequent. Although no official can forbid publication of a story, after writing unflattering material journalists are often threatened by telephone and summoned for interview in various government offices. Often it is demanded that journalists reveal their sources. A particularly common and effective means of pressure is the organisation of extra tax inspections. These can be extremely protracted and effectively paralyse a newspaper's operations.

At the extended government session at the end of the summer devoted to the problem of corruption in government, the majority of high officials demanded a new law limiting the rights of journalists. Many fail to understand the role of the media in a free society and would prefer to work with journalists in the same way that they did in Soviet times.

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### **Financial independence**

Comments from editors along the lines of 'if we only had money we would be afraid of no-one' are frequently heard. All agree that without financial independence, the political independence of the press is almost impossible. Complete financial independence is rare everywhere in the world but in Georgia the problem takes extreme forms. Among newspapers only the most popular can afford print runs that might make them viable. The most widely read national newspaper, Alia, has a maximum print run of about 11,000. Advertising income is generally even lower than that from the cover price. All editors complain that they are unable to invest and raise standards for financial reasons.

The result is that it is now extremely hard to define the line between media organisations that act partly as propaganda tools of a financial backer, and those that are genuinely independent. The Acharan authorities, the largest political parties and a number of ministers are generally thought to be major providers of newspaper funds. Many newspapers and television companies that have not sold themselves to a single backer, are prepared to sell articles and airtime, not as open advertisements but as biased reporting. The press is still at a very early stage as far as its development as a business is concerned, and the distribution of income and power in the country is such that it is likely to remain a tool of political interests and a forum for the settling of political accounts for some time. The period leading up to the next Presidential elections will keep the large press sponsors very active. After that professionalism and quality of journalism may play a more important role in deciding which media organisations survive.

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## Local media

The continuing existence of an independent press in the Georgian regions can only be explained by the irrepressible optimism of journalists. The very low purchasing power of the population, the collapse of distribution systems and the greater scope for official interference, all greatly restrict the local press.

Achara is a special case, where the local authorities exert practically complete control over the local press. The few organs that are technically independent in practice never risk criticism of the regional government. Local journalists tend to be highly reluctant to discuss this question, and usually claim to agree with the local leadership on everything.

In other regions local governments are less authoritarian but financial problems tend to be overwhelming. In Gori for example all attempts to set up an independent newspaper have ended in financial collapse and the gap is filled by 14 local authority controlled or supported newspapers. Such organs mainly chronicle the activities of local government, and lose any shred of objectivity during election campaigns. Since readers are usually not very interested, most are in debt to their printers and appear irregularly. The main source of income is obligatory subscription, where the local government compels regional offices and organisations to buy the papers.

There are also a surprisingly large number (over 30) local television stations. Many of these were founded by self-taught enthusiasts who even constructed the transmission equipment themselves, and survive largely due to paid obituaries announcing funeral times. However the viability and strength of many has been greatly enhanced by the establishment of an Association of Independent Television Companies. During the local elections the Association established a centre in Tbilisi gathering and broadcasting information on the violation of the rights of voters and journalists. Such assertiveness looks very encouraging for the future of Georgian democracy.

## Chapter3

## Economy &amp; Public Spending

[3.1. General](#)[3.2. Macroeconomic Developments](#)[Trade](#)[Foreign Debt](#)[Macroeconomic Policy Options](#)[Tax and Spending](#)[Pensions](#)[3.4. Microeconomic Developments](#)[Industry and Privatisation](#)[Business Conditions](#)[Infrastructure](#)[Energy](#)[Agriculture](#)**ECONOMY & PUBLIC SPENDING**

**I said, 'It's certain there is no fine thing  
Since Adam's fall but needs much labouring.**

*Adam's Curse*, W. B. Yeats

**3.1. GENERAL**

Although there is no automatic link between economic growth and human development, a healthy economy is an essential factor in allowing living standards to rise. The government needs to ensure that growth is sustainable and that the benefits are spread widely. Development depends less on natural resources than on policies that encourage business creation, investment and trade, that promote infrastructure and an educated workforce, and redistribute some of the gains towards the poor. However within Georgia, in economics even more than in other areas there is still very little informed debate on government policy. Public opinion is still very much in favour of reform, but in public and the government the level of understanding and ownership of reforms is still low. Most initiatives still originate with the international financial institutions, who, though undergoing reform themselves, still tend to secrecy. Yet many changes require political will that cannot be imposed from outside. Much better economic journalism and education will be needed to allow properly informed public scrutiny of economic policy and a real debate on the role and priorities of government.

1998 has not been a good year for the Georgian economy. As countries from Brazil to China have been discovering, when the international economic environment turns hostile, policies that a government could get away with in more forgiving times can suddenly become unsustainable. Until recently recovery seemed to be proceeding strongly. GDP growth in 1997 was the fastest in the CIS for the second year in succession, and among the fastest in the world. Inflation had fallen to negligible levels and the lari had been largely stable. With much assistance from the International Monetary Fund (IMF), monetary policy had been responsible and sensible. Yet even before the August 1998 collapse in Russia there were worrying signs. Government revenue collection remains extraordinarily low. While ministries and Parliament continued to buy themselves expensive cars, and engage in larger and less visible abuses, arrears on wages and pensions were building up. The environment for legal small business remains unwelcoming, and large-scale business is becoming alarmingly politicised. When failure to meet tax collection targets caused the IMF to delay releasing its latest tranche of credit the lari was left without effective support.

Georgia is unlikely to suffer from as harsh a downturn as Russia, because of the much lower level of foreign and short term investment here. Yet the effects on trade and the inflow of remittances from Georgians working in Russia are clearly serious. Besides, the Russian crisis contains significant lessons and warnings for Georgia. The root of Russia's problems was the refusal of rich and politically well-connected oligarchs to pay even the minimal levels of tax needed for the state to continue to function. Since it has less natural resources to steal the inequalities in Georgia are less dramatic, but economic growth is disproportionately benefiting a small and highly visible sector of the population, either politicians themselves or with good political contacts. Reformers can do little to address continuing widespread poverty and the funding crises of health and education while so few of these people pay taxes and so much of the money that does come in disappears in the system. Improving the revenue raising capacity of local authorities will be particularly important if local democracy is to take root.

Georgia's achievement in stabilising the economy during such a difficult political period should not be underestimated. Yet the experience of many other transition economies suggests that breaking out of a situation of partial reform can be harder than making the first steps. Hyperinflation and cheap state credits can only ever be temporarily profitable for a self-interested elite. The population soon learns to evade the implicit tax by using other currencies or non-monetary means of exchange. With the coupon this happened very quickly and it must have become clear to even the most venial official in 1994 that printing money was no longer worthwhile. A partially reformed economy, with all the opportunities of the market

but none of the restrictions on monopolistic activity and few taxes to be paid, can then become the most attractive option. Access to government licences and contracts, insider privatisation deals, or the ability to evade tax and customs audits can provide huge rewards for bureaucrats at the expense of the rest of the population. A look at Ukraine or Russia shows that insiders can fight very hard to resist changes that will undermine these privileges. Those countries' experience also suggests that it is crucial to undermine such privileges before the financial and political power of their beneficiaries becomes too frightening to take on. Georgia's reformers clearly cannot afford to rest on their laurels.

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insiders can fight very hard to resist changes that will undermine these privileges. Those countries' experience also suggests that it is crucial to undermine such privileges before the financial and political power of their beneficiaries becomes too frightening to take on. Georgia's reformers clearly cannot afford to rest on their laurels.

**How bad is the current economic situation?**

(1000 people in all Georgia, September 1998)



Source: US Embassy

**How do you think the economic situation will change over the next 12 months?**

(1000 people in all Georgia, September 1998)



Source: US Embassy

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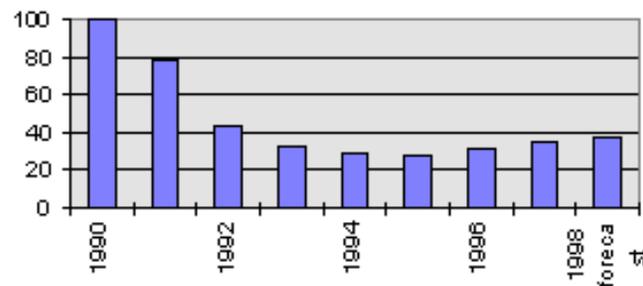
### 3.2. MACROECONOMIC DEVELOPMENTS

One of the most important tasks of any government is in providing macroeconomic stability, and an environment that induces firms to allocate resources efficiently, to improve productivity, and to innovate. In this there is still a long way to go to overcome the legacy of the disastrous economic policies of the early 1990s, and the uncertainty at the end of 1998 will have done little to help.

GDP growth has been rapid in recent years but forecasts for growth in 1998 are being rapidly revised downwards. The internal fiscal crisis and external trade problems have combined with a poor harvest. It is clear that the absolute level of economic activity remains extremely low. After suffering the largest output fall in the ex-Soviet Union, Georgia's economy could hardly help but grow as economic activity became possible again after the civil war. As the figure below indicates, GDP in 1997 was still only just back to the level of 1993 and far below that of 1990. Most available evidence suggests that GDP began falling in the early 1980s so it will be some time before those levels are reached again. In the World Bank's ranking of 133 countries by GDP per capita for 1997 Georgia appears in 82<sup>nd</sup> position just behind China and above Sri Lanka.

However comparisons with the past and with other countries are dangerous. Soviet statistics systematically overestimated output to fulfil fictitious plans and much of what was produced had little bearing on people's consumption or welfare. Steel production became almost an end in itself. The same level of human development could be achieved now with lower levels of GDP. More recent Georgian statistics suffer from different problems. With very few resources and a reporting system based on old state enterprises the State Department for Statistics (SDS) has been forced to make very large and somewhat arbitrary adjustments for the unregistered private sector. Having used higher GDP estimates than the SDS since its arrival in Georgia, the IMF now suggests that both its own and SDS estimates may be too high. Certainly most new activity is in the informal unregistered sector. Any talk of an economic boom is still dangerously premature.

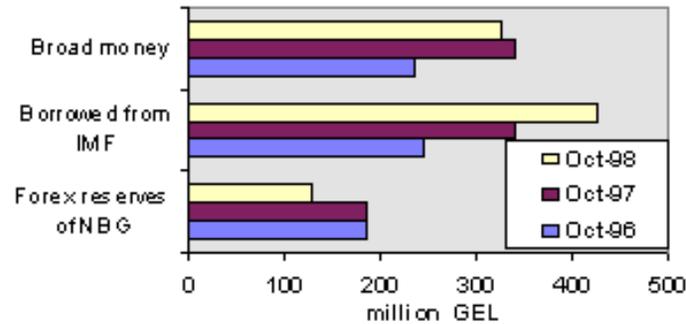
**Real GDP index (1990 =100)**



Source: Data from SDS and IMF

The most notable achievements of reform had been in stabilisation of prices and the currency. Annual inflation was actually negative up to September 1998. Since it is invariably the poor and those on fixed domestic currency incomes who suffer most at times of inflation and devaluation, this was an important achievement. Prudent monetary policies had also gone some way to raising trust in the lari and encouraging a slightly longer term business environment. However after the hyperinflation and pyramid schemes of the early 1990s the public is still understandably distrustful of both the monetary authorities and commercial banks. The IMF estimates that velocity of circulation of lari declined by 17% over 1997, but by the end of the year broad money was still only 5.5% of GDP. People remain reluctant to hold on to lari. Populist politicians continue to accuse the IMF of insisting on an over-tight monetary policy, and numerous other sins, and the government is not above blaming unpopular reforms on conditions imposed by foreign donors. But most evidence and the experience of the recent past suggest that extra lari printed would be converted into dollars and simply undermine the exchange rate rather than be lent to productive businesses. Experience from hyperinflations in other countries shows that confidence in the currency and the government's economic competence, once lost, are always very slow to return. Continuing with very cautious monetary and bank supervision policies and encouraging wider understanding of these aims is likely to be more effective than legislating that people must use lari.

#### **Monetary changes**



Source: Data from National Bank of Georgia

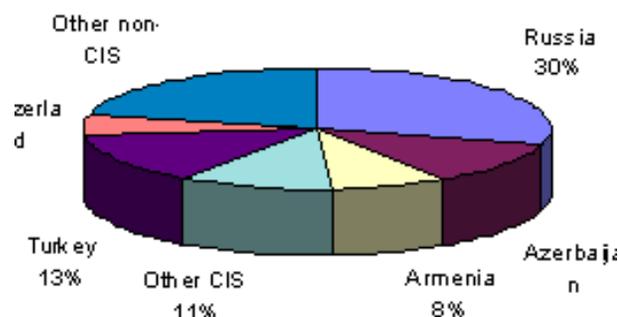
Much good work has also been undone by the events of November and December 1998. Decreasing dollar inflows from Georgian businessmen in Russia and pictures of Russians who had trusted the domestic currency and lost their savings put great pressure on the lari. Lending from the NBG to the government is still the major source of deficit financing, so to keep the lari stable the NBG then has to sterilise its lending by selling foreign exchange borrowed from the IMF. In the autumn of 1998 the NBG spent a large part of its reserves in a hopeless attempt to compensate for dollar outflows and excessive government borrowing. The IMF's refusal to finance further intervention meant it had to admit defeat on December 6th, with about USD 60 million left in reserves, and let the lari find its own level. The price in terms of further demonetisation of the economy may be quite high. Towards the end of 1998 some of the few banks that had been engaged in private lending were suspending new loan-making because currency instability made it too hard to assess projects. The high reliance on consumer imports means devaluation could also lead to upward pressure on prices, though the significant recent devaluations in Turkey and Russia mean this risk should not be exaggerated. Those likely to suffer most are the pensioners and government employees who are owed large amounts by the government, the full value of which they are now even less likely to see.

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### Trade

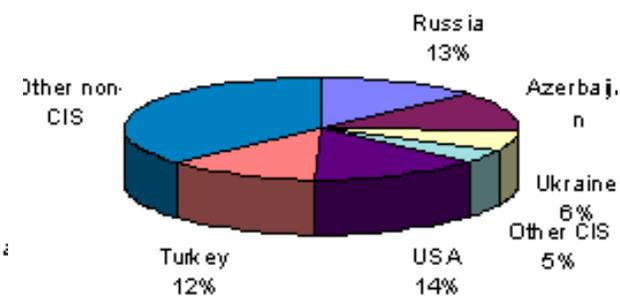
Devaluation of the lari will have been welcomed by exporters and producers competing with exports, who have suffered considerably from devaluations abroad. Although Georgian trade officials like to downplay the importance of Russia as a trading partner and stress reorientation of trade towards the west, Russia is still by far Georgia's most important export market. The crisis is not yet reflected in the statistics, which are available only up to the first half of 1998, but the effects of Russia's new poverty are already starting to be visible. Towards the end of 1998 a number of prominent businesses focused on exporting to Russia had suspended production. The Russian market looks unlikely to recover in the near future and huge effort is going to be needed to find new buyers.

Main export markets 1997



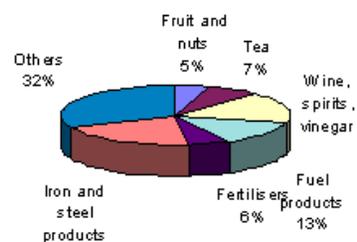
Source: Data from SDS

Main import sources 1997

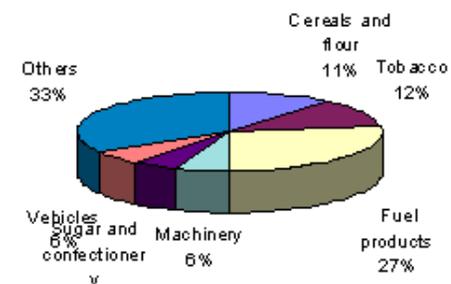


Source: Data from SDS

Main exports 1997

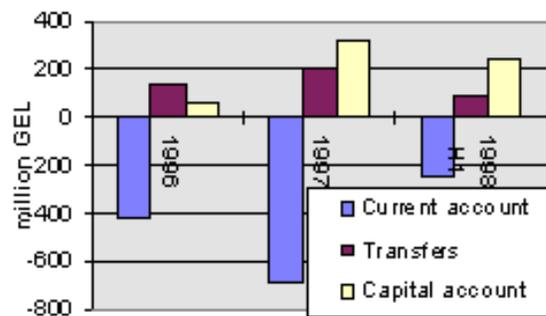


Main imports 1997



Trade statistics are still by no means entirely reliable. The customs system, particularly in Achara, remains highly corrupted and many imports and exports go unrecorded. A lot of transit trade is also incorrectly registered. Still it seems that the current account deficit has been growing, from about 9% of GDP in 1996 to about 10% in 1997. This is not necessarily worrying if it is simply the counterpart of large inflows of aid and foreign investment. It does appear that private capital inflows are increasing (though these data are particularly weak), and this will allow the deficit to continue. It also seems that exports have been rising, by approximately 10% in nominal terms in 1997, after a 15% rise in 1996. So far a large part of this is accounted for by the resumption of work in the metallurgical industry, often through barter deals for energy with Russia. Foreign investment in the wine, oil and tea industries has also been showing results. Imports have been rising rather faster, by over 20% in 1997 after a 10% rise in 1996. Some of this is accounted for by import of equipment for the construction of the 'early oil' pipeline. However it is striking that capital goods seem to account for less than 10% of recorded imports. If capital inflows are still financing consumption rather than investment then the debt that is building up may be hard to pay off. Future export success stories are still hard to spot.

#### Balance of payments 1996-1998 H1



Source: SDS

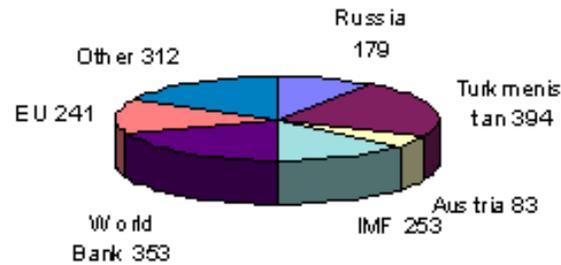
The current account figure excludes transfers. 1998 H1 figures are preliminary.

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### Foreign Debt

One of the main reasons to be concerned about trade performance and devaluation is Georgia's fairly heavy foreign debt burden. Although at the time of independence Georgia signed away its share of Soviet assets and liabilities to Russia, post-independence governments managed to accumulate debt extraordinarily fast, largely by keeping up fuel imports that could not be paid for. A large proportion of foreign credits also appear to have been misappropriated, and Georgian taxpayers will have to pay for some time for expensive cars bought by members of previous governments. Total foreign debt contracted stood at just over USD 1.8 billion by the middle of 1998. Most of that which was not given on concessional terms has now been rescheduled, normally at interest rates of 4%. Still the IMF expects debt service to cost between 20 and 25% of export revenues over the next four years, when most of the repayment on rescheduled debt will be due. The net present value of debt obligations is about 200% of 1997 exports. Since this is almost all medium and long term debt there is no threat of a reversal of confidence leading to an immediate Russia-type crisis. However the cost of repayments will greatly complicate the task of rebuilding the economy and government finances. In 1997 debt service obligations already amounted for nearly a quarter of total central government revenue. In 1998 interest and amortisation payments due amount to nearly USD 150 million. The government has already defaulted on rescheduled debt to Turkmenistan, and in the fiscal crisis of the end of 1998 seems very uncertain how to proceed. Considerable further foreign aid and perhaps debt rescheduling is likely to be necessary.

Composition of foreign debt contracted, as of July 1998, in million USD



Source: Data from Georgian Economic Trends

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### Macroeconomic Policy Options

The worsened trade outlook is likely to strengthen calls for changes in external policy. As in many countries a large and growing trade deficit still leads to alarm about dependence and calls from uncompetitive producers for higher trade barriers. So far policy has been impressively robust in resisting such demands. Under influence from the IMF the trading regime has become open and free, with just two tariff levels of 5 and 12%. The government estimates the trade-weighted average tariff in 1997 to be just 3.9%, largely due to tariff free imports from the CIS. For a country that sees itself as an important trade and transit route, and one that requires as much capital goods investment as Georgia, such openness is probably essential.

Low tariffs will also greatly help in what is the main focus of current trade policy, accession to the World Trade Organisation (WTO). Membership would greatly improve Georgia's access to markets outside the region, and reassure foreign investors. As a small country Georgia is potentially highly vulnerable to pressure from larger trading partners. The US and EU in the past have not been above exerting pressure on transition economies that export too cheaply, even going as far as forcing Russian aluminium producers into a cartel to control production and prices. The EU shows considerable reluctance to liberalise markets in areas like agriculture and textiles in which Georgia might be most competitive. Russia has shown itself prepared to use economic pressure for political ends, particularly in discussions of the proposed CIS customs union. However imperfect, WTO membership still offers the best defence against such pressures.

There are many more actions that can be taken within a WTO framework. Export promotion, by assistance in seeking out markets and access to carefully monitored guarantee facilities, perhaps with help from international organisations, could help smaller companies without access to market research and credit. Currency devaluation will certainly benefit exporters, though the costs for debt repayment and financial intermediation may be high. While many find the idea of more active trade and industrial policies attractive, the appropriateness of these is debatable. Countries like Korea and Taiwan succeeded with industrial policy, but many others have failed to use it effectively. Although import substitution worked in Japan it failed in Latin America and the Philippines. The evidence of these countries suggests that a successful industrial policy needs to be supported by competition in the domestic economy, and by a highly competent bureaucracy, hired and promoted on the basis of merit and effectively monitored but free from political influence. Such conditions are clearly absent in Georgia, where a more active policy would most likely be quickly captured by vested interests and rent seekers.

More relevant lessons that can be learnt from east Asia, apart from the dangers of crony capitalism, include the importance of macroeconomic stability, infrastructure and encouraging saving. One thing that successful east Asian countries had in

common is high savings rates, allowing high levels of investment to be financed domestically. Georgia's current account deficit is the result of a need to invest more than domestic savings allow. By running a budget deficit the government is borrowing, or dis-saving, about 4% of GDP. Private savings in banks amount to about 3% of GDP, so the only net source of investment funds is money borrowed from abroad. While savings are bound to be low at a time of temporarily low incomes, there is much more that can be done to encourage higher saving in the future. The most important factor is macroeconomic stability. There is a virtuous circle between savings and growth: people will save if they have confidence in future stability. Strict supervision of the financial sector is necessary to raise confidence. People who have lost savings in the pyramid schemes and banking frauds of 1993 and 1994 are unlikely to trust their savings to institutions for some time. East Asia has also shown more recently what can happen when financial supervision gets lax and infested with cronyism. Finally the government can help promote savings through tax and social security policies and through developing financial markets. A start has been made with the introduction of Treasury Bills offering market rates of interest, and a law has been passed setting a framework for private pension plans. More will need to be done on improving the banking sector, however, before the majority of the population is tempted to take their dollars out from under their beds. Recent bank liquidity problems caused by events in Russia will have set confidence back further.

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### Tax and Spending

Franklin's aphorism that only death and taxes are certain in life can not be said to apply in Georgia. For the past five years economic observers have been writing variations on the phrase that low tax revenue represents the main threat to Georgia's economic recovery. At the end of 1998 this threat was showing its teeth. A long build up in revenue arrears was delaying disbursement of the latest tranches of donor credits and had led the government to exceed targets for monetary emission. Failures in tax collection were thus directly responsible for the fall in the value of the lari and the rise in prices that may now partially reverse recent improvements in living standards. Responsible officials attempt to pin the blame on the Russian crisis, yet the problems have their roots considerably earlier. The most worrying infection from Russia has been in the growing practice of building up expenditure arrears, notably on pensions and wages, rather than facing and acknowledging the problems that lie behind an inability to meet commitments.

'At every stage of implementation of the budget process one finds incorrect calculation and accounting, and total disintegration of management and coordination systems. In all departments connected with budget implementation there is an atmosphere of incompetence, negligence, irresponsibility and impunity. A very large part of budgetary revenues and expenditures are affected by the shadow economy. As a result the financial and budgetary system is in a critical condition, which will be reflected not only in results for the current year, but for future years also.'

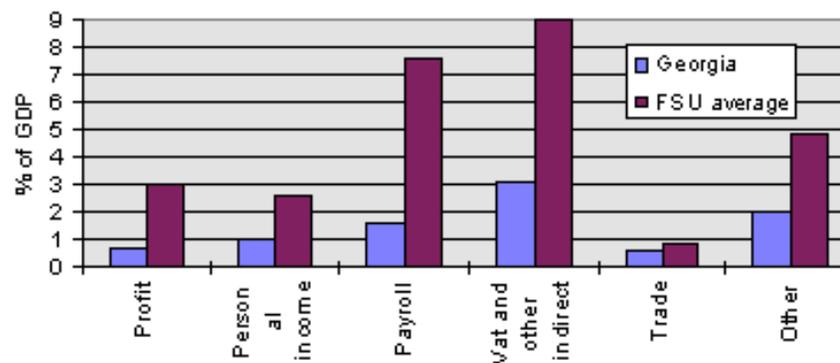
*Chamber of Control, Report on 1998 Budget Implementation*

The Chamber of Control is admirably and fearlessly critical of budget processes, but it is perhaps important to note that there have been some significant achievements. Georgia's revenue to GDP ratio has almost tripled since 1993. Most of the tax exemptions that used to cripple the system have now been abolished. An entirely new Tax Code was introduced in June 1997. Expenditure has been drastically and painfully reduced, from 24% of GDP in 1994, to 12% in 1995. Revenue improvements allowed expenditure to expand to 14% of GDP in 1997. A treasury system for expenditure control has been rapidly introduced, and is currently being computerised and extended to cover local budgets. The most important result has been the great reduction in budget deficits that is the main foundation of the successful stabilisation programme.

Yet by any standards tax collection remains extraordinarily weak. Total revenue collection amounted to 10% of GDP in 1997. The average for the CIS was 24% in 1996. Even Tajikistan could manage more than Georgia. In the first nine months

of 1998 total revenue was GEL 445 million, only 75% of that targeted. VAT and excise tax collection were particularly poor, with the latter at less than a third of its target. At the same time the tax base is so narrow that for those who do pay taxes the burden is quite high. A striking example is in personal income tax. Rates are not excessively high at a maximum of 20% (though a failure to readjust thresholds with inflation means that almost everyone pays the maximum rate), but almost the only people who pay are employees of budgetary organisations for whom the tax is automatically subtracted from wages. Many of these are among the lowest wage earners in the country. Although a start has been made on issuing income declaration forms, very few of the rich pay any income tax at all. Many large firms, particularly notoriously cigarette and fuel importers, successfully evade most forms of taxation and thus both raise the pressure on the Tax Inspectorate and Customs to extract revenue by all means from less powerful firms, and make it very hard for legal firms to compete. Firms connected to the families of important officials are considered by many almost untouchable.

Government revenue from different taxes in Georgia and the former Soviet Union, H1 1997



Source: Data from IMF

The tax code appears generally consistent and, despite many complaints, rates are fairly moderate by international standards. Even the highest rate, the payroll tax used to fund the pension system is, at 33%, at the lower end of the 31 to 45% for ex-Soviet countries. Yet Georgia's collection of this tax is only a fifth of the ex-Soviet average. The problem is clearly in application of the system. Targets are set apparently quite arbitrarily, since the Ministry of Finance still lacks the most basic information required for budget forecasting. A lack of training in the Tax Inspectorate and Customs, and the lack of any reliable legal infrastructure, means the code is often applied quite unpredictably. Corruption has become so entrenched that the contracting out of parts of the customs service to foreign companies, and the employing of foreign tax inspectors to act as benchmarks, are now being discussed. Amendments to the tax code have recently been very frequent and each one has required repeat visits to enterprises by tax inspectors. Often such changes appear to be more the result of lobbying than real improvements. Even businessmen who are able and willing to present fully correct accounts often find it simpler to pay bribes. Half-hearted and semi-official discussions of tax amnesties in the future do little to encourage such people to pay taxes now.

**Budget revenue and expenditure 1995-1998**  
(% of GDP)

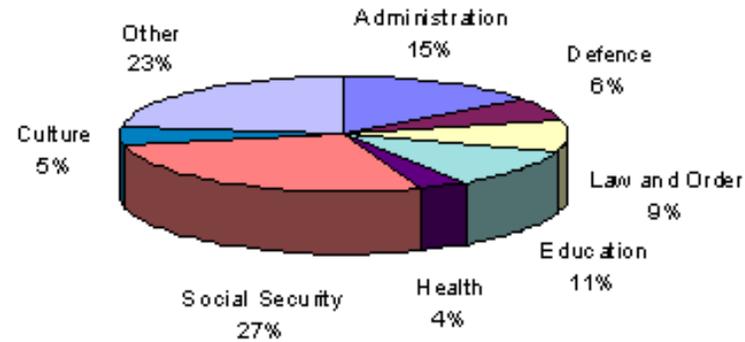
	1995	1996	1997	1998*
Total revenues and Grants	7.1	9.4	10.4	9.0
Total revenues	5.1	8.1	10.0	8.6

Tax revenues	3.6	5.3	7.1	5.9
Non-tax revenues	0.5	0.9	1.0	0.7
Extrabudgetary revenues	1.1	1.9	1.9	-
Grants	1.9	1.2	0.4	0.4
Total expenditure and net lending	12.3	13.9	14.5	11.6
Total expenditure	11.6	14.1	14.4	11.1
Current expenditure	8.6	12.9	13.3	10.4
Wages and salaries	1.6	1.8	2.3	1.3
Interest payments	1.5	1.0	1.4	1.1
Extrabudgetary expenditure	1.4	1.8	2.5	-
Local government expenditure	1.9	1.9	1.5	-
Capital expenditure	1.1	1.2	1.1	0.7
Net lending	0.7	-0.2	0.1	0.5
Health spending		1.2	1.8	1.7
Education spending		0.7	1.0	1.2
Deficit (commitment basis)	5.3	4.5	4.1	2.6

**Source: IMF**

\* 1998 figures represent planned targets for the central state budget only, so exclude local budgets and special state funds. The targets may also differ significantly from actual spending.

On the expenditure side also some progress has been apparent. Budget allocations for wages, social transfers and pensions have all risen in the past two years by more than GDP. Further reductions in government employment have allowed wages for those that remain to become slightly more realistic. Total social spending (pensions, benefits and basic health care) represented over one third of all spending in 1997. Health care spending has risen from 0.7% of GDP in 1995 to a planned 1.2% in 1998. Still the share of expenditure on health and education is notably low. Very large amounts are still unclassified and not subject to public scrutiny. With total expenditure so low it is essential that spending be focused on a core set of functions, probably basic education and health, social assistance, defence, law and order and basic infrastructure. The government continues to subsidise activities such as publication and broadcasting that could become self-financing.

**Composition of total state expenditure, 1997**

Source: Data from Georgian Economic Trends Includes expenditure by the Social Security Fund

Above all many of the budget figures bear little relation to reality. At the end of 1997 budgetary wage and pension arrears stood at GEL 12 million, representing about a month's pension expenditure. The government promised to cover these arrears in 1998 but by the beginning of October they had increased to GEL 38 million. In many regions pensions and wages had not been paid for over 5 months. Social spending appears to be always the first to be cut when revenues fall short. Health spending accumulated GEL 6.6 million in arrears in 1997, and in the first 9 months of 1998 spending amounted to only 38% of what was planned. This has further reduced available funds by delaying release of the SAC II credit from the World Bank. In 1997 only 68% of the EU Food Security Programme grants were disbursed, also because of failure to meet agreed social spending targets.

**The Ministry of Economy's own report on the fiscal situation comments:**

'Even with budget revenue at the current level, if revenues are spent rationally there is no justification for the present size of expenditure arrears. This underlines that there are serious weaknesses in spending mechanisms. To analyse the situation and discover the reasons is not possible as some parameters are hidden for certain reasons.'

The fact that data is hidden from the Ministry of Economy says much about the chaos and murkiness of the spending system. The Ministry suggests that budget money may have been diverted to finance some parties' local election campaigns. The Control Chamber's report on budget implementation provides a long and fascinating list of uncovered abuses.

A detailed fiscal reform programme is now underway, and is long overdue. The budgetary system received nothing like the same attention and assistance as the monetary system at the beginning of stabilisation. The collection of information from ministries and spending units will be improved, and discrepancies monitored and expenditure priorities ranked. Now money is still allocated to departments on the basis of unofficial and secret estimates of how much will really be collected, and according to personal relationships. Regional spending offices are still very poorly integrated into the system and lack basic training. Although required to balance their budgets, many local authorities have apparently been borrowing at high interest rates from commercial banks to cover wage bills, no doubt in the expectation that these debts will eventually be covered by central government. Further investment in computerisation will be essential to allow forward cash planning, effective internal audits, and the registering of all liabilities. The current system of building up arrears gives reform a bad name.

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## Pensions

From the point of view of human development, one of the most worrying aspects of expenditure problems is the effect on the social safety net. State old age pensions are now practically the only operating form of social insurance in Georgia, and where they are paid, they fall far below any minimum subsistence level. Standard pensions now stand at GEL 13 per month, of which GEL 1.8 is transferred directly to Sakenergo for electricity payment. Slightly over 50,000 war veterans receive a marginally more realistic GEL 35 to 45. Dependency rates are unfeasibly high. There are over 900,000 state pension recipients, and as detailed in Chapter Five, only about 750,000 people in conventional salaried employment, of which about 600,000 are in the state sector. A negligible proportion of the self-employed, and very few of the private sector employed, pay contributions. In the absence of individual pension accounts, or any link between contributions and benefits, there is very little incentive to report true wage levels.

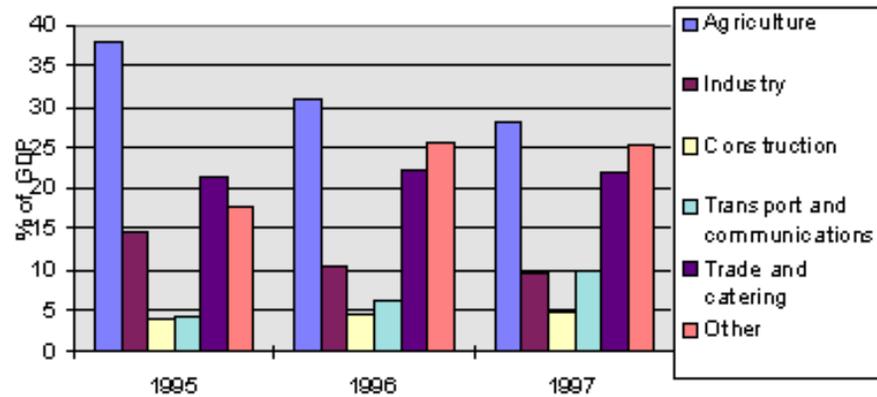
Currently measures are being taken to remove illegal recipients from pension lists and to encourage informal sector employees to opt in to the system. Very heavy investment will be required to automate and track individual contributions. Private pension schemes are to be encouraged and legally regulated, but this is unlikely to have any short term effect on the state system. For the foreseeable future state pension rates will remain low, and the main burden of poverty relief will have to be taken by more narrowly focused non-insurance benefits. Meanwhile a more active debate is needed on what sort of social insurance scheme Georgia would like to develop. If restoration of the tax system and the formal economy allow, a state pay-as-you-go system could be used to provide a basic pension for all, topped up by mandatory or voluntary private schemes. The weight given to each could depend on the importance attached to social solidarity and equal treatment, or economic efficiency and encouraging investment. Without full reform of the revenue collection system, and measures to convince the public that taxes and contributions will not be wasted or stolen, any improvement in support for old people is doomed to failure. Given that this will take time, the most urgent priority now should perhaps be to identify and support those old people who cannot rely on family support.

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## 3.4. MICROECONOMIC DEVELOPMENTS

The economy is also changing dramatically in its composition. Most noticeably industry continues to decline and the new trade and communications sectors are on the rise. The implications for human development are ambiguous. Such dramatic sectoral shifts inevitably bring short-term hardship, and for those without easily transferable skills the pain may last a long time. Yet many of the changes are inevitable and if the economy is to recover resources will have to move from non-productive sectors to those that produce something people want to use. The government could have an essential role in alleviating the pain caused by declining sectors and providing the right conditions for new business to start up. Few consider it is currently doing well in these areas.

### **The changing composition of the economy**



Source: Data from IMF

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### Industry and privatisation

Visiting the great majority of Soviet era industrial enterprises now does not encourage optimism. Many were built using technology that was out of date and environmentally dangerous even at the time. The collapse of traditional captive markets and the sharp increase in costs of raw materials, particularly of energy, have robbed many factories of their *raison d'être*. Now many of those that survived pillaging in the period of civil unrest have nearly collapsed through neglect and inactivity, and even if the concept is viable it might be cheaper to build a new factory next door. Surveys of industry suggest that the average rate of capacity use is less than 10%. Some of these enterprises may be suffering merely from a lack of finance, and Georgian banks' reluctance to lend outside their circle of friends. However others continue to subtract value from their raw materials, and survive only by the forbearance of the State Tax Inspectorate or energy supply companies. The difficulty is in distinguishing the two types. The adoption of international accounting standards, continued reform in the banking system, and a willingness to use the new bankruptcy law will all be crucial if the viable are to be sorted from the parasitic.

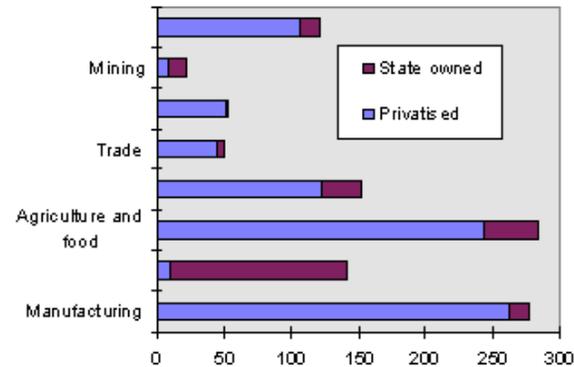
Only 36% of respondents to the US embassy September survey thought that the government should now continue to subsidise unprofitable state enterprises. The length of time for which such enterprises have not been operating and the fact that few can pay much in the way of wages, has largely dissipated affection for them. The government has also mostly accepted that it lacks the funds and the management know-how to be an effective shareholder. However its role in providing an environment for the private sector to take over is still essential. The details of disposal also arouse great passions and were a major issue in the recent local elections.

The process of small enterprise privatisation, mainly shops and small service operations, is the least controversial and is largely complete everywhere except Achara. Privatisation was apparently mainly to insiders and was certainly not always carried out in a transparent or revenue-maximising way, but the secondary market should ensure that such enterprises eventually end up in the hands of people who have some idea of what to do with them. A law on urban land privatisation was passed in October 1998, which should increase the value and access to credit of some of these enterprises.

Medium and large enterprises (MLEs - defined as those with a book value over USD 44,000 in 1993) inevitably inspire much more controversy. Progress in terms of numbers of enterprises privatised is shown below, but is slightly misleading in that enterprises still state owned are invariably the largest, accounting for still over half of MLEs by valuation. Voucher

privatisation, intended to give the population a stake in the economy, was not a great success. Although most vouchers issued were used, by the end of the process only around 7% of shares issued had been bought, because buyers demanded huge discounts on the nominal value of shares. Shares that were bought went largely to enterprise insiders, as they were the only ones with enough information to know whether an enterprise was worth anything. Investment funds were a notable failure due to public mistrust after experience of pyramid schemes. In a survey by the SDS in Tbilisi at the beginning of 1998 only 1.6% of respondents reported having obtained shares through the privatisation process. Now, after a long period of inaction ended mainly by pressure from the World Bank, the government is pressing on with a variety of privatisation methods, including investment tenders, leases with buy-out options, sales to strategic investors and contracting out management to the private sector. Progress will continue to be delayed by the fact that Parliament insists the Ministry of State Property Management offers enterprises at auction with excessively high reserve prices before using other methods.

Number of privatised and state-owned medium and large enterprises, 1998 Q2



Source: Data from GET

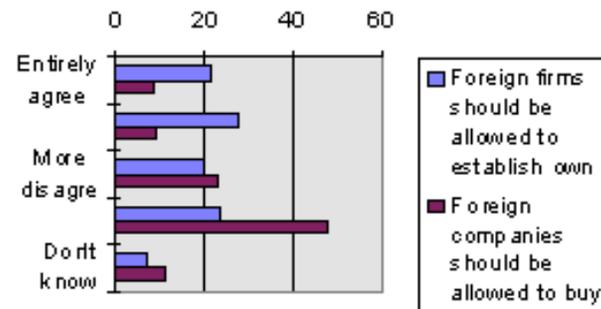
Partly privatisation is hampered by the nature of inherited Soviet industry. The largest ten enterprises in the country account for over 70% of all MLE valuation. Their apparent dominance of the economy does raise questions about regulation, and encourages politicians to think of them as strategic assets that should not fall into the hands of foreigners. More accurately their relative size is a result firstly of the overspecialisation inflicted on Georgia in the Soviet era, and secondly of the collapse of much of the rest of industry. For those that are viable the challenges of restructuring and debt repayment are usually huge. The recent tender for control of Chiatura Manganese had to be cancelled when the successful Russian bidder proved unable to meet commitments made on investment and debt payment. The imposition of such conditions may complicate the process but can be an important deterrent to asset-stripping. Delays are also caused by the need to address issues of monopoly and regulation, particularly in the energy sector. Some argue that sales should wait until some restructuring has been undertaken, or the population has more money to invest and better access to credit. But the costs of waiting in terms of continuing mismanagement and inactivity of enterprises are very high. Decapitalisation, asset stripping and unofficial appropriation of income flows become widespread as the debate continues, benefiting very few and reducing the long term value of the enterprises. Most remaining state shareholdings have been transferred for management back to sectoral ministries or to state companies, who are usually reluctant to lose them. Many attempts are made to influence auction and tender results for the best enterprises. People prepared to invest can rarely get reliable information on the state of an enterprise and can rarely feel secure about the control rights that their shares represent. Until these problems of accounting, information and legal rights are thoroughly addressed, enterprise and government insiders will benefit more from privatisation than the government budget, and outside investment for company expansion will continue to be in short supply.

Foreigners are able to bid on equal terms with Georgians in most privatisation offers, though information and control problems scare many off. Popular opinion on foreign investment is strikingly divided. Forty two percent of respondents to the US Embassy survey thought foreign investment should be discouraged, and 47% thought it should be encouraged. Given

Georgia's history of occupation there is considerable suspicion about investment from neighbours like Turkey and Russia, and quite strong hostility to the idea of foreign firms acquiring controlling interests in Georgian enterprises. Soviet propaganda also encouraged a view of enterprises as national treasures rather than sources of employment and taxes.

#### Public opinion on foreign investment

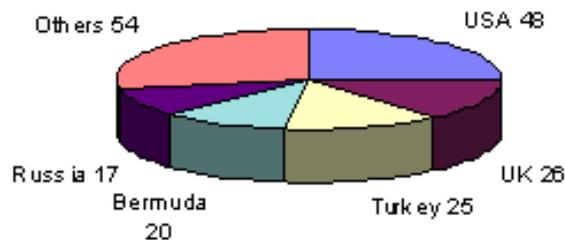
(1000 people in Georgia, Sept 98)



Source: US embassy

Registered investment figures may not be reliable as there are few penalties for not registering. A survey conducted by the IMF suggests that investment in 1997 amounted to approximately USD 190 million, up from 54 million in 1996. This is comfortably more than the CIS per capita average, but measuring one's economic management by CIS standards is always likely to encourage dangerous complacency. By world standards the figure is still extremely low. Here again the immediate outlook is probably not good. While there may be a few investors who will use problems in Russia as a chance to look for opportunities nearby, many more are likely to be generally CIS-averse for some time. Many have been badly stung in Russia and are understandably concerned about the trading difficulties the crisis will bring. The longer term prospects could be much better. There will be considerable room to profit from services related to oil extraction in the Caspian, particularly if the business environment in Georgia is made more attractive than that of oil-producing neighbours. A decision was due in December on whether to build an oil pipeline from Baku to Ceyhan. Although financing for that project looks highly precarious, even if it is cancelled or delayed another pipeline to Supsa looks a possible alternative. There is also a strong possibility of a smaller pipeline being built to carry gas from Russia to Turkey. Foreign investment tends to concentrate very strongly in a few countries with welcoming policies and prospects: by 1997 just ten countries had received three quarters of all private capital flows to middle and low income countries. Investors, like sheep, are significantly reassured by each others presence. While only certain sectors are likely to benefit, and domestic investment will always be a more important source of funds, the benefits particularly in terms of knowledge transfer could be very great.

#### Sources of foreign investment in 1997, USD millions



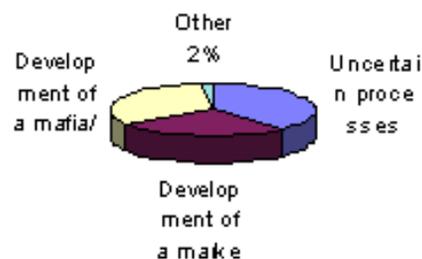
Source: Foreign Investment Survey, IMF

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### Business conditions

Starting a private business should be one of the most important ways people could improve their circumstances. Particularly given the state of existing industry, long run economic success will depend on new entrepreneurial talent being able to flourish. Yet conditions for small business remain difficult. Although criminal protection rackets are no longer a significant problem, government interference and inspections generally cost as least as much in bribes. Only 10% of respondents to the US embassy opinion survey, presumably not businessmen themselves, thought it was possible to run a business without paying bribes to officials. The weak legal framework leaves corrupt officials with a great deal of discretion. Larger enterprises find that they have to spend a great deal of time lobbying and making political contacts to flourish. The borderline between business and government is unhealthy ill-defined. While businessmen's political strength in no way approaches that of oligarchies elsewhere in the CIS, the tendencies are worrying.

**How would you characterise economic changes in Georgia now?**  
(400 respondents in Tbilisi, winter 1997-8)



Source: State Department for Statistics

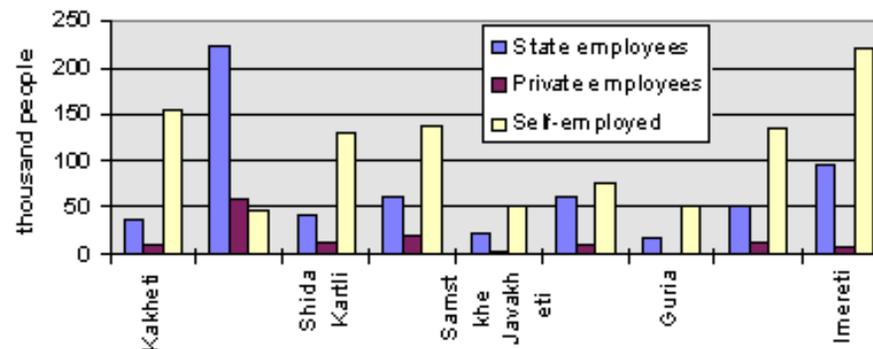
An important result of corruption and politicisation is that the great majority of small and medium sized firms choose to

operate partly or wholly in the informal or unofficial sector, unregistered and paying bribes rather than taxes. Estimates of the extent of this activity vary widely. The SDS has been recently using an estimate of 40% of the whole economy. Many consider the true figure could be higher. A study of most transition economies by the Brookings Institute uses electricity consumption data to estimate the Georgian informal economy at over two thirds of the whole economy. The main problem with such estimates is that, unlike in Latin America or Asia, there is often no sharp dichotomy between official and unofficial activities. Enterprises and even ministries will often have unofficial operations running alongside official ones. Officials and managers use state assets to generate private incomes, and private businesses keep a small amount of activity on the books to show tax inspectors.

From the point of view of welfare the unofficial economy has had a positive side. It has helped keep households afloat while the official economy has been too inflexible to respond to changed circumstances. Small-scale trading may be humiliating to many but it has provided a lifeline to some who would otherwise have gone hungry. It has also provided valuable market experience to potential entrepreneurs. However the negative sides clearly dominate. Macroeconomic stability and an effective social safety net are impossible to achieve while so few pay taxes or social contributions, yet all are still eligible to receive the benefits of these. Rising pressure to extract taxes from the remaining official sector businesses can then push them into moving to the unofficial sector, and a vicious circle results. As people become used to ignoring economic laws and regulations the rest of the legal system is increasingly undermined. Above all the unofficial economy, however large, is mostly a survival economy, where trading, stripping of state assets and focus on short term turnover dominate the long term view. Large scale or sophisticated investments, which are crucial to longer-term growth, are almost impossible. The time and money wasted in getting around licenses and taxes is also highly inefficient: even those receiving the bribes could be more productively employed.

So although the private sector is now easily the largest part of the economy, private enterprise remains overwhelmingly small scale and dominated by self-employment in agriculture. In 1997 according to SDS household survey data there were only 136,000 people in the whole country with salaried jobs in private sector organisations, or 7% of the labour force. The ILO Labour Force survey finds 754,000 salaried employees, of which 614,000 are in the state sector. With another 30,000 employees in the mixed or public organisation sector, it may be that as few as 120,000 people have conventional private sector jobs. Many of these would be in newly privatised state enterprises that may have only a short future. Even among the self employed there are only about 150,000 working outside the agricultural sector, of whom 90,000 work in trade. So far job creation has been extremely limited. If employment opportunities are to increase, private firms that have the inclination to expand urgently need to be allowed and encouraged to do so.

Private and state sector employment and self-employment, Q2 1998



Source: Data from SDS/ILO Labour Force Survey

To break out of the current equilibrium the government thus urgently needs to improve the competitive environment and make it worthwhile for businesses to come into the official sector. The divide between government and business needs to be

much more clearly defined, and conflict of interest rules enforced. It is clearly detrimental to competition when people within a ministry are running a business in an area they have authority to regulate. The previous regime at the Ministry of Post and Telecommunications is only the most notorious example. Many ministers are widely thought to be among the richest people in the country. There seems to be little will to enforce the anti-monopoly law passed in 1996 and politically well-connected firms in a number of markets seem to be able to resist competition, at the expense of both consumers and potential competitors. More than one donor has already abandoned assistance in this area, questioning the governments desire to tackle certain monopolies. The access of the privileged to cheap or state guaranteed credit also distorts the market. Many domestic producers, of oil products for example, complain that the ability of certain importers to avoid taxes and import duties makes competition impossible.

Once such obvious abuses have been addressed, companies need to be persuaded that contracts can be legally enforced and all are subject to the same tax regime. Few believe that courts can be relied on to make reasonable or impartial decisions, and still less can enforce their decisions. Volunteering one's presence to the tax inspectorate is highly risky if one does not believe assessments can be fairly contested. Many businesses have found that tax authorities are able to obtain information about their bank accounts and freeze them without a court order. Some have even had money arbitrarily removed from their account as fines. In one case, when proved to have wrongly extracted such a fine, the tax inspectorate said it could not return the money but could only remove it from future tax bills. Private debts are also extremely hard to enforce. Although the bankruptcy law can now be triggered by any unpaid debt, the few cases that have actually been heard have all been reorganisations rather than liquidations. Further deregulation would also help reduce the ability of officials to harass firms by enforcing unclear regulations and laws. Parliament recently passed a law containing a clause, later repealed, that decreed chemist shops could not stand within 500 metres of each other. The traffic police rely on similar bizarre regulations to supplement their salaries. Such activities and prominent abuses, like the fondness of government and municipality offices for expensive foreign cars, are perceived by the public as a sign of decay in the social fabric and further justification for unofficial activity.

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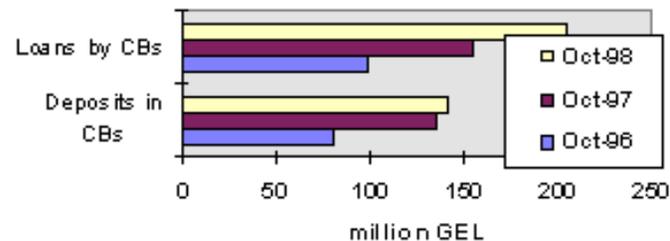
### Infrastructure

A crucial role of government is in providing, or at least organising the provision of, public infrastructure. The decay of infrastructure since independence has had serious social and economic repercussions, and further encourages reluctance to pay taxes. The experience of east Asia also suggests that investment in infrastructure, including electricity, roads, airports, schools and health facilities, is a precondition for long term growth. The state has very little money for this but in some areas credits from donors and private investment have been showing results. Notably transport infrastructure has improved with assistance from the World Bank. Main roads, while still full of potholes, are occasionally repaired. Journeys to Vladikavkaz or Trabzon are considerably less dangerous than they were, though many feel that police and customs officers continue the extortion role once carried out by the Mkhedroni. Foreign lorry drivers still try to travel in convoy to protect themselves against this. Roads to rural areas have in many places effectively disappeared. Mountain villages that could rely on cheap helicopter connections in Soviet times have had to become largely self-sufficient in winter.

In telecommunications the highly profitable international and cellular networks have attracted private capital, though the distribution of licences and contracts has been by no means transparent. Those who cannot afford these services are much more poorly served. Although costs are coming down, the fixed telephone network is still a low quality monopoly, with very limited coverage outside Tbilisi and few reliable exchanges even within Tbilisi. The idea that telecommunications is a natural monopoly that is best retained under government control has been largely disproved by international practice, but the government will always have an important role in regulation. Further privatisation is promised but far greater transparency will be necessary if this is to benefit most of the population.

Another aspect of infrastructure that requires extensive government intervention is the financial sector. The job of banks is largely one of gathering, processing and disseminating information, precisely the areas in which market failures are usually most marked. Most Georgian commercial banks currently do very little to assist businesses or savers and allocate capital efficiently, engaging in little lending other than on-lending of credits from foreign financial institutions, or short term trade financing, mostly to friends. Interest rates average over 40% despite single figure inflation, and total bank loans still amount to less than 3% of GDP. There are also still too many too small banks. The average capital base of the remaining 48 banks is only about USD 1.5 million. The situation has improved significantly since the NBG started its bank certification programme, tightening prudential regulations and gradually increasing minimum capital requirements. The government plans to further tighten capital requirements and limits on insider lending, closing banks that are unable to meet the targets. Increased competition and a gradual reduction in liquidity and reserve requirements should allow a reduction in interest rate spreads and lead to greater use of banks. Yet there is still some way to go, and again events in Russia are having repercussions. Total deposits rose by nearly 60% in real terms in the year to June 1998, mainly due to a near doubling of dollar deposits, but then between July and October they declined by 16%, leaving lari deposits back at the level of June 1996. The population's concerns about bank stability may be an overreaction. Most are weak because of inactivity and do not have the sort of short term loan exposure that could leave them insolvent overnight, as happened in Russia. Yet the lack of trust is all too understandable.

Loans and deposits by and in commercial banks



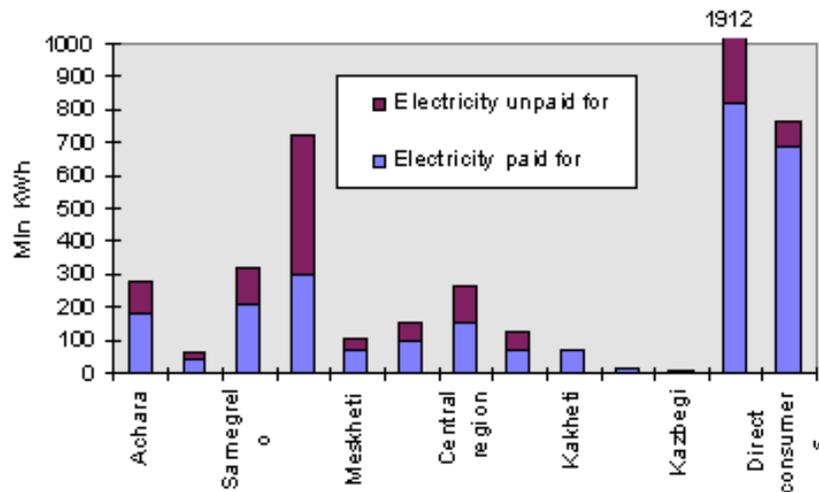
Source: Data from National Bank of Georgia

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## Energy

One of the biggest obstacles to economic growth, and one of the most obvious sources of daily hardship, is the continuing unreliability of energy supply. Availability of electricity varies greatly between months and regions, with many rural areas receiving almost no supply in the winter, when electricity has to be generated from imported gas and oil rather than local hydropower. Tbilisi receives a disproportionate amount of the electricity produced (see chart below), but even there an SDS survey in the winter of 1997 to 1998 found that 80% of households reported having power for less than 6 hours per day. Supply to crucial institutions like hospitals (and government offices) has greatly improved, and there are now fewer cases of people dying through power cuts. Outside the cities many have adapted to the lack of power, though the effect on quality of life and particularly on communications is still severe. In large urban tower blocks designed for abundant electricity use the effect is more drastic. Water supplies on higher floors are highly erratic and those unable to walk up many flights of stairs can become isolated. Older and poorer people can find they just have to stay in bed for long periods. Kerosene and gas stoves are the cause of numerous illnesses and accidents. Again the effects do not strike all equally. Those lucky enough to share a building with an important official still tend to get better supply than average. Richer people can often obtain lines connected to institutions with constant supply, which being illegal are generally not billed for. Since it is still hard to deal with non-payers individually poor regions receive far less electricity than rich ones.

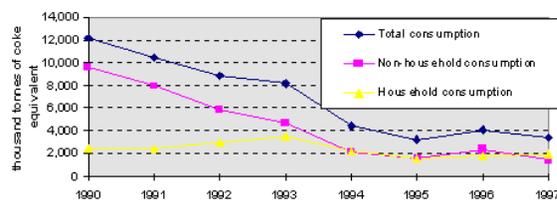
Electricity supplied by region in 1997



Source: Ministry of Economy, Department of Fuel and Energy

Data on energy consumption is by no means complete but it is possible to get an approximate picture of how things have changed. Total energy consumption has declined dramatically since 1990. Yet the fall has been almost all in the industrial sector. Household consumption of energy has hardly fallen and household electricity consumption has actually risen. Electricity use per capita is comparable to that in Turkey, whose GDP per capita is over three times as large. The value of GDP per kilogram of oil equivalent actually fell between 1990 and 1993 but has since risen slightly. This may suggest that recorded falls in GDP are exaggerated, but given the Soviet Union's complete lack of interest in energy conservation it is still rather worrying that the situation is now no better.

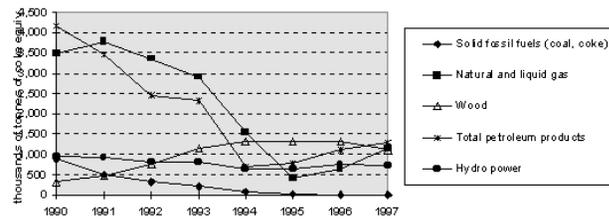
Total energy consumption 1990-1997



Source: Ministry of Economy and Ministry of Fuel and Energy

The main problem is that, with centralised gas and heating systems mostly still not working, households now rely far more on electricity, and in rural areas on wood. This is clearly both inefficient and unsustainable. Forests are not being properly harvested or replaced. When electricity is available many people still make little effort to conserve it. Sixty five percent of people in Tbilisi reported using electricity as their main heating source. For many who are too poor to pay electricity bills it is the only available source of heating. The result is that wiring systems designed for much lighter use overload quickly and breakdowns become ever more frequent. In the non-household sector, manufacturing and other more energy intensive businesses face far greater problems than trade or services. Voltage fluctuations often damage expensive equipment. Industrial production has become highly and inefficiently seasonal.

Sources of energy, 1990-97



Source: Ministry of Economy and Ministry of Fuel and Energy

The fundamental problem of the electricity sector is financial. By Sakenergo's estimation about 58% of electricity supplied is now paid for, with household collection rates around 40%. Many consider these estimates are inflated to approach World Bank targets. There are no funds available for repair and maintenance of the supply system or for fuel imports, not to mention investment. Even after numerous write-offs, at the beginning of 1998 Sakenergo was owed in the region of GEL 260 million, and itself owed GEL 220 million. Chaotic accounting and the arrival of large sums of foreign aid have provided fertile ground for corruption. Many consumers still consider power cuts a reason not to pay for electricity, and the Soviet conception of energy as something to be paid for only indirectly survives strongly. The social, political and technical barriers to cutting off residential non-payers are formidable. The main recent response has been to cut supply to the regions that are most in debt, which is hardly a solution as not only do the poorest regions suffer most, but individual consumers still have no incentive to pay their bills if they think the rest of the region is not going to do the same.

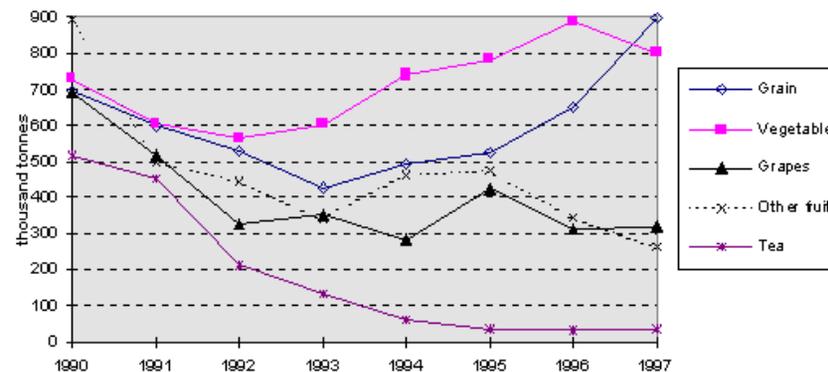
A pilot project in Rustavi funded by USAID has demonstrated that, with considerable investment, the problems of non-payment are not insuperable. Many meters have to be replaced and relocated and customer and corporate accounting systems completely revised. Combined with a large-scale public information campaign on the need to pay bills, the availability of discounts for those who genuinely cannot pay, and the willingness to cut off non-payers, collection rates rose from 23% to 83% within a few months. Average daily supply increased over twice and the majority of consumers have been supportive of cut-offs. Similar turnarounds in attitudes have been achieved earlier in Armenia. A short term alternative to remetering apartments has been to deal with individual buildings, which become collectively responsible for payment. However if each apartment is billed an average amount there is little incentive to economise. The investment required for these changes suggests that private sector financing is needed, and following the privatisation of the Tbilisi distribution company Telasi at the end of 1998, the government plans to complete the sale of majority shares in most other distribution and generation companies by the end of 2000. An independent Electricity Regulatory Commission has been established, and needs to establish a reputation for predictability and fairness both in order to protect customers and to ensure that the government can get the best price for electricity sector assets.

Over the longer term Georgia has the potential to be a net exporter of energy and electricity. Once payment and distribution problems are addressed it should be possible to attract considerable investment to the hydro electric sector. UNDP analysts estimate that only 25% of hydro electric potential is currently used. There is some potential for greater oil extraction: proven oil reserves amount to 12 million tons, and potential reserves are estimated at between 300 and 500 million tons. Further exploration is under way in the Georgian sector of the Black Sea. Gas production, which is currently negligible, could also be stepped up. Reserves were never exploited while Turkmen gas was so cheaply available, but apparently amount to about 95 billion cubic metres, or 15 years supply at 1989 consumption rates. While local coal is generally considered of low quality, reserves are estimated at nearly one billion tons, and it is hoped that the exploitation of coalbed methane may prove profitable. The latter will require rehabilitation of the gas distribution network, the regional parts of which are mostly thought to be a write off. While the cross country gas pipeline still functions, supplying Armenia, Gardabani power station, Rustavi metal and chemical plants and a small number of municipal distributors, losses here also are up to 12%. Saktransgasmretsvi estimates that over \$300 million is needed to restore the whole distribution system. Donor assistance to the energy system will continue to be necessary for some time.

## Agriculture

Private agriculture is now overwhelmingly the most important source of livelihood in Georgia, and will be a key source of economic growth. Apart from in tea production, output has not fallen to anything like the extent of manufacturing. It seems that, with far less resources and land, but rather greater motivation, small private farms have proved not much less productive than state farms. Grain production has been greatly boosted by credit assistance from donors. However reliable information on the sector remains extraordinarily hard to obtain. Production figures are usually entirely inconsistent and many working in the sector consider that the authorities overemphasise bad news to bolster the case for further humanitarian aid. It is generally thought that the 1997 harvest was a success, and 1998 appears to have been genuinely disappointing because of bad weather conditions. Preliminary data from the Ministry of Economy suggests that the grain harvest has been about 20% lower in 1998. Available output data up to 1997 are presented below but should be treated with scepticism.

Production of selected agricultural products 1990-97



Source: Ministry of Agriculture and Food

Georgian agriculture is still dominated by very small private farms. A World Bank survey in 1996 found the average farmer owned just 0.75 hectares of land, with only 2% leasing extra from the state reserve. Such farms rely on family labour, with household members working mainly part-time on the farm and supplementing their income with other activities. 60% reported deriving more than half their income from off-farm sources. Farms are usually too small to specialise and produce a mixture of maize, grain, vegetables, fruit, milk and eggs. The average household had two cows and a dozen chickens. Most are operating well above a subsistence level. On average 30 to 40% of produce was sold commercially and farms were generally profitable. They also benefit greatly from effective tax exemption. Yields do remain low by world standards, but with low inputs, low outputs can be efficient. Socially also small farms can be more efficient than large ones since they tend to use both labour and land more intensively. At a time of mass unemployment the promotion of small scale agriculture can contribute very significantly to employment and to a more equal income distribution.

However small farmers continue to face many obstacles, and still require assistance. Those in the World Bank survey were close to Tbilisi and perhaps better off than most. Still two-thirds of those surveyed had no access to machinery of any kind. They sell mainly directly to consumers in local markets and have difficulties with transport and delivery of products to market. Very few have access to credit, except from relatives and friends. Much donor support has been focused in this area, including the provision of credit to large grain producers and work on establishing credit unions. Support has also been given for marketing and information services and the establishment of wholesale food markets and fairs. The mismanagement of humanitarian aid imports has sometimes threatened to undo this work, by depressing local prices and farmers. The most serious problem, particularly in remote areas, is probably still the state of physical infrastructure. Work is

beginning on the rehabilitation of drainage and irrigation systems. Still the state of roads and storage facilities make it very hard to get produce to where it might command high prices. The deterioration in energy and social infrastructure, particularly rural schools, makes rural depopulation a threat in some areas.

The other main agricultural issue still requiring attention is land distribution. About 25% of agricultural land has now been privatised, including about 60% of arable land and perennials (the only kind of land used by household plots). The overwhelming majority of Georgians agree that citizens should be allowed to own land as private property (92% in the US Embassy summer survey) though slightly less (64%) agree that land should be bought and sold freely. Most state farms collapsed soon after independence as they became unable to obtain the inputs and credits they needed. However the sharing out of state land has been subject to considerable delays and problems.

**Land privatisation as of June 1998**  
(thousand hectares)

	Arable	Perennial	Hayfields	Pastures	Total agricultural land
Privatised	432	186	48	125	788
Leased	256	31	29	441	757
Not distributed	97	61	64	1222	1445
Total area	785	278	141	1788	2991

Source: Georgian Economic Trends

Initial land distribution measures focused only on household plots and made no proposals for former state farms. It was decided in 1992 that land was to be distributed to families in the following proportions:

- Families living in rural areas and who worked on state and collective farms would receive 1.25 ha.
- Families living in rural areas but not working in the agricultural sector would receive 0.75 ha.
- Urban families could receive 0.25 ha on application.

The original plan was to finish the process in a year but state surveyors were completely unable to survey and register so much land in time. Villages created their own land commissions, which brought in their own surveyors, but these often did the job very badly and actual distribution typically depended more on local influence than on rules laid down by the government. The majority of households have now received temporary entitlement documents, but full and effective privatisation and the development of a market will not be possible until after the completion of a full land survey and formal registration of ownership. This is expected to take up to another ten years. Now most of the good quality state land that has not been privatised has been leased out by local authorities. Figures on leasing are only rough estimates as local authorities are not good at reporting, but it appears that about three quarters of leases have been to the private sector. Private lessees appear to be usually a combination of local politicians and former collective farm bosses, or outside businessmen. The majority of agricultural land is thus at least occupied by private farmers, but much is still ineffectively used. Some leases have in the past not been given out on a competitive basis. Most pasture is used by small farmers under local grazing arrangements and thus very badly managed. A lot of land that is recorded as privatised is still apparently unclaimed or unfarmed. Agricultural production could increase very substantially once land is genuinely in the hands of those who can use it best.

## ECONOMY & PUBLIC SPENDING

**I said, 'It's certain there is no fine thing  
Since Adam's fall but needs much labouring.**

*Adam's Curse*, W. B. Yeats

### 3.1. GENERAL

Although there is no automatic link between economic growth and human development, a healthy economy is an essential factor in allowing living standards to rise. The government needs to ensure that growth is sustainable and that the benefits are spread widely. Development depends less on natural resources than on policies that encourage business creation, investment and trade, that promote infrastructure and an educated workforce, and redistribute some of the gains towards the poor. However within Georgia, in economics even more than in other areas there is still very little informed debate on government policy. Public opinion is still very much in favour of reform, but in public and the government the level of understanding and ownership of reforms is still low. Most initiatives still originate with the international financial institutions, who, though undergoing reform themselves, still tend to secrecy. Yet many changes require political will that cannot be imposed from outside. Much better economic journalism and education will be needed to allow properly informed public scrutiny of economic policy and a real debate on the role and priorities of government.

1998 has not been a good year for the Georgian economy. As countries from Brazil to China have been discovering, when the international economic environment turns hostile, policies that a government could get away with in more forgiving times can suddenly become unsustainable. Until recently recovery seemed to be proceeding strongly. GDP growth in 1997 was the fastest in the CIS for the second year in succession, and among the fastest in the world. Inflation had fallen to negligible levels and the lari had been largely stable. With much assistance from the International Monetary Fund (IMF), monetary policy had been responsible and sensible. Yet even before the August 1998 collapse in Russia there were worrying signs. Government revenue collection remains extraordinarily low. While ministries and Parliament continued to buy themselves expensive cars, and engage in larger and less visible abuses, arrears on wages and pensions were building up. The environment for legal small business remains unwelcoming, and large-scale business is becoming alarmingly politicised. When failure to meet tax collection targets caused the IMF to delay releasing its latest tranche of credit the lari was left without effective support.

Georgia is unlikely to suffer from as harsh a downturn as Russia, because of the much lower level of foreign and short term investment here. Yet the effects on trade and the inflow of remittances from Georgians working in Russia are clearly serious. Besides, the Russian crisis contains significant lessons and warnings for Georgia. The root of Russia's problems was the refusal of rich and politically well-connected oligarchs to pay even the minimal levels of tax needed for the state to continue to function. Since it has less natural resources to steal the inequalities in Georgia are less dramatic, but economic growth is disproportionately benefiting a small and highly visible sector of the population, either politicians themselves or with good political contacts. Reformers can do little to address continuing widespread poverty and the funding crises of health and education while so few of these people pay taxes and so much of the money that does come in disappears in the system. Improving the revenue raising capacity of local authorities will be particularly important if local democracy is to take root.

Georgia's achievement in stabilising the economy during such a difficult political period should not be underestimated. Yet the experience of many other transition economies suggests that breaking out of a situation of partial reform can be harder than making the first steps. Hyperinflation and cheap state credits can only ever be temporarily profitable for a self-interested elite. The population soon learns to evade the implicit tax by using other currencies or non-monetary means of exchange. With the coupon this happened very quickly and it must have become clear to even the most venial official in 1994 that printing money was no longer worthwhile. A partially reformed economy, with all the opportunities of the market but none of the restrictions on monopolistic activity and few taxes to be paid, can then become the most attractive option. Access to government licences and contracts, insider privatisation deals, or the ability to evade tax and customs audits can provide huge rewards for bureaucrats at the expense of the rest of the population. A look at Ukraine or Russia shows that insiders can fight very hard to resist changes that will undermine these privileges. Those countries' experience also suggests that it is crucial to undermine such privileges before the financial and political power of their beneficiaries becomes too frightening to take on. Georgia's reformers clearly cannot afford to rest on their laurels.

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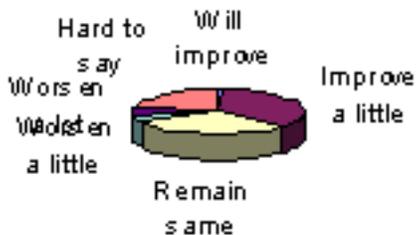
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**How bad is the current economic situation?**  
(1000 people in all Georgia, September 1998)



Source: US Embassy

**How do you think the economic situation will change over the next 12 months?**  
 (1000 people in all Georgia, September 1998)



Source: US Embassy

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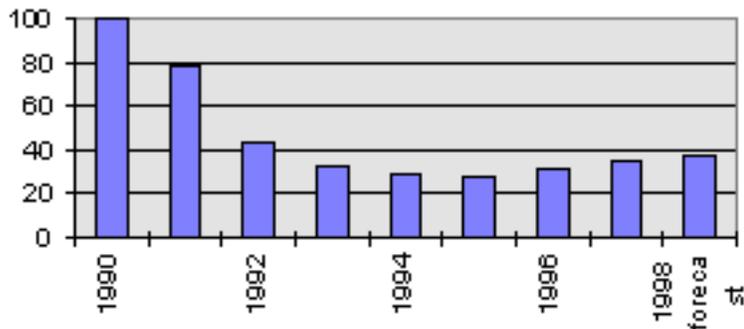
### 3.2. MACROECONOMIC DEVELOPMENTS

One of the most important tasks of any government is in providing macroeconomic stability, and an environment that induces firms to allocate resources efficiently, to improve productivity, and to innovate. In this there is still a long way to go to overcome the legacy of the disastrous economic policies of the early 1990s, and the uncertainty at the end of 1998 will have done little to help.

GDP growth has been rapid in recent years but forecasts for growth in 1998 are being rapidly revised downwards. The internal fiscal crisis and external trade problems have combined with a poor harvest. It is clear that the absolute level of economic activity remains extremely low. After suffering the largest output fall in the ex-Soviet Union, Georgia's economy could hardly help but grow as economic activity became possible again after the civil war. As the figure below indicates, GDP in 1997 was still only just back to the level of 1993 and far below that of 1990. Most available evidence suggests that GDP began falling in the early 1980s so it will be some time before those levels are reached again. In the World Bank's ranking of 133 countries by GDP per capita for 1997 Georgia appears in 82<sup>nd</sup> position just behind China and above Sri Lanka.

However comparisons with the past and with other countries are dangerous. Soviet statistics systematically overestimated output to fulfil fictitious plans and much of what was produced had little bearing on people's consumption or welfare. Steel production became almost an end in itself. The same level of human development could be achieved now with lower levels of GDP. More recent Georgian statistics suffer from different problems. With very few resources and a reporting system based on old state enterprises the State Department for Statistics (SDS) has been forced to make very large and somewhat arbitrary adjustments for the unregistered private sector. Having used higher GDP estimates than the SDS since its arrival in Georgia, the IMF now suggests that both its own and SDS estimates may be too high. Certainly most new activity is in the informal unregistered sector. Any talk of an economic boom is still dangerously premature.

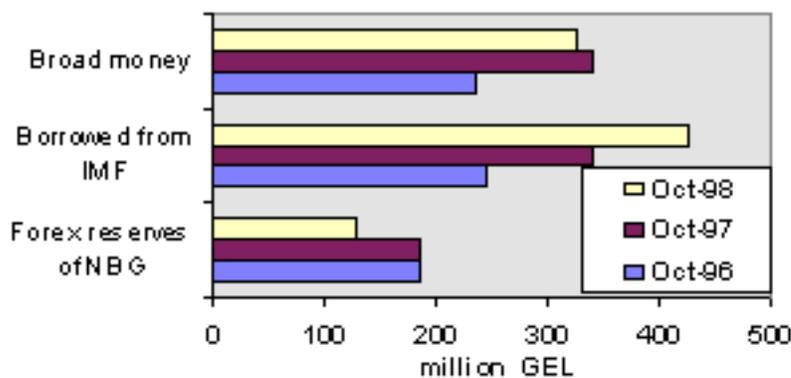
**Real GDP index (1990 =100)**



Source: Data from SDS and IMF

The most notable achievements of reform had been in stabilisation of prices and the currency. Annual inflation was actually negative up to September 1998. Since it is invariably the poor and those on fixed domestic currency incomes who suffer most at times of inflation and devaluation, this was an important achievement. Prudent monetary policies had also gone some way to raising trust in the lari and encouraging a slightly longer term business environment. However after the hyperinflation and pyramid schemes of the early 1990s the public is still understandably distrustful of both the monetary authorities and commercial banks. The IMF estimates that velocity of circulation of lari declined by 17% over 1997, but by the end of the year broad money was still only 5.5% of GDP. People remain reluctant to hold on to lari. Populist politicians continue to accuse the IMF of insisting on an over-tight monetary policy, and numerous other sins, and the government is not above blaming unpopular reforms on conditions imposed by foreign donors. But most evidence and the experience of the recent past suggest that extra lari printed would be converted into dollars and simply undermine the exchange rate rather than be lent to productive businesses. Experience from hyperinflations in other countries shows that confidence in the currency and the government's economic competence, once lost, are always very slow to return. Continuing with very cautious monetary and bank supervision policies and encouraging wider understanding of these aims is likely to be more effective than legislating that people must use lari.

#### Monetary changes



Source: Data from National Bank of Georgia

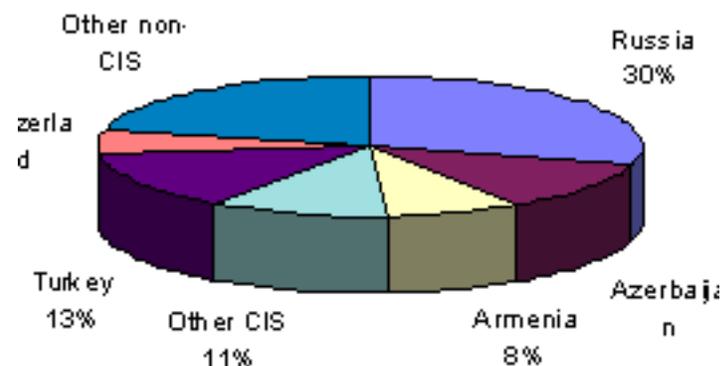
Much good work has also been undone by the events of November and December 1998. Decreasing dollar inflows from Georgian businessmen in Russia and pictures of Russians who had trusted the domestic currency and lost their savings put great pressure on the lari. Lending from the NBG to the government is still the major source of deficit financing, so to keep the lari stable the NBG then has to sterilise its lending by selling foreign exchange borrowed from the IMF. In the autumn of 1998 the NBG spent a large part of its reserves in a hopeless attempt to compensate for dollar outflows and excessive government borrowing. The IMF's refusal to finance further intervention meant it had to admit defeat on December 6th, with about USD 60 million left in reserves, and let the lari find its own level. The price in terms of further demonetisation of the economy may be quite high. Towards the end of 1998 some of the few banks that had been engaged in private lending were suspending new loan-making because currency instability made it too hard to assess projects. The high reliance on consumer imports means devaluation could also lead to upward pressure on prices, though the significant recent devaluations in Turkey and Russia mean this risk should not be exaggerated. Those likely to suffer most are the pensioners and government employees who are owed large amounts by the government, the full value of which they are now even less likely to see.

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## Trade

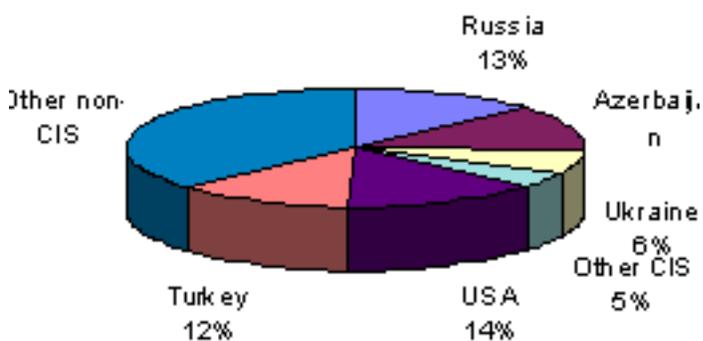
Devaluation of the lari will have been welcomed by exporters and producers competing with exports, who have suffered considerably from devaluations abroad. Although Georgian trade officials like to downplay the importance of Russia as a trading partner and stress reorientation of trade towards the west, Russia is still by far Georgia's most important export market. The crisis is not yet reflected in the statistics, which are available only up to the first half of 1998, but the effects of Russia's new poverty are already starting to be visible. Towards the end of 1998 a number of prominent businesses focused on exporting to Russia had suspended production. The Russian market looks unlikely to recover in the near future and huge effort is going to be needed to find new buyers.

Main export markets 1997



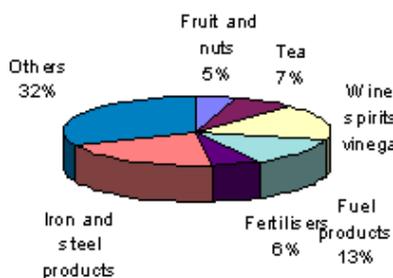
Source: Data from SDS

Main import sources 1997

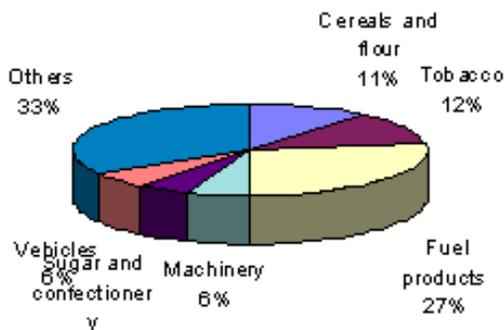


Source: Data from SDS

Main exports 1997

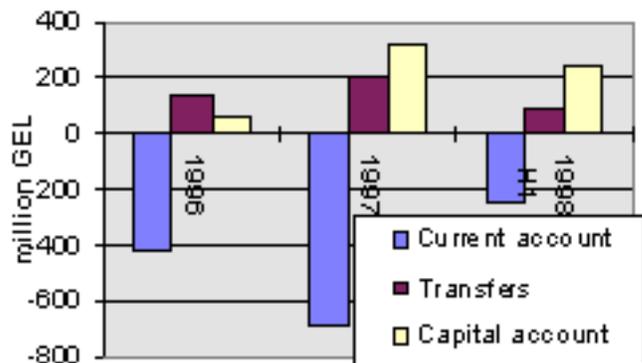


Main imports 1997



Trade statistics are still by no means entirely reliable. The customs system, particularly in Achara, remains highly corrupted and many imports and exports go unrecorded. A lot of transit trade is also incorrectly registered. Still it seems that the current account deficit has been growing, from about 9% of GDP in 1996 to about 10% in 1997. This is not necessarily worrying if it is simply the counterpart of large inflows of aid and foreign investment. It does appear that private capital inflows are increasing (though these data are particularly weak), and this will allow the deficit to continue. It also seems that exports have been rising, by approximately 10% in nominal terms in 1997, after a 15% rise in 1996. So far a large part of this is accounted for by the resumption of work in the metallurgical industry, often through barter deals for energy with Russia. Foreign investment in the wine, oil and tea industries has also been showing results. Imports have been rising rather faster, by over 20% in 1997 after a 10% rise in 1996. Some of this is accounted for by import of equipment for the construction of the 'early oil' pipeline. However it is striking that capital goods seem to account for less than 10% of recorded imports. If capital inflows are still financing consumption rather than investment then the debt that is building up may be hard to pay off. Future export success stories are still hard to spot.

Balance of payments 1996-1998 H1



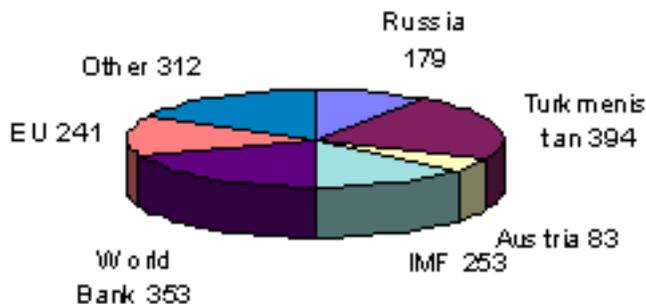
Source: SDS  
The current account figure excludes transfers. 1998 H1 figures are preliminary.

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### Foreign Debt

One of the main reasons to be concerned about trade performance and devaluation is Georgia's fairly heavy foreign debt burden. Although at the time of independence Georgia signed away its share of Soviet assets and liabilities to Russia, post-independence governments managed to accumulate debt extraordinarily fast, largely by keeping up fuel imports that could not be paid for. A large proportion of foreign credits also appear to have been misappropriated, and Georgian taxpayers will have to pay for some time for expensive cars bought by members of previous governments. Total foreign debt contracted stood at just over USD 1.8 billion by the middle of 1998. Most of that which was not given on concessional terms has now been rescheduled, normally at interest rates of 4%. Still the IMF expects debt service to cost between 20 and 25% of export revenues over the next four years, when most of the repayment on rescheduled debt will be due. The net present value of debt obligations is about 200% of 1997 exports. Since this is almost all medium and long term debt there is no threat of a reversal of confidence leading to an immediate Russia-type crisis. However the cost of repayments will greatly complicate the task of rebuilding the economy and government finances. In 1997 debt service obligations already amounted for nearly a quarter of total central government revenue. In 1998 interest and amortisation payments due amount to nearly USD 150 million. The government has already defaulted on rescheduled debt to Turkmenistan, and in the fiscal crisis of the end of 1998 seems very uncertain how to proceed. Considerable further foreign aid and perhaps debt rescheduling is likely to be necessary.

Composition of foreign debt contracted, as of July 1998, in million USD



Source: Data from Georgian Economic Trends

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## Macroeconomic Policy Options

The worsened trade outlook is likely to strengthen calls for changes in external policy. As in many countries a large and growing trade deficit still leads to alarm about dependence and calls from uncompetitive producers for higher trade barriers. So far policy has been impressively robust in resisting such demands. Under influence from the IMF the trading regime has become open and free, with just two tariff levels of 5 and 12%. The government estimates the trade-weighted average tariff in 1997 to be just 3.9%, largely due to tariff free imports from the CIS. For a country that sees itself as an important trade and transit route, and one that requires as much capital goods investment as Georgia, such openness is probably essential.

Low tariffs will also greatly help in what is the main focus of current trade policy, accession to the World Trade Organisation (WTO). Membership would greatly improve Georgia's access to markets outside the region, and reassure foreign investors. As a small country Georgia is potentially highly vulnerable to pressure from larger trading partners. The US and EU in the past have not been above exerting pressure on transition economies that export too cheaply, even going as far as forcing Russian aluminium producers into a cartel to control production and prices. The EU shows considerable reluctance to liberalise markets in areas like agriculture and textiles in which Georgia might be most competitive. Russia has shown itself prepared to use economic pressure for political ends, particularly in discussions of the proposed CIS customs union. However imperfect, WTO membership still offers the best defence against such pressures.

There are many more actions that can be taken within a WTO framework. Export promotion, by assistance in seeking out markets and access to carefully monitored guarantee facilities, perhaps with help from international organisations, could help smaller companies without access to market research and credit. Currency devaluation will certainly benefit exporters, though the costs for debt repayment and financial intermediation may be high. While many find the idea of more active trade and industrial policies attractive, the appropriateness of these is debatable. Countries like Korea and Taiwan succeeded with industrial policy, but many others have failed to use it effectively. Although import substitution worked in Japan it failed in Latin America and the Philippines. The evidence of these countries suggests that a successful industrial policy needs to be supported by competition in the domestic economy, and by a highly competent bureaucracy, hired and promoted on the basis of merit and effectively monitored but free from political influence. Such conditions are clearly absent in Georgia, where a more active policy would most likely be quickly captured by vested interests and rent seekers.

More relevant lessons that can be learnt from east Asia, apart from the dangers of crony capitalism, include the importance of macroeconomic stability, infrastructure and encouraging saving. One thing that successful east Asian countries had in common is high savings rates, allowing high levels of investment to be financed domestically. Georgia's current account deficit is the result of a need to invest more than domestic savings allow. By running a budget deficit the government is borrowing, or dis-saving, about 4% of GDP. Private savings in banks amount to about 3% of GDP, so the only net source of investment funds is money borrowed from abroad. While savings are bound to be low at a time of temporarily low incomes, there is much more that can be done to encourage higher saving in the future. The most important factor is macroeconomic stability. There is a virtuous circle between savings and growth: people will save if they have confidence in future stability. Strict supervision of the financial sector is necessary to raise confidence. People who have lost savings in the pyramid schemes and banking frauds of 1993 and 1994 are unlikely to trust their savings to institutions for some time. East Asia has also shown more recently what can happen when financial supervision gets lax and infested with cronyism. Finally the government can help promote savings through tax and social security policies and through developing financial markets. A start has been made with the introduction of Treasury Bills offering market rates of interest, and a law has been passed setting a framework for private pension plans. More will need to be done on improving the banking sector, however, before the majority of the population is tempted to take their dollars out from under their beds. Recent bank liquidity problems caused by events in Russia will have set confidence back further.

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## Tax and Spending

Franklin's aphorism that only death and taxes are certain in life can not be said to apply in Georgia. For the past five years economic observers have been writing variations on the phrase that low tax revenue represents the main threat to Georgia's economic recovery. At the end of 1998 this threat was showing its teeth. A long build up in revenue arrears was delaying disbursement of the latest tranches of donor credits and had led the government to exceed targets for monetary emission. Failures in tax collection were thus directly responsible for the fall in the value of the lari and the rise in prices that may now partially reverse recent improvements in living standards. Responsible officials attempt to pin the blame on the Russian crisis, yet the problems have their roots considerably earlier. The most worrying infection from Russia has been in the growing practice of building up expenditure arrears, notably on pensions and wages, rather than facing and acknowledging the problems that lie behind an inability to meet commitments.

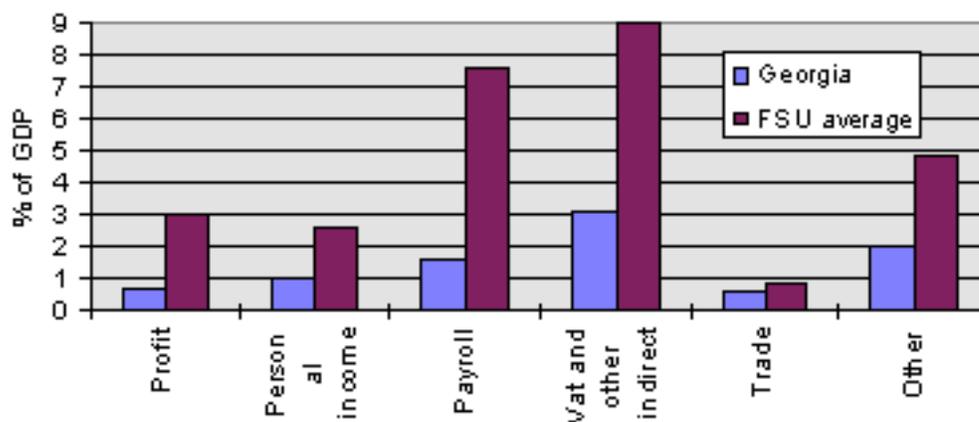
'At every stage of implementation of the budget process one finds incorrect calculation and accounting, and total disintegration of management and coordination systems. In all departments connected with budget implementation there is an atmosphere of incompetence, negligence, irresponsibility and impunity. A very large part of budgetary revenues and expenditures are affected by the shadow economy. As a result the financial and budgetary system is in a critical condition, which will be reflected not only in results for the current year, but for future years also.'

*Chamber of Control, Report on 1998 Budget Implementation*

The Chamber of Control is admirably and fearlessly critical of budget processes, but it is perhaps important to note that there have been some significant achievements. Georgia's revenue to GDP ratio has almost tripled since 1993. Most of the tax exemptions that used to cripple the system have now been abolished. An entirely new Tax Code was introduced in June 1997. Expenditure has been drastically and painfully reduced, from 24% of GDP in 1994, to 12% in 1995. Revenue improvements allowed expenditure to expand to 14% of GDP in 1997. A treasury system for expenditure control has been rapidly introduced, and is currently being computerised and extended to cover local budgets. The most important result has been the great reduction in budget deficits that is the main foundation of the successful stabilisation programme.

Yet by any standards tax collection remains extraordinarily weak. Total revenue collection amounted to 10% of GDP in 1997. The average for the CIS was 24% in 1996. Even Tajikistan could manage more than Georgia. In the first nine months of 1998 total revenue was GEL 445 million, only 75% of that targeted. VAT and excise tax collection were particularly poor, with the latter at less than a third of its target. At the same time the tax base is so narrow that for those who do pay taxes the burden is quite high. A striking example is in personal income tax. Rates are not excessively high at a maximum of 20% (though a failure to readjust thresholds with inflation means that almost everyone pays the maximum rate), but almost the only people who pay are employees of budgetary organisations for whom the tax is automatically subtracted from wages. Many of these are among the lowest wage earners in the country. Although a start has been made on issuing income declaration forms, very few of the rich pay any income tax at all. Many large firms, particularly notoriously cigarette and fuel importers, successfully evade most forms of taxation and thus both raise the pressure on the Tax Inspectorate and Customs to extract revenue by all means from less powerful firms, and make it very hard for legal firms to compete. Firms connected to the families of important officials are considered by many almost untouchable.

**Government revenue from different taxes in Georgia and the former Soviet Union, H1 1997**



Source: Data from IMF

The tax code appears generally consistent and, despite many complaints, rates are fairly moderate by international standards. Even the highest rate, the payroll tax used to fund the pension system is, at 33%, at the lower end of the 31 to

45% for ex-Soviet countries. Yet Georgia's collection of this tax is only a fifth of the ex-Soviet average. The problem is clearly in application of the system. Targets are set apparently quite arbitrarily, since the Ministry of Finance still lacks the most basic information required for budget forecasting. A lack of training in the Tax Inspectorate and Customs, and the lack of any reliable legal infrastructure, means the code is often applied quite unpredictably. Corruption has become so entrenched that the contracting out of parts of the customs service to foreign companies, and the employing of foreign tax inspectors to act as benchmarks, are now being discussed. Amendments to the tax code have recently been very frequent and each one has required repeat visits to enterprises by tax inspectors. Often such changes appear to be more the result of lobbying than real improvements. Even businessmen who are able and willing to present fully correct accounts often find it simpler to pay bribes. Half-hearted and semi-official discussions of tax amnesties in the future do little to encourage such people to pay taxes now.

***Budget revenue and expenditure 1995-1998***  
***(% of GDP)***

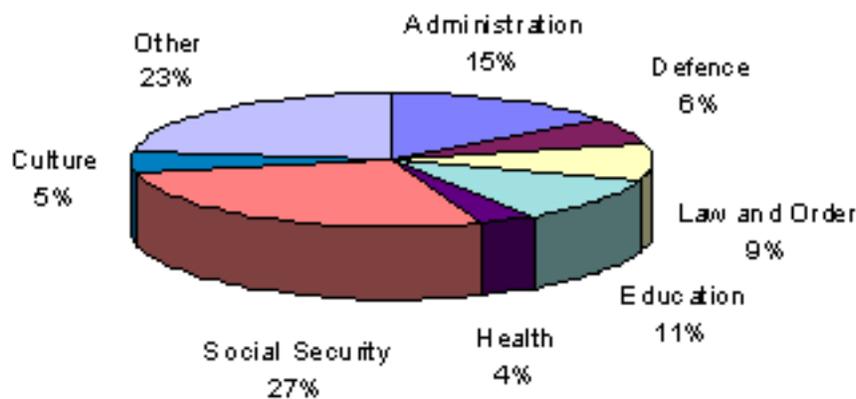
	1995	1996	1997	1998*
Total revenues and Grants	7.1	9.4	10.4	9.0
Total revenues	5.1	8.1	10.0	8.6
Tax revenues	3.6	5.3	7.1	5.9
Non-tax revenues	0.5	0.9	1.0	0.7
Extrabudgetary revenues	1.1	1.9	1.9	-
Grants	1.9	1.2	0.4	0.4
Total expenditure and net lending	12.3	13.9	14.5	11.6
Total expenditure	11.6	14.1	14.4	11.1
Current expenditure	8.6	12.9	13.3	10.4
Wages and salaries	1.6	1.8	2.3	1.3
Interest payments	1.5	1.0	1.4	1.1
Extrabudgetary expenditure	1.4	1.8	2.5	-
Local government expenditure	1.9	1.9	1.5	-
Capital expenditure	1.1	1.2	1.1	0.7
Net lending	0.7	-0.2	0.1	0.5
Health spending		1.2	1.8	1.7
Education spending		0.7	1.0	1.2

Deficit (commitment basis)	5.3	4.5	4.1	2.6
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**Source: IMF**

\* 1998 figures represent planned targets for the central state budget only, so exclude local budgets and special state funds. The targets may also differ significantly from actual spending.

On the expenditure side also some progress has been apparent. Budget allocations for wages, social transfers and pensions have all risen in the past two years by more than GDP. Further reductions in government employment have allowed wages for those that remain to become slightly more realistic. Total social spending (pensions, benefits and basic health care) represented over one third of all spending in 1997. Health care spending has risen from 0.7% of GDP in 1995 to a planned 1.2% in 1998. Still the share of expenditure on health and education is notably low. Very large amounts are still unclassified and not subject to public scrutiny. With total expenditure so low it is essential that spending be focused on a core set of functions, probably basic education and health, social assistance, defence, law and order and basic infrastructure. The government continues to subsidise activities such as publication and broadcasting that could become self-financing.

**Composition of total state expenditure, 1997**

Source: Data from Georgian Economic Trends Includes expenditure by the Social Security Fund

Above all many of the budget figures bear little relation to reality. At the end of 1997 budgetary wage and pension arrears stood at GEL 12 million, representing about a month's pension expenditure. The government promised to cover these arrears in 1998 but by the beginning of October they had increased to GEL 38 million. In many regions pensions and wages had not been paid for over 5 months. Social spending appears to be always the first to be cut when revenues fall short. Health spending accumulated GEL 6.6 million in arrears in 1997, and in the first 9 months of 1998 spending amounted to only 38% of what was planned. This has further reduced available funds by delaying release of the SAC II credit from the World Bank. In 1997 only 68% of the EU Food Security Programme grants were disbursed, also because of failure to meet agreed social spending targets.

### **The Ministry of Economy's own report on the fiscal situation comments:**

'Even with budget revenue at the current level, if revenues are spent rationally there is no justification for the present size of expenditure arrears. This underlines that there are serious weaknesses in spending mechanisms. To analyse the situation and discover the reasons is not possible as some parameters are hidden for certain reasons.'

The fact that data is hidden from the Ministry of Economy says much about the chaos and murkiness of the spending system. The Ministry suggests that budget money may have been diverted to finance some parties' local election campaigns. The Control Chamber's report on budget implementation provides a long and fascinating list of uncovered abuses.

A detailed fiscal reform programme is now underway, and is long overdue. The budgetary system received nothing like the same attention and assistance as the monetary system at the beginning of stabilisation. The collection of information from ministries and spending units will be improved, and discrepancies monitored and expenditure priorities ranked. Now

money is still allocated to departments on the basis of unofficial and secret estimates of how much will really be collected, and according to personal relationships. Regional spending offices are still very poorly integrated into the system and lack basic training. Although required to balance their budgets, many local authorities have apparently been borrowing at high interest rates from commercial banks to cover wage bills, no doubt in the expectation that these debts will eventually be covered by central government. Further investment in computerisation will be essential to allow forward cash planning, effective internal audits, and the registering of all liabilities. The current system of building up arrears gives reform a bad name.

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## Pensions

From the point of view of human development, one of the most worrying aspects of expenditure problems is the effect on the social safety net. State old age pensions are now practically the only operating form of social insurance in Georgia, and where they are paid, they fall far below any minimum subsistence level. Standard pensions now stand at GEL 13 per month, of which GEL 1.8 is transferred directly to Sakenergo for electricity payment. Slightly over 50,000 war veterans receive a marginally more realistic GEL 35 to 45. Dependency rates are unfeasibly high. There are over 900,000 state pension recipients, and as detailed in Chapter Five, only about 750,000 people in conventional salaried employment, of which about 600,000 are in the state sector. A negligible proportion of the self-employed, and very few of the private sector employed, pay contributions. In the absence of individual pension accounts, or any link between contributions and benefits, there is very little incentive to report true wage levels.

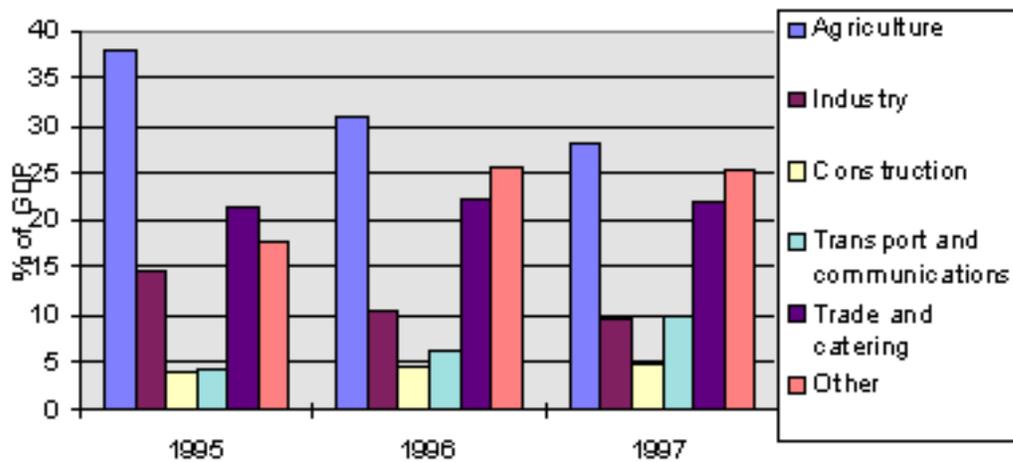
Currently measures are being taken to remove illegal recipients from pension lists and to encourage informal sector employees to opt in to the system. Very heavy investment will be required to automate and track individual contributions. Private pension schemes are to be encouraged and legally regulated, but this is unlikely to have any short term effect on the state system. For the foreseeable future state pension rates will remain low, and the main burden of poverty relief will have to be taken by more narrowly focused non-insurance benefits. Meanwhile a more active debate is needed on what sort of social insurance scheme Georgia would like to develop. If restoration of the tax system and the formal economy allow, a state pay-as-you-go system could be used to provide a basic pension for all, topped up by mandatory or voluntary private schemes. The weight given to each could depend on the importance attached to social solidarity and equal treatment, or economic efficiency and encouraging investment. Without full reform of the revenue collection system, and measures to convince the public that taxes and contributions will not be wasted or stolen, any improvement in support for old people is doomed to failure. Given that this will take time, the most urgent priority now should perhaps be to identify and support those old people who cannot rely on family support.

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## 3.4. MICROECONOMIC DEVELOPMENTS

The economy is also changing dramatically in its composition. Most noticeably industry continues to decline and the new trade and communications sectors are on the rise. The implications for human development are ambiguous. Such dramatic sectoral shifts inevitably bring short-term hardship, and for those without easily transferable skills the pain may last a long time. Yet many of the changes are inevitable and if the economy is to recover resources will have to move from non-productive sectors to those that produce something people want to use. The government could have an essential role in alleviating the pain caused by declining sectors and providing the right conditions for new business to start up. Few consider it is currently doing well in these areas.

### The changing composition of the economy



Source: Data from IMF

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## Industry and privatisation

Visiting the great majority of Soviet era industrial enterprises now does not encourage optimism. Many were built using technology that was out of date and environmentally dangerous even at the time. The collapse of traditional captive markets and the sharp increase in costs of raw materials, particularly of energy, have robbed many factories of their raison d'être. Now many of those that survived pillaging in the period of civil unrest have nearly collapsed through neglect and inactivity, and even if the concept is viable it might be cheaper to build a new factory next door. Surveys of industry suggest that the average rate of capacity use is less than 10%. Some of these enterprises may be suffering merely from a lack of finance, and Georgian banks' reluctance to lend outside their circle of friends. However others continue to subtract value from their raw materials, and survive only by the forbearance of the State Tax Inspectorate or energy supply companies. The difficulty is in distinguishing the two types. The adoption of international accounting standards, continued reform in the banking system, and a willingness to use the new bankruptcy law will all be crucial if the viable are to be sorted from the parasitic.

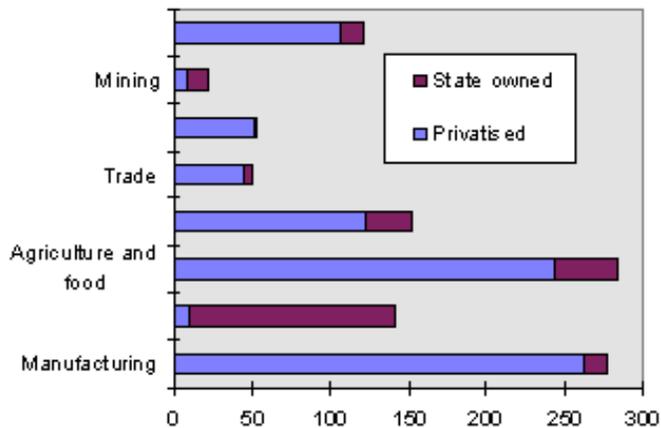
Only 36% of respondents to the US embassy September survey thought that the government should now continue to subsidise unprofitable state enterprises. The length of time for which such enterprises have not been operating and the fact that few can pay much in the way of wages, has largely dissipated affection for them. The government has also mostly accepted that it lacks the funds and the management know-how to be an effective shareholder. However its role in providing an environment for the private sector to take over is still essential. The details of disposal also arouse great passions and were a major issue in the recent local elections.

The process of small enterprise privatisation, mainly shops and small service operations, is the least controversial and is largely complete everywhere except Achara. Privatisation was apparently mainly to insiders and was certainly not always carried out in a transparent or revenue-maximising way, but the secondary market should ensure that such enterprises eventually end up in the hands of people who have some idea of what to do with them. A law on urban land privatisation was passed in October 1998, which should increase the value and access to credit of some of these enterprises.

Medium and large enterprises (MLEs - defined as those with a book value over USD 44,000 in 1993) inevitably inspire much more controversy. Progress in terms of numbers of enterprises privatised is shown below, but is slightly misleading in that enterprises still state owned are invariably the largest, accounting for still over half of MLEs by valuation. Voucher privatisation, intended to give the population a stake in the economy, was not a great success. Although most vouchers issued were used, by the end of the process only around 7% of shares issued had been bought, because buyers demanded huge discounts on the nominal value of shares. Shares that were bought went largely to enterprise insiders, as they were the only ones with enough information to know whether an enterprise was worth anything. Investment funds were a notable failure due to public mistrust after experience of pyramid schemes. In a survey by the SDS in Tbilisi at the beginning of 1998 only 1.6% of respondents reported having obtained shares through the privatisation process. Now, after

a long period of inaction ended mainly by pressure from the World Bank, the government is pressing on with a variety of privatisation methods, including investment tenders, leases with buy-out options, sales to strategic investors and contracting out management to the private sector. Progress will continue to be delayed by the fact that Parliament insists the Ministry of State Property Management offers enterprises at auction with excessively high reserve prices before using other methods.

#### Number of privatised and state-owned medium and large enterprises, 1998 Q2



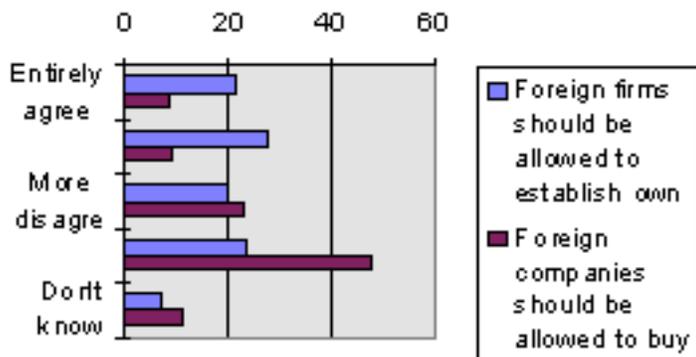
Source: Data from GET

Partly privatisation is hampered by the nature of inherited Soviet industry. The largest ten enterprises in the country account for over 70% of all MLE valuation. Their apparent dominance of the economy does raise questions about regulation, and encourages politicians to think of them as strategic assets that should not fall into the hands of foreigners. More accurately their relative size is a result firstly of the overspecialisation inflicted on Georgia in the Soviet era, and secondly of the collapse of much of the rest of industry. For those that are viable the challenges of restructuring and debt repayment are usually huge. The recent tender for control of Chiatura Manganese had to be cancelled when the successful Russian bidder proved unable to meet commitments made on investment and debt payment. The imposition of such conditions may complicate the process but can be an important deterrent to asset-stripping. Delays are also caused by the need to address issues of monopoly and regulation, particularly in the energy sector. Some argue that sales should wait until some restructuring has been undertaken, or the population has more money to invest and better access to credit. But the costs of waiting in terms of continuing mismanagement and inactivity of enterprises are very high. Decapitalisation, asset stripping and unofficial appropriation of income flows become widespread as the debate continues, benefiting very few and reducing the long term value of the enterprises. Most remaining state shareholdings have been transferred for management back to sectoral ministries or to state companies, who are usually reluctant to lose them. Many attempts are made to influence auction and tender results for the best enterprises. People prepared to invest can rarely get reliable information on the state of an enterprise and can rarely feel secure about the control rights that their shares represent. Until these problems of accounting, information and legal rights are thoroughly addressed, enterprise and government insiders will benefit more from privatisation than the government budget, and outside investment for company expansion will continue to be in short supply.

Foreigners are able to bid on equal terms with Georgians in most privatisation offers, though information and control problems scare many off. Popular opinion on foreign investment is strikingly divided. Forty two percent of respondents to the US Embassy survey thought foreign investment should be discouraged, and 47% thought it should be encouraged. Given Georgia's history of occupation there is considerable suspicion about investment from neighbours like Turkey and Russia, and quite strong hostility to the idea of foreign firms acquiring controlling interests in Georgian enterprises. Soviet propaganda also encouraged a view of enterprises as national treasures rather than sources of employment and taxes.

#### Public opinion on foreign investment

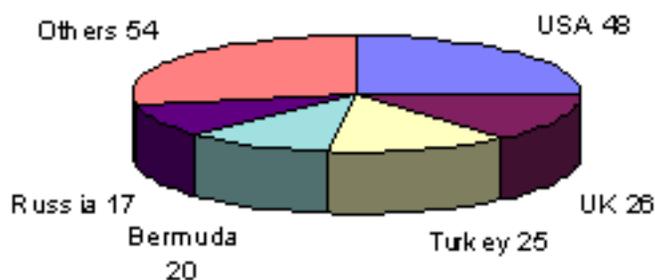
(1000 people in Georgia, Sept 98)



Source: US embassy

Registered investment figures may not be reliable as there are few penalties for not registering. A survey conducted by the IMF suggests that investment in 1997 amounted to approximately USD 190 million, up from 54 million in 1996. This is comfortably more than the CIS per capita average, but measuring one's economic management by CIS standards is always likely to encourage dangerous complacency. By world standards the figure is still extremely low. Here again the immediate outlook is probably not good. While there may be a few investors who will use problems in Russia as a chance to look for opportunities nearby, many more are likely to be generally CIS-averse for some time. Many have been badly stung in Russia and are understandably concerned about the trading difficulties the crisis will bring. The longer term prospects could be much better. There will be considerable room to profit from services related to oil extraction in the Caspian, particularly if the business environment in Georgia is made more attractive than that of oil-producing neighbours. A decision was due in December on whether to build an oil pipeline from Baku to Ceyhan. Although financing for that project looks highly precarious, even if it is cancelled or delayed another pipeline to Supsa looks a possible alternative. There is also a strong possibility of a smaller pipeline being built to carry gas from Russia to Turkey. Foreign investment tends to concentrate very strongly in a few countries with welcoming policies and prospects: by 1997 just ten countries had received three quarters of all private capital flows to middle and low income countries. Investors, like sheep, are significantly reassured by each others presence. While only certain sectors are likely to benefit, and domestic investment will always be a more important source of funds, the benefits particularly in terms of knowledge transfer could be very great.

Sources of foreign investment in 1997, USD millions



Source: Foreign Investment Survey, IMF

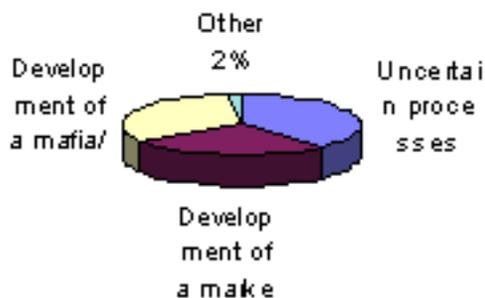
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**Business conditions**

Starting a private business should be one of the most important ways people could improve their circumstances. Particularly given the state of existing industry, long run economic success will depend on new entrepreneurial talent being able to flourish. Yet conditions for small business remain difficult. Although criminal protection rackets are no longer a significant problem, government interference and inspections generally cost as least as much in bribes. Only 10% of respondents to the US embassy opinion survey, presumably not businessmen themselves, thought it was possible to run a business without paying bribes to officials. The weak legal framework leaves corrupt officials with a great deal of discretion. Larger enterprises find that they have to spend a great deal of time lobbying and making political contacts to flourish. The borderline between business and government is unhealthily ill-defined. While businessmen's political strength in no way approaches that of oligarchies elsewhere in the CIS, the tendencies are worrying.

#### How would you characterise economic changes in Georgia now?

(400 respondents in Tbilisi, winter 1997-8)



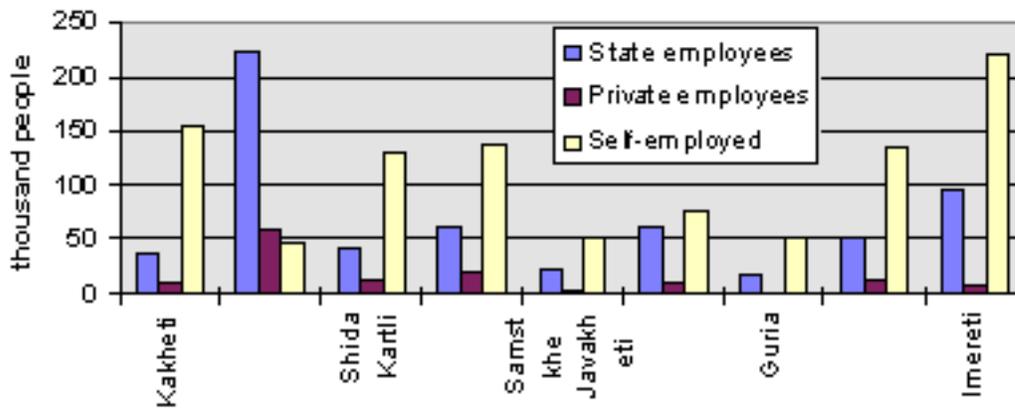
Source: State Department for Statistics

An important result of corruption and politicisation is that the great majority of small and medium sized firms choose to operate partly or wholly in the informal or unofficial sector, unregistered and paying bribes rather than taxes. Estimates of the extent of this activity vary widely. The SDS has been recently using an estimate of 40% of the whole economy. Many consider the true figure could be higher. A study of most transition economies by the Brookings Institute uses electricity consumption data to estimate the Georgian informal economy at over two thirds of the whole economy. The main problem with such estimates is that, unlike in Latin America or Asia, there is often no sharp dichotomy between official and unofficial activities. Enterprises and even ministries will often have unofficial operations running alongside official ones. Officials and managers use state assets to generate private incomes, and private businesses keep a small amount of activity on the books to show tax inspectors.

From the point of view of welfare the unofficial economy has had a positive side. It has helped keep households afloat while the official economy has been too inflexible to respond to changed circumstances. Small-scale trading may be humiliating to many but it has provided a lifeline to some who would otherwise have gone hungry. It has also provided valuable market experience to potential entrepreneurs. However the negative sides clearly dominate. Macroeconomic stability and an effective social safety net are impossible to achieve while so few pay taxes or social contributions, yet all are still eligible to receive the benefits of these. Rising pressure to extract taxes from the remaining official sector businesses can then push them into moving to the unofficial sector, and a vicious circle results. As people become used to ignoring economic laws and regulations the rest of the legal system is increasingly undermined. Above all the unofficial economy, however large, is mostly a survival economy, where trading, stripping of state assets and focus on short term turnover dominate the long term view. Large scale or sophisticated investments, which are crucial to longer-term growth, are almost impossible. The time and money wasted in getting around licenses and taxes is also highly inefficient: even those receiving the bribes could be more productively employed.

So although the private sector is now easily the largest part of the economy, private enterprise remains overwhelmingly small scale and dominated by self-employment in agriculture. In 1997 according to SDS household survey data there were only 136,000 people in the whole country with salaried jobs in private sector organisations, or 7% of the labour force. The ILO Labour Force survey finds 754,000 salaried employees, of which 614,000 are in the state sector. With another 30,000 employees in the mixed or public organisation sector, it may be that as few as 120,000 people have conventional private sector jobs. Many of these would be in newly privatised state enterprises that may have only a short future. Even among the self employed there are only about 150,000 working outside the agricultural sector, of whom 90,000 work in trade. So far job creation has been extremely limited. If employment opportunities are to increase, private firms that have the inclination to expand urgently need to be allowed and encouraged to do so.

## Private and state sector employment and self-employment, Q2 1998



Source: Data from SDS/ILO Labour Force Survey

To break out of the current equilibrium the government thus urgently needs to improve the competitive environment and make it worthwhile for businesses to come into the official sector. The divide between government and business needs to be much more clearly defined, and conflict of interest rules enforced. It is clearly detrimental to competition when people within a ministry are running a business in an area they have authority to regulate. The previous regime at the Ministry of Post and Telecommunications is only the most notorious example. Many ministers are widely thought to be among the richest people in the country. There seems to be little will to enforce the anti-monopoly law passed in 1996 and politically well-connected firms in a number of markets seem to be able to resist competition, at the expense of both consumers and potential competitors. More than one donor has already abandoned assistance in this area, questioning the government's desire to tackle certain monopolies. The access of the privileged to cheap or state guaranteed credit also distorts the market. Many domestic producers, of oil products for example, complain that the ability of certain importers to avoid taxes and import duties makes competition impossible.

Once such obvious abuses have been addressed, companies need to be persuaded that contracts can be legally enforced and all are subject to the same tax regime. Few believe that courts can be relied on to make reasonable or impartial decisions, and still less can enforce their decisions. Volunteering one's presence to the tax inspectorate is highly risky if one does not believe assessments can be fairly contested. Many businesses have found that tax authorities are able to obtain information about their bank accounts and freeze them without a court order. Some have even had money arbitrarily removed from their account as fines. In one case, when proved to have wrongly extracted such a fine, the tax inspectorate said it could not return the money but could only remove it from future tax bills. Private debts are also extremely hard to enforce. Although the bankruptcy law can now be triggered by any unpaid debt, the few cases that have actually been heard have all been reorganisations rather than liquidations. Further deregulation would also help reduce the ability of officials to harass firms by enforcing unclear regulations and laws. Parliament recently passed a law containing a clause, later repealed, that decreed chemist shops could not stand within 500 metres of each other. The traffic police rely on similar bizarre regulations to supplement their salaries. Such activities and prominent abuses, like the fondness of government and municipality offices for expensive foreign cars, are perceived by the public as a sign of decay in the social fabric and further justification for unofficial activity.

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## Infrastructure

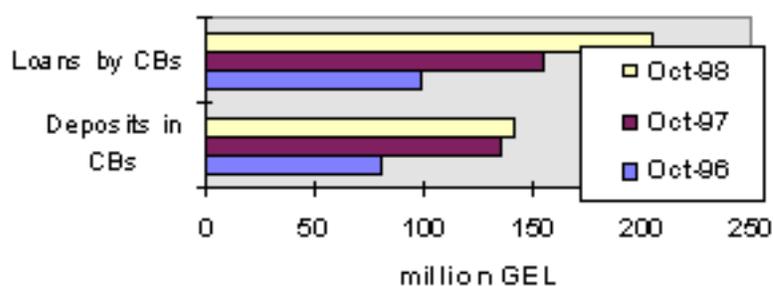
A crucial role of government is in providing, or at least organising the provision of, public infrastructure. The decay of infrastructure since independence has had serious social and economic repercussions, and further encourages reluctance to pay taxes. The experience of east Asia also suggests that investment in infrastructure, including electricity, roads, airports, schools and health facilities, is a precondition for long term growth. The state has very little money for this but in some areas credits from donors and private investment have been showing results. Notably transport infrastructure has improved with assistance from the World Bank. Main roads, while still full of potholes, are occasionally repaired. Journeys to Vladikavkaz or Trabzon are considerably less dangerous than they were, though many feel that police and customs officers

continue the extortion role once carried out by the Mkhedrioni. Foreign lorry drivers still try to travel in convoy to protect themselves against this. Roads to rural areas have in many places effectively disappeared. Mountain villages that could rely on cheap helicopter connections in Soviet times have had to become largely self-sufficient in winter.

In telecommunications the highly profitable international and cellular networks have attracted private capital, though the distribution of licences and contracts has been by no means transparent. Those who cannot afford these services are much more poorly served. Although costs are coming down, the fixed telephone network is still a low quality monopoly, with very limited coverage outside Tbilisi and few reliable exchanges even within Tbilisi. The idea that telecommunications is a natural monopoly that is best retained under government control has been largely disproved by international practice, but the government will always have an important role in regulation. Further privatisation is promised but far greater transparency will be necessary if this is to benefit most of the population.

Another aspect of infrastructure that requires extensive government intervention is the financial sector. The job of banks is largely one of gathering, processing and disseminating information, precisely the areas in which market failures are usually most marked. Most Georgian commercial banks currently do very little to assist businesses or savers and allocate capital efficiently, engaging in little lending other than on-lending of credits from foreign financial institutions, or short term trade financing, mostly to friends. Interest rates average over 40% despite single figure inflation, and total bank loans still amount to less than 3% of GDP. There are also still too many too small banks. The average capital base of the remaining 48 banks is only about USD 1.5 million. The situation has improved significantly since the NBG started its bank certification programme, tightening prudential regulations and gradually increasing minimum capital requirements. The government plans to further tighten capital requirements and limits on insider lending, closing banks that are unable to meet the targets. Increased competition and a gradual reduction in liquidity and reserve requirements should allow a reduction in interest rate spreads and lead to greater use of banks. Yet there is still some way to go, and again events in Russia are having repercussions. Total deposits rose by nearly 60% in real terms in the year to June 1998, mainly due to a near doubling of dollar deposits, but then between July and October they declined by 16%, leaving lari deposits back at the level of June 1996. The population's concerns about bank stability may be an overreaction. Most are weak because of inactivity and do not have the sort of short term loan exposure that could leave them insolvent overnight, as happened in Russia. Yet the lack of trust is all too understandable.

Loans and deposits by and in commercial banks



Source: Data from National Bank of Georgia

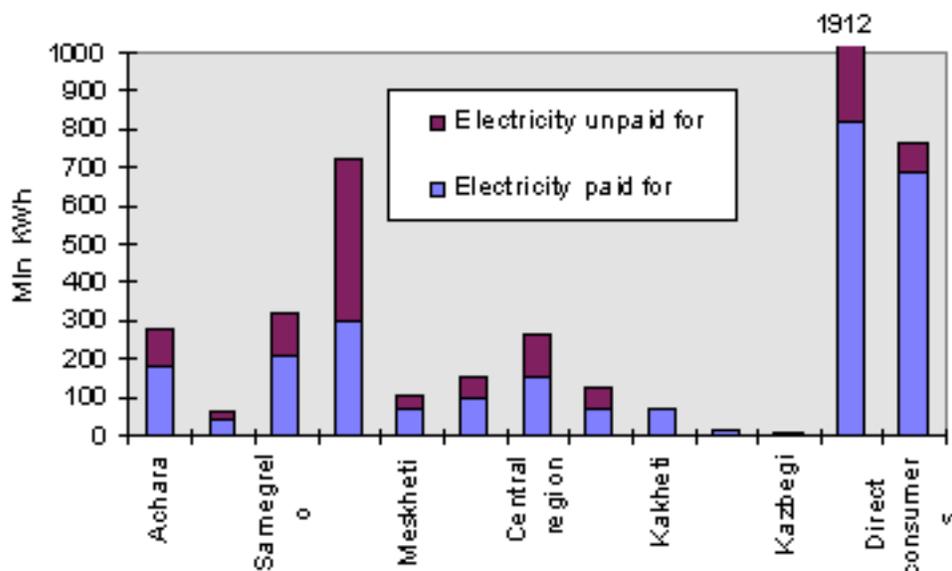
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## Energy

One of the biggest obstacles to economic growth, and one of the most obvious sources of daily hardship, is the continuing unreliability of energy supply. Availability of electricity varies greatly between months and regions, with many rural areas receiving almost no supply in the winter, when electricity has to be generated from imported gas and oil rather than local hydropower. Tbilisi receives a disproportionate amount of the electricity produced (see chart below), but even there an SDS survey in the winter of 1997 to 1998 found that 80% of households reported having power for less than 6 hours per day. Supply to crucial institutions like hospitals (and government offices) has greatly improved, and there are now fewer cases of people dying through power cuts. Outside the cities many have adapted to the lack of power, though the effect on quality of life and particularly on communications is still severe. In large urban tower blocks designed for abundant electricity use the effect is more drastic. Water supplies on higher floors are highly erratic and those unable to walk up

many flights of stairs can become isolated. Older and poorer people can find they just have to stay in bed for long periods. Kerosene and gas stoves are the cause of numerous illnesses and accidents. Again the effects do not strike all equally. Those lucky enough to share a building with an important official still tend to get better supply than average. Richer people can often obtain lines connected to institutions with constant supply, which being illegal are generally not billed for. Since it is still hard to deal with non-payers individually poor regions receive far less electricity than rich ones.

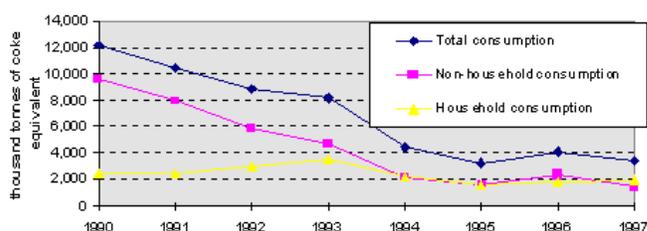
#### Electricity supplied by region in 1997



Source: Ministry of Economy, Department of Fuel and Energy

Data on energy consumption is by no means complete but it is possible to get an approximate picture of how things have changed. Total energy consumption has declined dramatically since 1990. Yet the fall has been almost all in the industrial sector. Household consumption of energy has hardly fallen and household electricity consumption has actually risen. Electricity use per capita is comparable to that in Turkey, whose GDP per capita is over three times as large. The value of GDP per kilogram of oil equivalent actually fell between 1990 and 1993 but has since risen slightly. This may suggest that recorded falls in GDP are exaggerated, but given the Soviet Union's complete lack of interest in energy conservation it is still rather worrying that the situation is now no better.

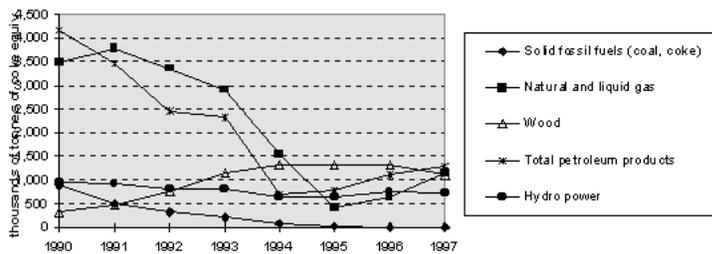
#### Total energy consumption 1990-1997



Source: Ministry of Economy and Ministry of Fuel and Energy

The main problem is that, with centralised gas and heating systems mostly still not working, households now rely far more on electricity, and in rural areas on wood. This is clearly both inefficient and unsustainable. Forests are not being properly harvested or replaced. When electricity is available many people still make little effort to conserve it. Sixty five percent of people in Tbilisi reported using electricity as their main heating source. For many who are too poor to pay electricity bills it is the only available source of heating. The result is that wiring systems designed for much lighter use overload quickly and breakdowns become ever more frequent. In the non-household sector, manufacturing and other more energy intensive businesses face far greater problems than trade or services. Voltage fluctuations often damage expensive equipment. Industrial production has become highly and inefficiently seasonal.

#### Sources of energy, 1990-97



Source: Ministry of Economy and Ministry of Fuel and Energy

The fundamental problem of the electricity sector is financial. By Sakenergo's estimation about 58% of electricity supplied is now paid for, with household collection rates around 40%. Many consider these estimates are inflated to approach World Bank targets. There are no funds available for repair and maintenance of the supply system or for fuel imports, not to mention investment. Even after numerous write-offs, at the beginning of 1998 Sakenergo was owed in the region of GEL 260 million, and itself owed GEL 220 million. Chaotic accounting and the arrival of large sums of foreign aid have provided fertile ground for corruption. Many consumers still consider power cuts a reason not to pay for electricity, and the Soviet conception of energy as something to be paid for only indirectly survives strongly. The social, political and technical barriers to cutting off residential non-payers are formidable. The main recent response has been to cut supply to the regions that are most in debt, which is hardly a solution as not only do the poorest regions suffer most, but individual consumers still have no incentive to pay their bills if they think the rest of the region is not going to do the same.

A pilot project in Rustavi funded by USAID has demonstrated that, with considerable investment, the problems of non-payment are not insuperable. Many meters have to be replaced and relocated and customer and corporate accounting systems completely revised. Combined with a large-scale public information campaign on the need to pay bills, the availability of discounts for those who genuinely cannot pay, and the willingness to cut off non-payers, collection rates rose from 23% to 83% within a few months. Average daily supply increased over twice and the majority of consumers have been supportive of cut-offs. Similar turnarounds in attitudes have been achieved earlier in Armenia. A short term alternative to remetering apartments has been to deal with individual buildings, which become collectively responsible for payment. However if each apartment is billed an average amount there is little incentive to economise. The investment required for these changes suggests that private sector financing is needed, and following the privatisation of the Tbilisi distribution company Telasi at the end of 1998, the government plans to complete the sale of majority shares in most other distribution and generation companies by the end of 2000. An independent Electricity Regulatory Commission has been established, and needs to establish a reputation for predictability and fairness both in order to protect customers and to ensure that the government can get the best price for electricity sector assets.

Over the longer term Georgia has the potential to be a net exporter of energy and electricity. Once payment and distribution problems are addressed it should be possible to attract considerable investment to the hydro electric sector. UNDP analysts estimate that only 25% of hydro electric potential is currently used. There is some potential for greater oil extraction: proven oil reserves amount to 12 million tons, and potential reserves are estimated at between 300 and 500 million tons. Further exploration is under way in the Georgian sector of the Black Sea. Gas production, which is currently negligible, could also be stepped up. Reserves were never exploited while Turkmen gas was so cheaply available, but apparently amount to about 95 billion cubic metres, or 15 years supply at 1989 consumption rates. While local coal is generally considered of low quality, reserves are estimated at nearly one billion tons, and it is hoped that the exploitation of coalbed methane may prove profitable. The latter will require rehabilitation of the gas distribution network, the regional parts of which are mostly thought to be a write off. While the cross country gas pipeline still functions, supplying Armenia, Gardabani power station, Rustavi metal and chemical plants and a small number of municipal distributors, losses here also are up to 12%. Saktransgasmretsvi estimates that over \$300 million is needed to restore the whole distribution system. Donor assistance to the energy system will continue to be necessary for some time.

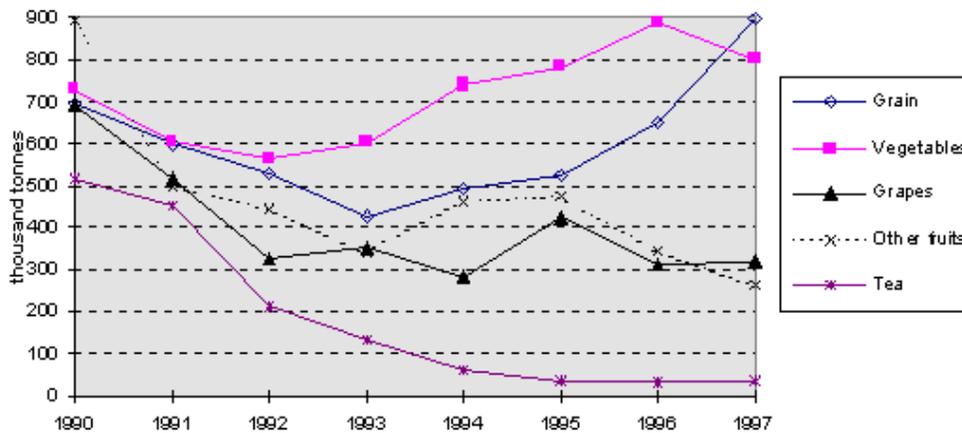
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## Agriculture

Private agriculture is now overwhelmingly the most important source of livelihood in Georgia, and will be a key source of economic growth. Apart from in tea production, output has not fallen to anything like the extent of manufacturing. It seems

that, with far less resources and land, but rather greater motivation, small private farms have proved not much less productive than state farms. Grain production has been greatly boosted by credit assistance from donors. However reliable information on the sector remains extraordinarily hard to obtain. Production figures are usually entirely inconsistent and many working in the sector consider that the authorities overemphasise bad news to bolster the case for further humanitarian aid. It is generally thought that the 1997 harvest was a success, and 1998 appears to have been genuinely disappointing because of bad weather conditions. Preliminary data from the Ministry of Economy suggests that the grain harvest has been about 20% lower in 1998. Available output data up to 1997 are presented below but should be treated with scepticism.

#### Production of selected agricultural products 1990-97



Source: Ministry of Agriculture and Food

Georgian agriculture is still dominated by very small private farms. A World Bank survey in 1996 found the average farmer owned just 0.75 hectares of land, with only 2% leasing extra from the state reserve. Such farms rely on family labour, with household members working mainly part-time on the farm and supplementing their income with other activities. 60% reported deriving more than half their income from off-farm sources. Farms are usually too small to specialise and produce a mixture of maize, grain, vegetables, fruit, milk and eggs. The average household had two cows and a dozen chickens. Most are operating well above a subsistence level. On average 30 to 40% of produce was sold commercially and farms were generally profitable. They also benefit greatly from effective tax exemption. Yields do remain low by world standards, but with low inputs, low outputs can be efficient. Socially also small farms can be more efficient than large ones since they tend to use both labour and land more intensively. At a time of mass unemployment the promotion of small scale agriculture can contribute very significantly to employment and to a more equal income distribution.

However small farmers continue to face many obstacles, and still require assistance. Those in the World Bank survey were close to Tbilisi and perhaps better off than most. Still two-thirds of those surveyed had no access to machinery of any kind. They sell mainly directly to consumers in local markets and have difficulties with transport and delivery of products to market. Very few have access to credit, except from relatives and friends. Much donor support has been focused in this area, including the provision of credit to large grain producers and work on establishing credit unions. Support has also been given for marketing and information services and the establishment of wholesale food markets and fairs. The mismanagement of humanitarian aid imports has sometimes threatened to undo this work, by depressing local prices and farmers. The most serious problem, particularly in remote areas, is probably still the state of physical infrastructure. Work is beginning on the rehabilitation of drainage and irrigation systems. Still the state of roads and storage facilities make it very hard to get produce to where it might command high prices. The deterioration in energy and social infrastructure, particularly rural schools, makes rural depopulation a threat in some areas.

The other main agricultural issue still requiring attention is land distribution. About 25% of agricultural land has now been privatised, including about 60% of arable land and perennials (the only kind of land used by household plots). The overwhelming majority of Georgians agree that citizens should be allowed to own land as private property (92% in the US Embassy summer survey) though slightly less (64%) agree that land should be bought and sold freely. Most state farms collapsed soon after independence as they became unable to obtain the inputs and credits they needed. However the sharing out of state land has been subject to considerable delays and problems.

#### Land privatisation as of June 1998

(thousand hectares)

	Arable	Perennial	Hayfields	Pastures	Total agricultural land
Privatised	432	186	48	125	788
Leased	256	31	29	441	757
Not distributed	97	61	64	1222	1445
Total area	785	278	141	1788	2991

Source: Georgian Economic Trends

Initial land distribution measures focused only on household plots and made no proposals for former state farms. It was decided in 1992 that land was to be distributed to families in the following proportions:

- Families living in rural areas and who worked on state and collective farms would receive 1.25 ha.
- Families living in rural areas but not working in the agricultural sector would receive 0.75 ha.
- Urban families could receive 0.25 ha on application.

The original plan was to finish the process in a year but state surveyors were completely unable to survey and register so much land in time. Villages created their own land commissions, which brought in their own surveyors, but these often did the job very badly and actual distribution typically depended more on local influence than on rules laid down by the government. The majority of households have now received temporary entitlement documents, but full and effective privatisation and the development of a market will not be possible until after the completion of a full land survey and formal registration of ownership. This is expected to take up to another ten years. Now most of the good quality state land that has not been privatised has been leased out by local authorities. Figures on leasing are only rough estimates as local authorities are not good at reporting, but it appears that about three quarters of leases have been to the private sector. Private lessees appear to be usually a combination of local politicians and former collective farm bosses, or outside businessmen. The majority of agricultural land is thus at least occupied by private farmers, but much is still ineffectively used. Some leases have in the past not been given out on a competitive basis. Most pasture is used by small farmers under local grazing arrangements and thus very badly managed. A lot of land that is recorded as privatised is still apparently unclaimed or unfarmed. Agricultural production could increase very substantially once land is genuinely in the hands of those who can use it best.

## Chapter4

EIncomes,  
Inequality and  
Poverty**INCOMES, INEQUALITY AND POVERTY**

**Money is like manure, of very little use except to be spread.**

*Francis Bacon (1561-1624)*

[4.1. General](#)[4.2. Inequality](#)[4.3 Poverty](#)[Measuring Poverty](#)[Anti-poverty policy](#)**4.1. General**

The principle of equal access to opportunities is fundamental to human development. This may not lead to equal results: what people do with their opportunities is their own concern. However a fairly equitable distribution of income and assets is critical for ensuring that poverty does not become an unbreakable cycle and that some are not born with their choices restricted. Such restrictions are undesirable for practical and economic as well as moral reasons. Poverty and inequality can represent both great suffering and a great waste of talent.

Both inequality and poverty have clearly increased dramatically in Georgia in recent years. Although poverty under the old regime, contrary to official orthodoxy, was never fully eliminated, it was not a mass phenomenon. The output collapse of the past few years has simultaneously annihilated real wages, increased unemployment and reduced the ability of the government to respond. Generalised and inefficient subsidies have had to be removed but few of the savings seem to have been spent on targeting the poor. While informal networks and the self-reliance of the rural population have saved most of those on very low incomes from destitution and malnutrition, those that fall through these nets still have little to rely on. This is accompanied by increasingly obvious wealth in some quarters. Ideology and some fear of the law forced the communist elite to be discreet about its effective control over assets. Now the new elite is highly conspicuous in its consumption. There is little apparent social justice or even visible logic in the distribution of rewards. The re-ascendance of old party networks and the high visibility of the less than honest new rich have tended to deny legitimacy to the new distribution of wealth.

The establishment of a regular household survey by the SDS is a crucial step in assessing and addressing these problems. Yet there are still considerable problems in quantifying them. Survey refusal rates are high, particularly among the rich. With the effective collapse of the social security system, wage and social transfer income can no longer be double checked against enterprise or pension authority records. Even in market economies researchers have found that self employment and property income are generally underestimated by up to a half compared with national accounts data. In Georgia informal and illegal sector income, which people are often afraid to declare even in an anonymous survey, plays a far greater role. Recorded expenditures in the SDS household survey for 1997 were 60% higher than recorded incomes. In rural areas non-monetary income can also sometimes be crucial: some families can survive fairly comfortably on their own produce and require little cash. With the onset of economic collapse still fairly recent, many families who are poor in income are relatively rich in assets.

Most of these factors act to overestimate the extent of poverty. Yet such surveys also take no account of psychological factors in deprivation. With previous living standards relatively high many people still find adapting to reduced circumstances particularly difficult and shameful. The inability to take part fully in social events, to give gifts, organise celebrations and provide help to relatives in need, is a major source of unhappiness to many of the new poor in Georgia. At least as important is the new insecurity. It is one thing to know that income is low but relatively certain, as under the old system. It is quite another to face income which is falling and to be unsure how far it will fall, particularly when state benefits offer almost no protection.

**Average monthly household incomes, Q2 1998  
(lari)**

	urban	Rural	total
Wages	63.8	20.3	43.7
self-employment	31.6	9.1	21.2
sale of produce	1.4	37.7	18.2
rental income	1.2	0.2	0.8
pensions and benefits	10.1	9.9	10.0
transfers from abroad	4.0	2.1	3.1
transfers from Georgia	6.8	2.5	4.8
<b>all income and transfers</b>	<b>118.9</b>	<b>81.7</b>	<b>101.8</b>

sale of property	6.6	10.3	8.3
borrowing and use of savings	16.8	15.6	16.3
<b>total other sources</b>	<b>23.4</b>	<b>25.9</b>	<b>24.6</b>
<b>monetary income</b>	<b>142.3</b>	<b>107.7</b>	<b>126.3</b>
non-monetary income	11.5	64.6	36.0
<b>Total monetary and non-monetary income</b>	<b>153.8</b>	<b>172.3</b>	<b>162.3</b>

Source: SDS Household Survey

Average total incomes have increased very slightly over the past year. In the second quarter of 1997 they stood at GEL 149. Yet they remain also very seasonal. In the fourth quarter of 1997 the average income was reported to be GEL 167. Average incomes are also still lower than the official minimum subsistence income, which for an average four member household stood at GEL 181 in June 1998. Sale of property and borrowing remains a significant source of money, even after at least five years of depressed incomes. Non-monetary income, representing the value of food and goods received in kind, is by far the most important single source of income in rural areas, and even in urban areas it is more significant than pensions and benefits.

#### Average monthly household expenses, Q2 1998 (lari)

	UUrban	Rural	Ntotal
Food	120.1	59.3	92.0
Drink	2.2	0.9	1.6
Tobacco	3.9	2.9	3.5
Clothing and footwear	10.9	7.5	9.3
Family consumption items	20.6	10.9	16.1
Health care	5.8	3.8	4.9
Fuel and electricity	9.3	6.5	8.0
Transport	16.5	6.3	11.8
Education, culture and leisure	7.4	2.3	5.1
Other consumption expenses	6.6	3.1	5.0
<b>Total consumption expenses</b>	<b>210.0</b>	<b>106.5</b>	<b>162.1</b>
Agricultural inputs	0.8	9.0	4.6
Transfers	0.8	0.2	0.5
Saving and lending	19.3	17.1	18.2
<b>Total non-current expenses</b>	<b>20.9</b>	<b>26.3</b>	<b>23.4</b>
<b>Total monetary expenses</b>	<b>230.9</b>	<b>132.8</b>	<b>185.5</b>
Non-monetary expenses	11.4	63.9	35.7
<b>Total expenses</b>	<b>242.3</b>	<b>196.7</b>	<b>221.2</b>

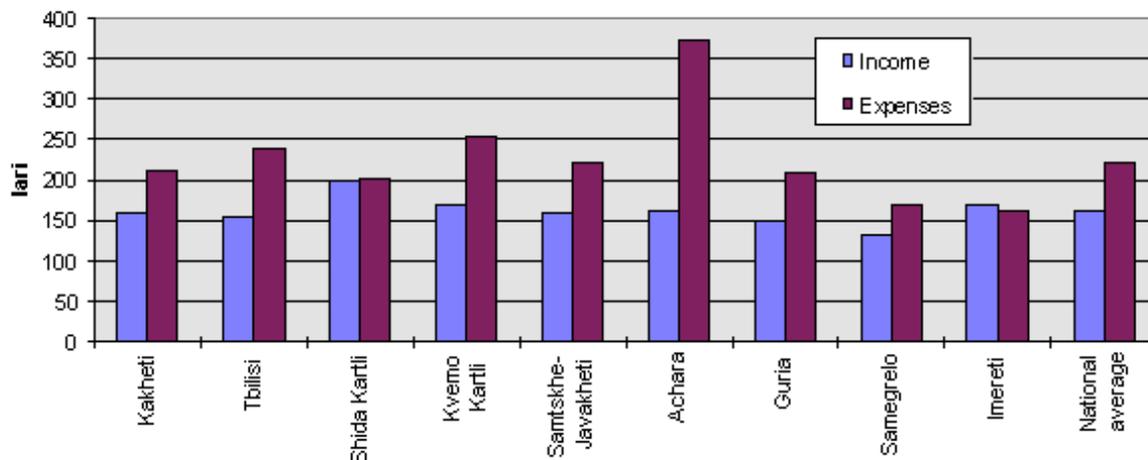
Source: SDS Household Survey

Recorded expenses are, as mentioned above, significantly higher than recorded incomes, suggesting that incomes are underestimated. The fact that 58% of average current expenditure goes on food still suggests a population very close to poverty. The SDS reports that in Guria an extraordinary 81% of current spending is on food.

Regionally incomes in the second quarter of 1998 do not vary a great deal. Average incomes in Samegrelo were the lowest and may have been affected by the return of IDPs from Gali during this period. Data for the whole of 1997 suggests much wider regional variations, with average monthly incomes in Guria recorded at just GEL 85. Guria depended very heavily on tea and citrus fruit cultivation, both of which have been almost destroyed by the loss of the Russian market. The other area where incomes in 1997 were notably low was Imereti, which has a high concentration of towns like Zestaphoni, Tkibuli and Chiatura, highly dependent on heavy industry. Extraordinarily high expenditure in Achara is largely due to over GEL 100 being spent on saving and lending. The distribution of wealth in Achara appears to be unusually unequal, and the high proportion of income from unofficial activity may make data from the autonomous fiefdom

particularly unreliable.

#### Recorded monthly monetary and non-monetary incomes and expenditure, Q2 1998



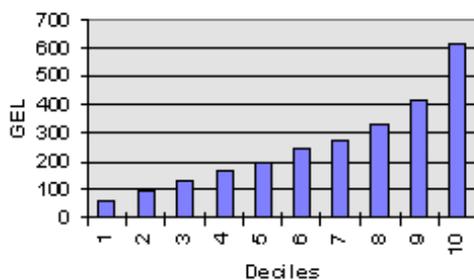
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## 4.2. Inequality

The issue of inequality is not always related to that of poverty. A transfer of income from the person in the top income group to one in the middle may reduce inequality while leaving poverty unchanged. A general decline in income that keeps inequality unchanged may lead to a sharp increase in hardship and clearly affects poverty. Yet in Georgia, as in other transition economies the two problems are closely intertwined. It is clear that in recent years poverty and inequality have increased together, as sharp losses for the great majority of the population have translated into fantastic gains for the top 5 or 10%. The visibility of this wealth undoubtedly increases the expectations and suffering of the poor. A reduction in inequality by transfers from the rich to the poor could make a substantial dent in poverty.

The normal measure of inequality is the Gini coefficient, an index that varies from 0, where everyone has the same income, to 1, where one person has all the income. According to this measure inequality seems to have been declining recently. The SDS puts the Gini coefficient at 0.39 in 1997. Yet these figures are particularly open to question because of the non-reporting of incomes at the top of the scale. The richest decile recorded in the household survey still reports an average cash income of GEL 433 per month, of which 45% is spent on food, and non-cash consumption provides 30% of the total. This may be an indication that even the rich in Georgia are relatively poor, but it may also not be accounting for the Mercedes owning classes. The survey also needs to control for family size to give a better idea of how much the poor can rely on non-cash income. Preliminary estimates from other surveys put the Gini coefficient for expenditure at 0.52 and for income at 0.61, extraordinarily high levels that are comparable to the most unequal Latin American countries.

#### Household expenditure by deciles, including non-cash consumption, 1998 Q2



Source: Data from SDS

The majority of Georgians place the idea of equality high on their political priorities. When asked in the US embassy survey whether the government should primarily promote individual freedom, social and economic equality, or both together, 45% chose only social and economic equality. Efforts not to let income distribution get out of control can also be important not only for moral and political reasons. There is now widespread rejection of the idea that economic growth has to be associated with high levels of inequality. Many economists used to argue that growth depended on capital accumulation which was possible only through the saving and investment of rich people. Yet the east Asian economies have shown that high levels of savings can be achieved in an egalitarian setting and that human capital accumulation is every bit as important as - if not more important than - increases in physical capital. In Korea, Malaysia, Taiwan and Thailand equality of land distribution and unusually high levels of primary school enrolment explained a large portion of subsequent economic growth. More equitable income distribution, which creates middle class demand for local goods, can ease pressure for destabilising populist policies, reduce political instability, and may even be a prerequisite for sustainable growth.

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### 4.3. Poverty

#### J.K.Galbraith on poverty:

I would especially stress the continuing unhappy position of the poor... The problem is not economics: it goes back to a far deeper part of human nature. As people become fortunate in their personal well-being, and as countries become similarly fortunate, there is a common tendency to ignore the poor. Or to develop some rationalisation for the good fortune of the fortunate. Responsibility is assigned to the poor themselves. Given their personal disposition and moral tone, they are meant to be poor. Poverty is both inevitable and in some measure deserved. The fortunate individuals and fortunate countries enjoy their well-being without the burden of conscience, without a troublesome sense of responsibility. This is a habit of mind to which I would now attribute major responsibility for poverty.

*Human Development Report 1998*

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#### Measuring poverty

While it is clear that poverty in Georgia has become widespread, measuring it raises many difficult practical and conceptual problems. Recent research, including that for which Amartya Sen has become famous, recognises the limits of an income or commodity centred concept of well being. Objective measures of people's needs can be excessively paternal, defining for the poor what they should want. Yet people are also often unable to define their own well-being and the deprived often internalise the constraints they face. For industrial countries UNDP compiles a human poverty index based on four factors:

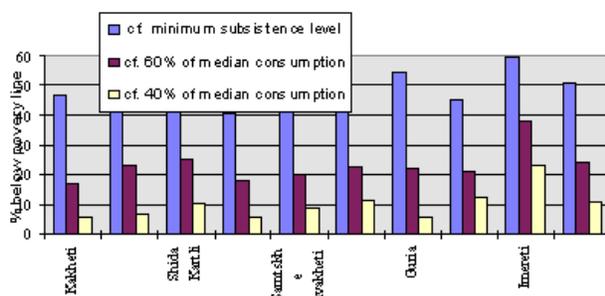
- longevity - the percentage of the population expected to die before the age of 60
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The current availability of data in Georgia does not allow calculation of an exact HPI. The discussion that follows has to concentrate on income measures of poverty, as these are the most reliable available. The other dimensions should still not be forgotten.

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of national median consumption, and 40% of national median consumption. The subsistence minimum is an objective measure, calculated on the basis of a hypothetical minimum consumption basket. It is possible that it considerably overestimates the income required to live since its composition cannot adjust with relative prices as quickly as people are likely to change their actual consumption. Many poor people actually eat a cheaper and less healthy diet, depending largely on bread. For 1997 the average subsistence minimum was GEL 105 per month for a working man, GEL 92 for an average consumer, and GEL 187 for an average family. For an average consumer the poverty line according to the subsistence minimum is thus approximately USD 2.35 per day. The other two poverty lines are of course relative measures and useful more for identifying the poorest members of society than judging the extent of poverty in Georgia. They work out at about GEL 70 and 47 for 1997, the latter verging on absolute poverty even by African standards. The poverty level, as shown below, is then considered the percentage of the population with an income, monetary and non-monetary, below the various poverty lines.

#### Proportion of population in poverty in the second quarter of 1998, according to various poverty lines



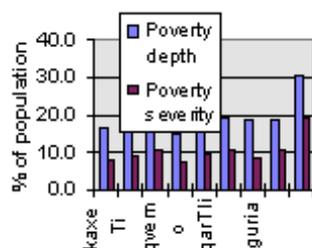
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The headcount measure has at least two serious drawbacks. First it takes no account of the extent of the shortfall of the poor's incomes from the poverty line. A reduction in the incomes of all the poor without affecting the incomes of the rich will leave the headcount measure completely unchanged. Second it is insensitive to the distribution of income among the poor. No transfer of income from a poor person to one who is richer can increase the poverty measure. Measures that give more information on this are poverty depth and poverty severity:

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#### Poverty depth and severity, according to the subsistence minimum poverty line, Q2 1998



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The most worrying fact about poverty now is that not only is it so widespread but it appears to be on the increase. In 1997 45% of the population had recorded incomes below the subsistence minimum. By the first quarter of 1998 this had risen to 49% and in the second quarter it was 51%. Urban poverty is more widespread than rural, reaching 56% in the second quarter of 1998. This is before the impact of recent price rises, but probably reflects the fiscal chaos and widespread non-payment of wages and pensions already apparent earlier in the year.

The crucial first step in doing something about poverty is to identify who are the poor. On second quarter data Imereti stands out as having by far the greatest number of poor and also the greatest poverty depth and severity. Imereti includes here the mountainous areas of Racha-Lechkumi and lower Svaneti, but as mentioned above the main cause of its extreme poverty seems to be its dependence on heavy industries that

are no longer working. On 1997 data Guria had the most widespread poverty problem, with the proportion living below the minimum subsistence level 34% greater than the national average. It may be that, with increasing economic difficulties, other regions now have just as severe problems. However, since income is so seasonal it is important also to look at annual data. Gurians and others may benefit less from harvest income.

One person and very large households are most likely to be poor, with single person households showing the greatest depth and severity of poverty. Pensioners living alone in towns are particularly likely to be lacking social support networks and certainly require targeting. Poverty increases almost directly with the number of children in the family, and even more so with the number of dependents per working person. Both are also likely to be good measures for targeting poverty support. 69% of families with no member of working age have incomes below the minimum subsistence level. Single parents appear to be a more complicated target. 60% are poor if they are not working, although there are no such families in villages. 71% of working single parents are poor in villages but in towns this group is actually unusually well off, perhaps because this lifestyle is relatively common among the more independent and educated.

Indeed after a long period when it was the most educated who seemed to be the poorest, there now seems to be a stronger link between education and absence of poverty. Only one third of those with a university education reported incomes below the subsistence minimum in 1997. The highly educated were initially hit very hard by the disappearance of state funded academic and research jobs, while those with more practical skills were less affected. Now it seems that many of the educated have come to adapt. Once again the highest levels of poverty are among those where the head of the family has only primary or incomplete secondary education. Particularly vulnerable appear to be manual workers in declining industries, and low level clerical workers, demand for whom has fallen with the dismantling of the planning bureaucracy and streamlining of production. As everywhere else in the world education remains a highly effective anti-poverty tool.

Not surprisingly poverty also increases with the number of unemployed in a family. Two thirds of families with no employed member are poor. Yet employment is no guarantee against poverty. 43% of families with a member employed in a state organisation are poor. In a situation where the conventional economy is still in a state of collapse, better proxies for the abilities of households to cope may be access to human and physical assets such as particular skills and educational attainment, land, livestock, a car, a rentable apartment or garage, business trips abroad, and more well-off relatives.

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### Anti-poverty policy

Alleviating poverty and inequality represents a huge challenge for policy makers. Sustaining economic growth is essential, but it may not be enough. In Latin America the resumption of growth in the 1990s seems to have reduced inequality in a small minority of countries. Growth in other transition economies has also tended to leave the poor behind financially. The links between growth and reduction in non-financial aspects of human poverty are even less automatic. Problems of illiteracy, health and social exclusion require deliberate attention. The problem is particularly urgent because in some ways, in terms of education levels, housing conditions and ownership of consumer durables, many of the poor in Georgia are not yet much worse off than the rest of the population. However if economic growth does not help them quickly they can become an underclass whose characteristics may gradually diverge more and more from those of the non-poor. The problem of inequality clearly has to be addressed at the same time, since it will take a very long time indeed for economic growth to raise the poorest above the poverty line if inequality remains stable.

The challenge is also a political one. As noted elsewhere in this Report, political and economic power in Georgia have become quite highly concentrated. The desire for unearned privilege and status has long historical roots. The aristocracy in Georgia, and then the communist nomenklatura, were famously large. Now again parts of the elite would like to close themselves off. A crucial part of alleviating poverty will involve improving the political representation of the poor, opening up access to policy making circles, and reducing the ability of the nomenklatura to siphon off resources.

Economic growth contributes most to poverty reduction when it expands the employment, productivity and wages of poor people, and when it allows public resources to be spent to promote human development. The 1997 Global Human Development Report identifies the following as priorities for a pro-poor growth

strategy:

- raising the productivity of small-scale agriculture
- promoting microenterprises
- emphasising labour-intensive industrialisation
- accelerating the expansion of human capabilities
- establishing a pro-poor economic framework

In Georgia small-scale farming is overwhelmingly the main means of support. More efficient land distribution, including the use of land still lying idle and progress with land cadastre, would serve both productivity and equality, and would raise the value of poor rural inhabitants' main asset. Technical assistance to farmers in marketing and distribution would also be an effective anti-poverty policy. Farmers who are near the subsistence level are generally unable to take the sort of risks, in planting different crops for example, that might allow them to break out of poverty. Microenterprises should also be a major source of employment, though currently non-agricultural self-employment accounts for only about 150,000 workers. Here some of the measures mentioned earlier to level the playing field and allow fair competition are crucial. Allowing evasion of taxes on cigarette and fuel imports provides a rent to the favoured few that is paid by the poor.

Equitable access to credit is particularly critical for both farmers and small business people. It can allow the poor to invest more in education and make their enterprises more viable by allowing them to enlarge their scale of production and avoid short sighted strategies. Subsidised credit programmes can be useful, even essential in the short run, but the benefits have often been appropriated by wealthier borrowers, and they can encourage capital rather than labour intensive projects if not carefully monitored. More long term solutions involve the development of local institutions like credit unions that can overcome the information and transaction cost problems faced by banks lending to small operations. Japan established specialised credit schemes and institutions in the 1950s and 1960s such as the People's Finance Corporation, Small Business Finance Corporation and credit guarantee scheme. From the 1970s onwards a financial market organised by private banks gradually developed for small and medium size enterprises. The introduction of a postal savings system gave many poor people the access to finance and services they needed to take market opportunities. In Georgia the infrastructural and political situation still make such opportunities very hard to seize for those outside Tbilisi. Those like former tea growers in Guria and industrial workers in Imereti face quite unnecessary obstacles in changing their profession.

More direct government intervention is also necessary. Perhaps the main area where the government can make a difference in the long term is in human capital. Education is a major cause of inequality around the world and threatens to become one in Georgia. Active participation by the state is necessary to ensure attendance and school quality. Subsidised basic health care is also an essential aspect of expanding human capabilities and opportunities, as detailed in Chapter Five. Improved basic transport infrastructure in rural areas would allow better access to markets and could help break rural monopolies and oligarchies. All of these are generally pro-poor, as the rich tend to turn to the private market for their requirements in these areas.

Finally the construction of an effective social safety net must be a priority. However wide opportunities there will always be unemployables, disabled, elderly and ill who fall through family support networks and require appropriate targeted transfers. In 1997 23% of government expenditure was allocated to social transfers, the vast majority to old age pensions. The State Social Allowance was introduced at the beginning of 1998, targeted at non-working pensioners in families without a legal breadwinner. By September 1998 43,800 households, representing 53,300 beneficiaries had registered to receive the allowance. Amounts payable are GEL 9 for a qualifying family consisting of one member, GEL 7 for each member if two people qualify, and GEL 5 per person if three or more qualify. Unfortunately, and disgracefully, even this benefit has been suffering from non-payment. Money to cover the first quarter was transferred from the Ministry of Finance only in April. After this arrears quickly began to build up again, and only GEL 930,000 of the required GEL 1.99 million were transferred in the second quarter. At the same time the state budget still owes GEL 8 million in Family Allowance, the previous anti-poverty benefit, that was unpaid in 1997.

The Social Allowance does appear to be in theory well-targeted, though extremely limited in its size and coverage. Families that are ineligible but consider themselves particularly in need can apply for up to GEL 60 per year to be awarded at the discretion of local benefit offices. Unfortunately benefit offices in poor areas do not receive extra funds, so those most in need may run out of funds very fast. Such design problems are important for the long run development of the system but seem almost insignificant beside the continuous accumulation of debts in the social sector. When there are shortfalls the social sector appears to

be always the last to be funded. Some in the government may feel that this is the area where donors are most likely to compensate for cuts, but such attitudes are understandably raising very serious concerns among donors. A review of government priorities is urgently needed. In theory there is clearly more room for redistribution in Georgia, particularly as so many of the rich appear to have made money by abusing government power. In practice this will require fundamental political and administrative reform. Populist calls for the money simply to be spent without concern about the details of collection will lead to further inflation, which ultimately hurts mainly the poor.

## INCOMES, INEQUALITY AND POVERTY

**Money is like manure, of very little use except to be spread.**

*Francis Bacon (1561-1624)*

### 4.1. General

The principle of equal access to opportunities is fundamental to human development. This may not lead to equal results: what people do with their opportunities is their own concern. However a fairly equitable distribution of income and assets is critical for ensuring that poverty does not become an unbreakable cycle and that some are not born with their choices restricted. Such restrictions are undesirable for practical and economic as well as moral reasons. Poverty and inequality can represent both great suffering and a great waste of talent.

Both inequality and poverty have clearly increased dramatically in Georgia in recent years. Although poverty under the old regime, contrary to official orthodoxy, was never fully eliminated, it was not a mass phenomenon. The output collapse of the past few years has simultaneously annihilated real wages, increased unemployment and reduced the ability of the government to respond. Generalised and inefficient subsidies have had to be removed but few of the savings seem to have been spent on targeting the poor. While informal networks and the self-reliance of the rural population have saved most of those on very low incomes from destitution and malnutrition, those that fall through these nets still have little to rely on. This is accompanied by increasingly obvious wealth in some quarters. Ideology and some fear of the law forced the communist elite to be discreet about its effective control over assets. Now the new elite is highly conspicuous in its consumption. There is little apparent social justice or even visible logic in the distribution of rewards. The re-ascendance of old party networks and the high visibility of the less than honest new rich have tended to deny legitimacy to the new distribution of wealth.

The establishment of a regular household survey by the SDS is a crucial step in assessing and addressing these problems. Yet there are still considerable problems in quantifying them. Survey refusal rates are high, particularly among the rich. With the effective collapse of the social security system, wage and social transfer income can no longer be double checked against enterprise or pension authority records. Even in market economies researchers have found that self employment and property income are generally underestimated by up to a half compared with national accounts data. In Georgia informal and illegal sector income, which people are often afraid to declare even in an anonymous survey, plays a far greater role. Recorded expenditures in the SDS household survey for 1997 were 60% higher than recorded incomes. In rural areas non-monetary income can also sometimes be crucial: some families can survive fairly comfortably on their own produce and require little cash. With the onset of economic collapse still fairly recent, many families who are poor in income are relatively rich in assets.

Most of these factors act to overestimate the extent of poverty. Yet such surveys also take no account of psychological factors in deprivation. With previous living standards relatively high many people still find adapting to reduced circumstances particularly difficult and shameful. The inability to take part fully in social events, to give gifts, organise celebrations and provide help to relatives in need, is a major source of unhappiness to many of the new poor in Georgia. At least as important is the new insecurity. It is one thing to know that income is low but relatively certain, as under the old system. It is quite another to face income which is falling and to be unsure how far it will fall, particularly when state benefits offer almost no protection.

### Average monthly household incomes, Q2 1998 (lari)

	urban	Rural	total
Wages	63.8	20.3	43.7
self-employment	31.6	9.1	21.2
sale of produce	1.4	37.7	18.2
rental income	1.2	0.2	0.8
pensions and benefits	10.1	9.9	10.0
transfers from abroad	4.0	2.1	3.1
transfers from Georgia	6.8	2.5	4.8
<b>all income and transfers</b>	<b>118.9</b>	<b>81.7</b>	<b>101.8</b>
sale of property	6.6	10.3	8.3
borrowing and use of savings	16.8	15.6	16.3
<b>total other sources</b>	<b>23.4</b>	<b>25.9</b>	<b>24.6</b>
<b>monetary income</b>	<b>142.3</b>	<b>107.7</b>	<b>126.3</b>
non-monetary income	11.5	64.6	36.0
<b>Total monetary and non-monetary income</b>	<b>153.8</b>	<b>172.3</b>	<b>162.3</b>

Source: SDS Household Survey

Average total incomes have increased very slightly over the past year. In the second quarter of 1997 they stood at GEL 149. Yet they remain also very seasonal. In the fourth quarter of 1997 the average income was reported to be GEL 167. Average incomes are also still lower than the official minimum subsistence income, which for an average four member household stood at GEL 181 in June 1998. Sale of property and borrowing remains a significant source of money, even after at least five years of depressed incomes. Non-monetary income, representing the value of food and goods received in kind, is by far the most important single source of income in rural areas, and even in urban areas it is more significant than pensions and benefits.

### Average monthly household expenses, Q2 1998 (lari)

	UUrban	Rural	Ntotal
Food	120.1	59.3	92.0
Drink	2.2	0.9	1.6
Tobacco	3.9	2.9	3.5
Clothing and footwear	10.9	7.5	9.3
Family consumption items	20.6	10.9	16.1
Health care	5.8	3.8	4.9
Fuel and electricity	9.3	6.5	8.0
Transport	16.5	6.3	11.8
Education, culture and leisure	7.4	2.3	5.1

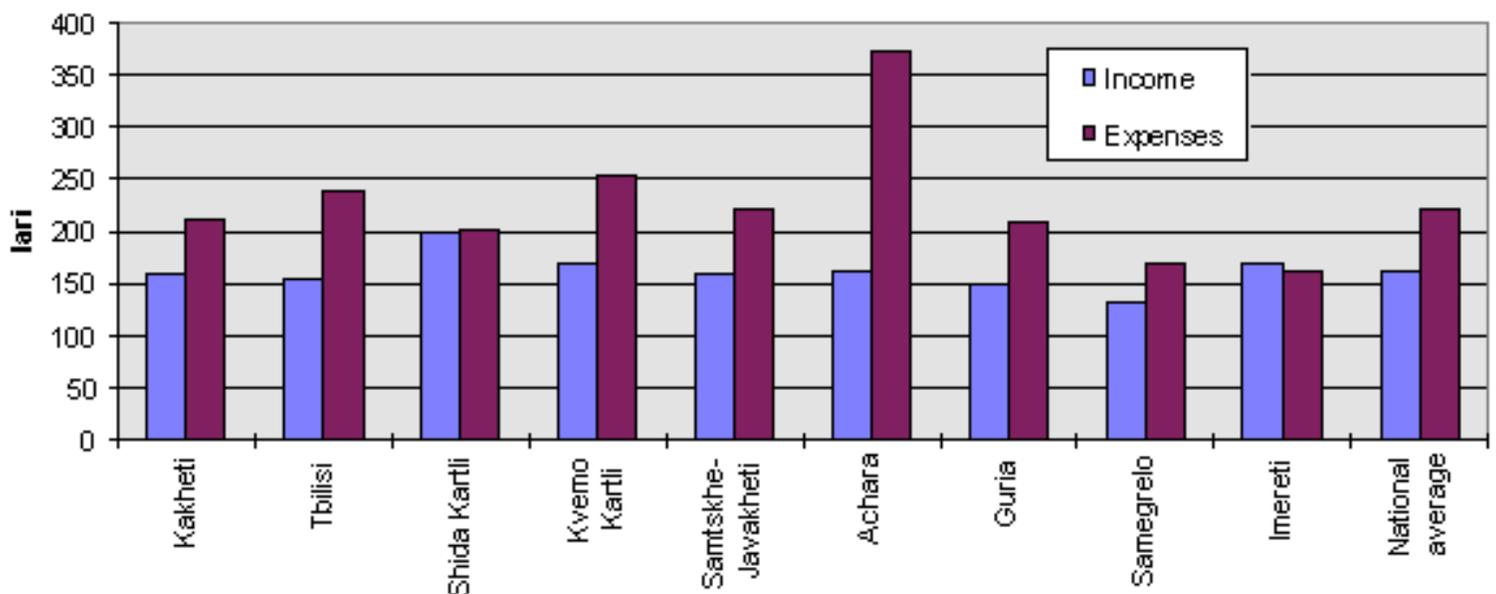
Other consumption expenses	6.6	3.1	5.0
<b>Total consumption expenses</b>	<b>210.0</b>	<b>106.5</b>	<b>162.1</b>
Agricultural inputs	0.8	9.0	4.6
Transfers	0.8	0.2	0.5
Saving and lending	19.3	17.1	18.2
<b>Total non-current expenses</b>	<b>20.9</b>	<b>26.3</b>	<b>23.4</b>
<b>Total monetary expenses</b>	<b>230.9</b>	<b>132.8</b>	<b>185.5</b>
Non-monetary expenses	11.4	63.9	35.7
<b>Total expenses</b>	<b>242.3</b>	<b>196.7</b>	<b>221.2</b>

Source: SDS Household Survey

Recorded expenses are, as mentioned above, significantly higher than recorded incomes, suggesting that incomes are underestimated. The fact that 58% of average current expenditure goes on food still suggests a population very close to poverty. The SDS reports that in Guria an extraordinary 81% of current spending is on food.

Regionally incomes in the second quarter of 1998 do not vary a great deal. Average incomes in Samegrelo were the lowest and may have been affected by the return of IDPs from Gali during this period. Data for the whole of 1997 suggests much wider regional variations, with average monthly incomes in Guria recorded at just GEL 85. Guria depended very heavily on tea and citrus fruit cultivation, both of which have been almost destroyed by the loss of the Russian market. The other area where incomes in 1997 were notably low was Imereti, which has a high concentration of towns like Zestaphoni, Tkibuli and Chiatura, highly dependent on heavy industry. Extraordinarily high expenditure in Achara is largely due to over GEL 100 being spent on saving and lending. The distribution of wealth in Achara appears to be unusually unequal, and the high proportion of income from unofficial activity may make data from the autonomous fiefdom particularly unreliable.

#### Recorded monthly monetary and non-monetary incomes and expenditure, Q2 1998



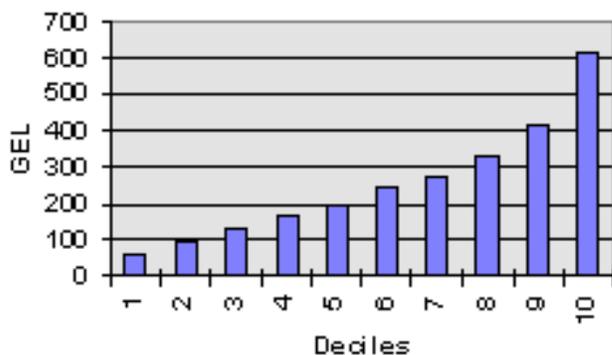
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## 4.2. Inequality

The issue of inequality is not always related to that of poverty. A transfer of income from the person in the top income group to one in the middle may reduce inequality while leaving poverty unchanged. A general decline in income that keeps inequality unchanged may lead to a sharp increase in hardship and clearly affects poverty. Yet in Georgia, as in other transition economies the two problems are closely intertwined. It is clear that in recent years poverty and inequality have increased together, as sharp losses for the great majority of the population have translated into fantastic gains for the top 5 or 10%. The visibility of this wealth undoubtedly increases the expectations and suffering of the poor. A reduction in inequality by transfers from the rich to the poor could make a substantial dent in poverty.

The normal measure of inequality is the Gini coefficient, an index that varies from 0, where everyone has the same income, to 1, where one person has all the income. According to this measure inequality seems to have been declining recently. The SDS puts the Gini coefficient at 0.39 in 1997. Yet these figures are particularly open to question because of the non-reporting of incomes at the top of the scale. The richest decile recorded in the household survey still reports an average cash income of GEL 433 per month, of which 45% is spent on food, and non-cash consumption provides 30% of the total. This may be an indication that even the rich in Georgia are relatively poor, but it may also not be accounting for the Mercedes owning classes. The survey also needs to control for family size to give a better idea of how much the poor can rely on non-cash income. Preliminary estimates from other surveys put the Gini coefficient for expenditure at 0.52 and for income at 0.61, extraordinarily high levels that are comparable to the most unequal Latin American countries.

### Household expenditure by deciles, including non-cash consumption, 1998 Q2



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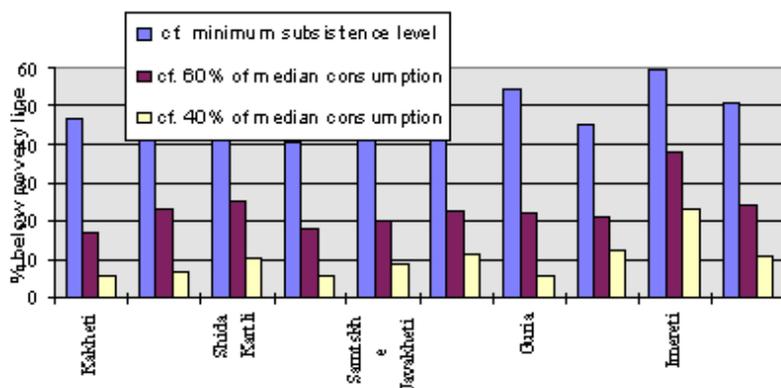
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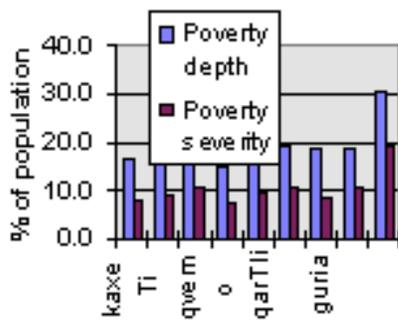
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The crucial first step in doing something about poverty is to identify who are the poor. On second quarter data Imereti stands out as having by far the greatest number of poor and also the greatest poverty depth and severity. Imereti includes here the mountainous areas of Racha-Lechkumi and lower Svaneti, but as mentioned above the main cause of its extreme poverty seems to be its dependence on heavy industries that are no longer working. On 1997 data Guria had the most widespread poverty problem, with the proportion living below the minimum subsistence level 34% greater than the national average. It may be that, with increasing economic difficulties, other regions now have just as severe problems. However, since income is so seasonal it is important also to look at annual data. Gurians and others may benefit less from harvest income.

One person and very large households are most likely to be poor, with single person households showing the greatest depth and severity of poverty. Pensioners living alone in towns are particularly likely to be lacking social support networks and certainly require targeting. Poverty increases almost directly with the number of children in the family, and even more so with the number of dependents per working person. Both are also likely to be good measures for targeting poverty support. 69% of families with no member of working age have incomes below the minimum subsistence level. Single parents appear to be a more complicated target. 60% are poor if they are not working, although there are no such families in villages. 71% of working single parents are poor in villages but in towns this group is actually unusually well off, perhaps because this lifestyle is relatively common among the more independent and educated.

Indeed after a long period when it was the most educated who seemed to be the poorest, there now seems to be a stronger link between education and absence of poverty. Only one third of those with a university education reported incomes below the subsistence minimum in 1997. The highly educated were initially hit very hard by the disappearance of state funded academic and research jobs, while those with more practical skills were less affected. Now it seems that many of the educated have come to adapt. Once again the highest levels of poverty are among those where the head of the family has only primary or incomplete secondary education. Particularly vulnerable appear to be manual workers in declining industries, and low level clerical workers, demand for whom has fallen with the dismantling of the planning bureaucracy and streamlining of production. As everywhere else in the world education remains a highly effective anti-poverty tool.

Not surprisingly poverty also increases with the number of unemployed in a family. Two thirds of families with no employed member are poor. Yet employment is no guarantee against poverty. 43% of families with a member employed in a state organisation are poor. In a situation where the conventional economy is still in a state of collapse, better proxies for the abilities of households to cope may be access to human and physical assets such as particular skills and educational attainment, land, livestock, a car, a rentable apartment or garage, business trips abroad, and more well-off relatives.

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### Anti-poverty policy

Alleviating poverty and inequality represents a huge challenge for policy makers. Sustaining economic growth is essential, but it may not be enough. In Latin America the resumption of growth in the 1990s seems to have reduced inequality in a small minority of countries. Growth in other transition economies has also tended to leave the poor behind financially. The links between growth and reduction in non-financial aspects of human poverty are even less automatic. Problems of illiteracy, health and social exclusion require deliberate attention. The problem is particularly urgent because in some ways, in terms of education levels, housing conditions and ownership of consumer durables, many of the poor in Georgia are not yet much worse off than the rest of the population. However if economic growth does not help them quickly they can become an underclass whose characteristics may gradually diverge more and more from those of the non-poor. The problem of inequality clearly has to be addressed at the same time, since it will take a very long time indeed for economic growth to raise the poorest above the poverty line if inequality remains stable.

The challenge is also a political one. As noted elsewhere in this Report, political and economic power in Georgia have become quite highly concentrated. The desire for unearned privilege and status has long historical roots. The aristocracy in Georgia, and then the communist nomenklatura, were famously large. Now again parts of the elite would like to close themselves off. A crucial part of alleviating poverty will involve improving the political representation of the poor, opening up access to policy making circles, and reducing the ability of the nomenklatura to siphon off resources.

Economic growth contributes most to poverty reduction when it expands the employment, productivity and wages of poor people, and when it allows public resources to be spent to promote human development. The 1997 Global Human Development Report identifies the following as priorities for a pro-poor growth strategy:

- raising the productivity of small-scale agriculture
- promoting microenterprises
- emphasising labour-intensive industrialisation
- accelerating the expansion of human capabilities
- establishing a pro-poor economic framework

In Georgia small-scale farming is overwhelmingly the main means of support. More efficient land distribution, including the use of land still lying idle and progress with land cadastre, would serve both productivity and equality, and would raise the value of poor rural inhabitants' main asset. Technical assistance to farmers in marketing and distribution would also be an effective anti-poverty policy. Farmers

who are near the subsistence level are generally unable to take the sort of risks, in planting different crops for example, that might allow them to break out of poverty. Microenterprises should also be a major source of employment, though currently non-agricultural self-employment accounts for only about 150,000 workers. Here some of the measures mentioned earlier to level the playing field and allow fair competition are crucial. Allowing evasion of taxes on cigarette and fuel imports provides a rent to the favoured few that is paid by the poor.

Equitable access to credit is particularly critical for both farmers and small business people. It can allow the poor to invest more in education and make their enterprises more viable by allowing them to enlarge their scale of production and avoid short sighted strategies. Subsidised credit programmes can be useful, even essential in the short run, but the benefits have often been appropriated by wealthier borrowers, and they can encourage capital rather than labour intensive projects if not carefully monitored. More long term solutions involve the development of local institutions like credit unions that can overcome the information and transaction cost problems faced by banks lending to small operations. Japan established specialised credit schemes and institutions in the 1950s and 1960s such as the People's Finance Corporation, Small Business Finance Corporation and credit guarantee scheme. From the 1970s onwards a financial market organised by private banks gradually developed for small and medium size enterprises. The introduction of a postal savings system gave many poor people the access to finance and services they needed to take market opportunities. In Georgia the infrastructural and political situation still make such opportunities very hard to seize for those outside Tbilisi. Those like former tea growers in Guria and industrial workers in Imereti face quite unnecessary obstacles in changing their profession.

More direct government intervention is also necessary. Perhaps the main area where the government can make a difference in the long term is in human capital. Education is a major cause of inequality around the world and threatens to become one in Georgia. Active participation by the state is necessary to ensure attendance and school quality. Subsidised basic health care is also an essential aspect of expanding human capabilities and opportunities, as detailed in Chapter Five. Improved basic transport infrastructure in rural areas would allow better access to markets and could help break rural monopolies and oligarchies. All of these are generally pro-poor, as the rich tend to turn to the private market for their requirements in these areas.

Finally the construction of an effective social safety net must be a priority. However wide opportunities there will always be unemployables, disabled, elderly and ill who fall through family support networks and require appropriate targeted transfers. In 1997 23% of government expenditure was allocated to social transfers, the vast majority to old age pensions. The State Social Allowance was introduced at the beginning of 1998, targeted at non-working pensioners in families without a legal breadwinner. By September 1998 43,800 households, representing 53,300 beneficiaries had registered to receive the allowance. Amounts payable are GEL 9 for a qualifying family consisting of one member, GEL 7 for each member if two people qualify, and GEL 5 per person if three or more qualify. Unfortunately, and disgracefully, even this benefit has been suffering from non-payment. Money to cover the first quarter was transferred from the Ministry of Finance only in April. After this arrears quickly began to build up again, and only GEL 930,000 of the required GEL 1.99 million were transferred in the second quarter. At the same time the state budget still owes GEL 8 million in Family Allowance, the previous anti-poverty benefit, that was unpaid in 1997.

The Social Allowance does appear to be in theory well-targeted, though extremely limited in its size and coverage. Families that are ineligible but consider themselves particularly in need can apply for up to GEL 60 per year to be awarded at the discretion of local benefit offices. Unfortunately benefit offices in poor areas do not receive extra funds, so those most in need may run out of funds very fast. Such design

problems are important for the long run development of the system but seem almost insignificant beside the continuous accumulation of debts in the social sector. When there are shortfalls the social sector appears to be always the last to be funded. Some in the government may feel that this is the area where donors are most likely to compensate for cuts, but such attitudes are understandably raising very serious concerns among donors. A review of government priorities is urgently needed. In theory there is clearly more room for redistribution in Georgia, particularly as so many of the rich appear to have made money by abusing government power. In practice this will require fundamental political and administrative reform. Populist calls for the money simply to be spent without concern about the details of collection will lead to further inflation, which ultimately hurts mainly the poor.

# HUMAN CAPITAL

A person without knowledge  
Is tortured by life.  
*David Guramishvili*

There is no finer investment than putting milk in babies.  
*Winston Churchill, 1942*

## 5.1. GENERAL

Huge investment will be required in human as well as in physical capital. The quality of human resources has widely been considered one of Georgia's great strengths. However it is a wasting asset. Economic collapse has hit the health and education sectors disproportionately hard and many skilled employees have found their skills fading through disuse. Most people have had to fall back on informal and family support networks and extreme methods of getting by. Unemployment stands at about 16% of the labour force, and most of the rest are engaged in highly insecure self-employment. Only about 4% of the adult population now has conventional salaried jobs in the private sector. The quality of health care and education available to most of the population has fallen dramatically. The consequences may be long-lasting.

Enhancing human resources by making labour markets more effective, improving education and training, reducing unemployment and poverty, and promoting better health, should be fundamental to reform. Effective labour markets are essential to individual freedom. Democracy requires educated citizens. Economically, these measures affect labour productivity and so growth. Effective health care reduces production losses caused by illness, increases the enrolment of children in school and makes them better able to learn, and it frees resources that would otherwise have to be spent on treating illness. Above all such measures are central to human development and to people's quality of life. Looking at government spending, it is hard to escape the conclusion that these aspects of reform have been neglected in the Georgian transition to date.

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## 5.2. EMPLOYMENT

Many people now express understandable nostalgia for the old Soviet employment system. Workers had job security and were guaranteed a basic income and social benefits. Most enjoyed a feeling of stability and certainty unattainable in market economies. Labour force participation was high, achieved largely through greater economic activity by women, who benefited from more equality in education and training and better career prospects than in many capitalist countries. Yet at the same time labour productivity was low, wages bore no relation to productivity, employment was excessively concentrated in industry and agriculture, mobility was restricted, and policies on unemployment were inadequate since its existence was denied. Enterprises hoarded labour since they could not offer incentives to recruit good staff when necessary. Employees had little incentive to work in more than a formal way. 'Work was a place where we went, not something we did', commented one veteran of the old regime. State-set wage structures did not reflect differences in skills or education, with the highest wages generally going to specialised manual workers in industry. Although education levels were high, the absence of a connection between wages and human capital did not encourage the acquisition of generally employable skills and the system produced many narrow specialists with non-transferable expertise. The lack of appropriate wage differentials hindered the movement of labour to regions and sectors where it was needed, particularly services. The commitment to full employment meant that there was no system of assistance for the few who did find themselves without work, and above all that hidden unemployment and underemployment were increasing problems.

Now as in other sectors, the results of the economic collapse combine with the legacy of older problems. The once dominant state sector is being steadily eroded. A new private sector is slowly emerging, but not nearly fast enough to pick up all those being forced to leave the state sector. There is a great danger of unemployment becoming a stagnant pool, with

those who become unemployed likely to drop out of the labour force or remain unemployed for a very long time. Readjusting skills and expectations to the requirements of a market economy will take considerable time and investment. Policy to deal with unemployment remains rudimentary, and accurate information on the problem has until very recently been hard to come by. Officially registered unemployment in the second half of 1998 was less than 4% of the labour force, and only 3.5% of these were collecting unemployment benefits, worth an average of GEL 12 per month for a maximum of six months. Most of the population is apparently not even aware that unemployment benefit exists.

However, recently the quality of information available on the real employment situation has begun to improve dramatically. At the beginning of 1998 the SDS, with help from the International Labour Organisation (ILO) and UNDP, has started a regular national Labour Force Survey. Some inevitable data problems remain. It is still not possible to construct comparisons over time, as earlier data was considerably less comprehensive. The situation is also still hard to analyse because it has become so fluid. People move very quickly in and out of employment and back. As noted in Chapter Three, the small scale unofficial sector has come to dominate the economy, and irregular self-employment is the most common way of earning a living. In these circumstances conventional divisions between the unemployed and employed become more subjective. There is a continuous spread between full and exclusive employment, running through occasional unofficial work, to complete inactivity. Those in rural areas with access to land are considered self-employed, which accounts for very low rural unemployment rates, although many might consider themselves available for salaried employment. The ILO survey, which asks whether a respondent worked in the previous week, finds considerably higher unemployment than the standard SDS household survey, which asks about activity in the previous month. Unemployment is also higher if the labour force includes discouraged job seekers, those who are available for work but have given up actively looking for it. Clearly however the arrival of the LFS is a crucial start in understanding and doing something about unemployment in Georgia.

## Definition of unemployment

By ILO definitions a person is unemployed if they are:

- without work - not even one hour during the reference period (here a week) spent in paid employment or self-employment, producing goods or services for sale or barter, or goods for personal consumption. Production of services for personal consumption is not considered self-employment, so housekeeping is not counted, but private farming is counted.
- currently available for work
- actively seeking work

Under the ILO 'loose' definition used in this report the requirement to be actively seeking work is dropped so as to take account of 'discouraged workers' who have concluded they currently have little chance of finding work.

It is also clear that the labour market situation remains very difficult. Total official unemployment in the second quarter of 1998 was nearly 16% by the ILO 'loose' methodology, including discouraged job seekers. In urban areas it was nearly 29% of the workforce, and in Tbilisi 34%. The standard SDS household survey finds a total unemployment figure of 11% in the same period, but the longer reporting period of this survey is likely to capture some who are hardly employed. The Labour Force Survey should probably be the first reference point as it is based on a larger sample and specifically designed to measure unemployment. In the first quarter of 1998 LFS unemployment was even higher, at 22% nationally and 35% in urban areas. Although it has been suggested that this could be an overestimate, due to unfamiliarity with new questionnaires and definitions, it also indicates the still very high seasonality of employment in Georgia. Many enterprises are unable to operate through the winter because of power supply problems. Even those that have work can rarely feel secure. Previous surveys carried out in 1995 and 1996 by the SDS in Tbilisi put the unemployment rate at around 28%. There are certainly few signs of improvement.

## Composition of the labour force in Q2 1998 (thousand people)

	Urban	Rural	Female	Male	Total
Population above 15	1,704.6	1,430.0	1,676.8	1,391.1	3,134.6

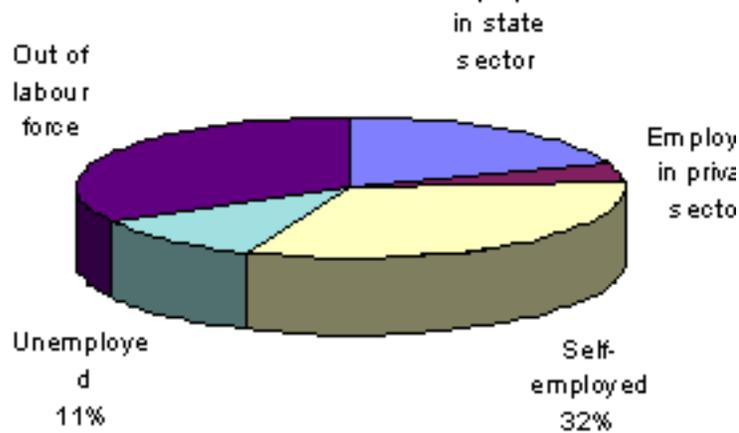
Active population (labour force)*	977.8	1,081.2	958.5	1,053.5	2,059.0
Active population (labour force)**	1010.8	1088.9	980.1	1,072.5	2099.7
<b>Employed</b>	721.0	1,047.5	828.0	899.4	1,768.5
<i>Hired</i>	534.0	220.1	353.0	380.7	754.1
<i>Self-employed</i>	179.3	822.1	469.4	511.2	1,001.4
<i>Auxiliary</i>	7.6	5.3	5.5	7.4	12.9
<b>Unemployed*</b>	256.8	33.7	130.5	154.2	290.5
<b>Unemployed**</b>	289.8	41.3	152.1	173.1	331.2
<i>registered</i>	7.2	0.7	4.5	3.3	7.8
<i>non-registered</i>	249.3	32.6	125.7	150.4	281.9
<i>other*</i>	0.4	0.4	0.4	0.4	0.8
<i>other**</i>	33.4	8.1	21.9	19.3	41.5
<b>Population beyond labour force*</b>	732.2	350.7	720.3	342.9	1,082.9
<b>Population beyond labour force**</b>	693.8	341.1	696.7	318.6	1034.9
<b>Unemployment rate (%)*</b>	<b>26.3%</b>	<b>3.1%</b>	<b>13.6%</b>	<b>14.6%</b>	<b>14.1%</b>
<b>Unemployment rate (%)**</b>	<b>28.7%</b>	<b>3.8%</b>	<b>15.5%</b>	<b>16.1%</b>	<b>15.8%</b>

Source: Labour Force Survey

\* - ILO strict methodology; \*\* - ILO loose methodology, including discouraged job seekers

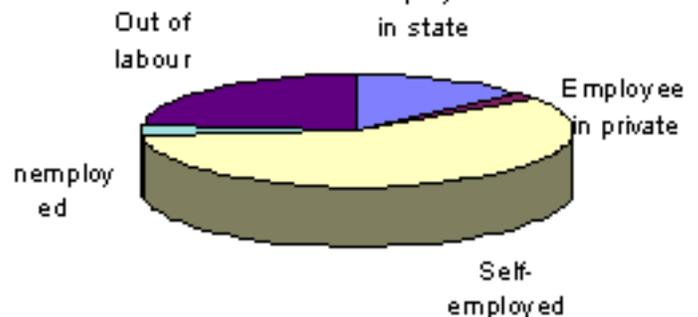
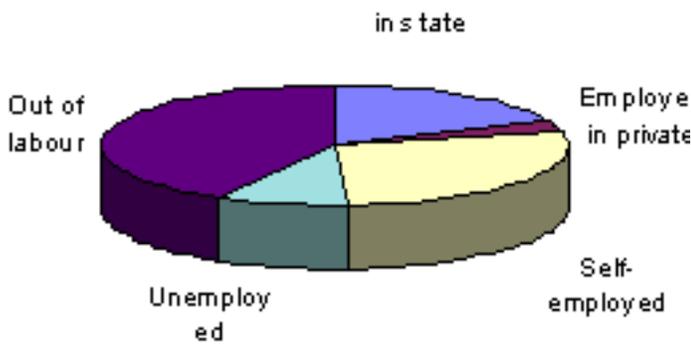
A closer look suggests that it is hard to overstate the extent of the collapse of the Georgian labour market. The old formal economy has largely disappeared and a new one has yet to be built. A national survey conducted by the Georgian Institute of Public Opinion in 1996 put the percentage of the adult population with formal jobs at 37%. The equivalent figure is now 24%. On the surface the fact that 63% of those working do so in the private sector appears to indicate significant progress in reform. The SDS does not indicate directly what proportion of these have conventional salaried jobs. However, analysis based on the reasonable assumption that there is no self-employment in the state sector suggests that 7% of the labour force, or just 4% of the adult population, has salaried jobs in the private sector. The vast majority of private sector workers are self-employed. Most of this is very small scale survival activity, and over half is in agriculture. Many who previously had more skilled jobs have returned to their villages to grow food for themselves and for sale. For women and those in rural areas, the proportion of those with private sector salaries is even lower, as the charts below show. Many jobs in the state sector cannot be described as secure, particularly those in health and education in which women are concentrated. Further reduction in the numbers of state employees was inevitable even before the current fiscal crisis. Equally, many of the few private sector jobs that exist are in newly privatised state enterprises that may not have a long future, or in new and precarious firms. While informal self employment has allowed many to survive hard times, not everyone can be suited to such entrepreneurship or want to do it for a long time. Future prosperity requires the creation of medium sized private enterprises that will provide secure employment for those who do not necessarily wish to run their own businesses or farms. Although job creation has been at the centre of the political agenda since at least the 1995 elections, there is a very long way to go.

### Occupation of total population over 15, Q2 1998



**Occupation of women over 15, Q2 1998**

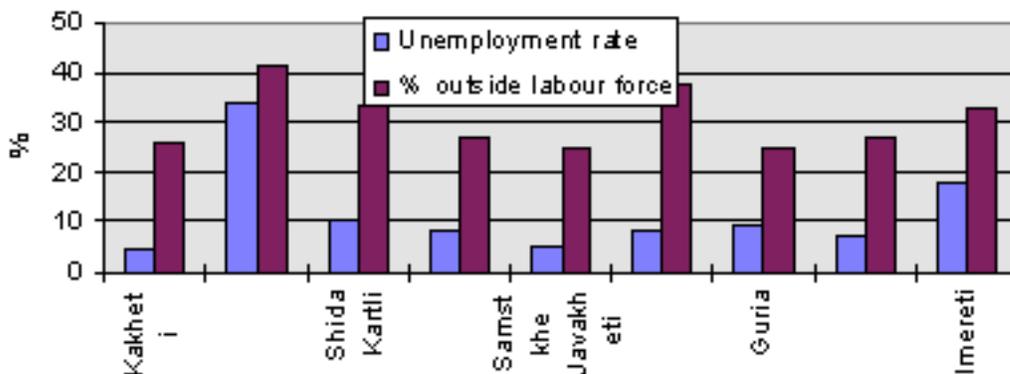
**Occupation of people over 15 in rural areas, Q2 1998**



Source: SDS/ILO Labour force survey

Regional unemployment rates depend almost entirely on the proportion of the population living in towns, and say little about the prosperity of an area. Even in regional towns unemployment is generally significantly lower than in Tbilisi or Kutaisi because ties to villages remain closer and for those unable to find work it is easier to return to the countryside. For those who are unemployed outside the largest towns, however, prospects may be more bleak as opportunities are rarer. In urban areas in Samtskhe-Javakheti for example 60% of those unemployed by the ILO loose definition had given up looking for work. The LFS does not provide information on the length of time that people have been unemployed, so it is not possible to be precise on the problem of long term unemployment. Anecdotal evidence however suggests that the problem is widespread. 51% of the registered unemployed had been out of work for more than 3 years. As OECD experience shows, this can lead to deskilling, demotivation and marginalisation. Unemployment with a low turnover of people in and out of work is socially highly damaging.

**Regional unemployment and inactive population, Q2 1998**

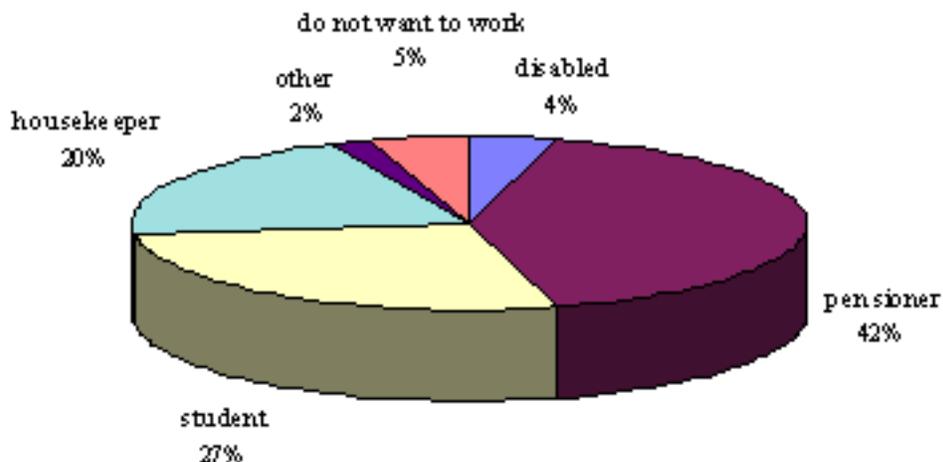


The unemployment rate is expressed as a percentage of the labour force. Percentage outside labour force is as a percentage of all population over 15. ILO 'loose' definitions are used.

Lack of opportunities has also led to a very sharp decline in previously high labour force participation rates. Now 33% of adult men and 43% of adult women classify themselves as outside the labour force. Some of these undoubtedly do not want to work. Many women who can afford to do so now choose to concentrate on bringing up a family, and many traditional husbands prefer this. Sexual equality at work in the Soviet Union often meant many women combined heavy work responsibilities with sole responsibility for domestic tasks. Yet many men and women have also apparently left the labour force because of the impossibility of finding suitable work. Among young people this is reflected in the high proportion continuing to study, in some cases only nominally. Urban unemployment for the age group 15 to 25 has reached an extraordinary 49%, and 51% in Tbilisi. State firms have understandably been attempting to protect their existing workers but very few are recruiting new ones. Few young people are able to gain employment experience and a great deal of potential talent is wasted. The long term consequences of this are again dangerous.

The situation for older workers is perhaps even worse. While the young are generally able to rely on some support from families older people are more often forced into self-employment type work that they find very hard to accept. Many have given up, and have to attempt to survive on a pension. Many older workers face considerable age discrimination, particularly from foreign firms, who often consider their exposure to Soviet work ethics makes them unretrainable. Large numbers are thus left with little hope and very little stake in the new order. It is also worth noting that the high ratio of non-working pensioners to the formally employed is completely unsustainable with the current pay as you go pension system. With 15% of the adult population non-working pensioners and only 24% formally employed, the wages of every worker has to pay for three fifths of a pension. In practice the ratio is even higher since the self-employed, and even many of the employed, do not contribute to pension funds. Many also collect pensions while continuing to work. Without fundamental reform and a dramatic increase in the formal employment sector, the prospects for more realistic pension levels are dim.

### Occupation of people over 15 and outside the labour force, Q2 1998

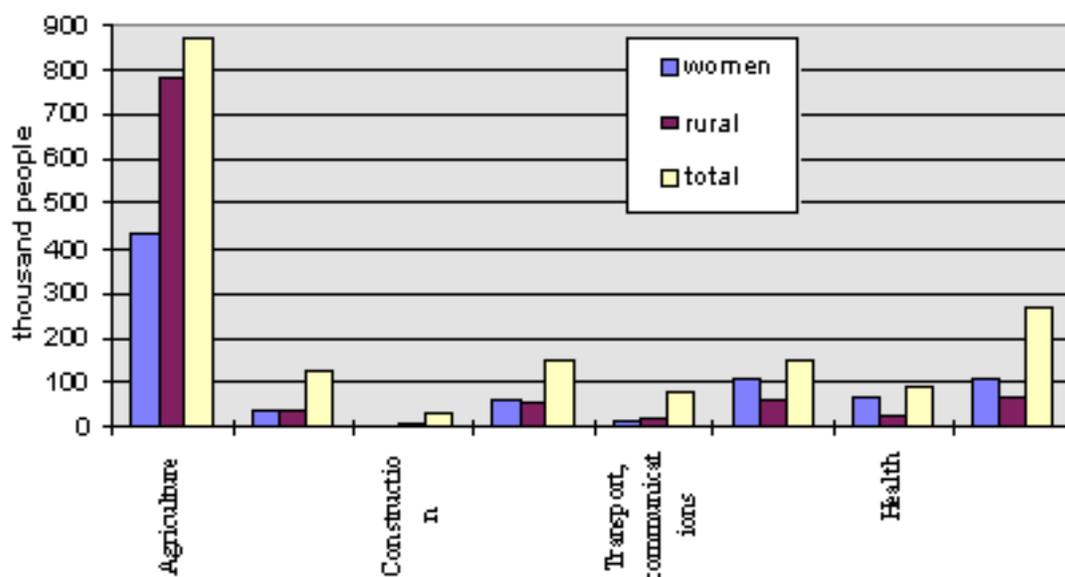


Source: Data from SDS/ILO

It may be that the worst of the labour shedding is now over. Georgian industry certainly has a great deal of restructuring to do but most inactive large firms have not been paying significant wages for some time. Initially the burden of economic collapse fell largely on wages rather than employment levels. Now the decline in formal employment largely reflects greater realism. There are increasingly few people relying on their old jobs and wages miraculously reappearing. The phenomena of underemployment and secondary employment, long stressed by people looking at the Georgian labour market, also appear to be less common now. While in the past many kept state sector jobs and nominal salaries but turned up to work only for social reasons or spent most of their time at another job, the few formal jobs that exist now appear to be more exclusive. 149,000 people or 8% of those employed, including 16% of those with state sector jobs, now admit to

secondary employment. Usually this is agricultural self-employment. 110,000 acknowledge being underemployed, certainly far fewer than in recent years. Apparently many of those who were waiting on extended leave or token salaries have moved into self-employment.

#### Employment by sector, Q2 1998



Source: Data from SDS/ILO

This increasing self-reliance does represent some small improvement on the past situation. It is also reflected in very slightly more realistic wage levels. The SDS estimates the average monthly wage at GEL 66 in the second quarter of 1998, and the average self-employment income at GEL 112. These are slight improvements on GEL 63 and 103 respectively in the previous quarter, but are still extremely hard to survive on. Wages are notably higher in the construction and transport and communications sectors, which are in some areas still monopolised and rely on money from the small wealthy section of the population whose own incomes do not appear in such surveys. Incomes in agriculture, which accounts for 51% of all employment, and in health and education are still unsustainably low.

#### Monthly wages and self employment income by sector, Q2 1998

(lari)

	Hired	Self-employed
Agriculture	37	50
Manufacturing	82	112
Construction	151	199
Trade and services	87	103
Transport and communications	94	205
Culture and recreation	60	58
Utilities	84	-
Government and defence	75	-
Education	37	-
Health care	39	-
Other sectors	94	97

Source: SDS Household Survey

While a small degree of unemployment is inevitable in a market economy, the levels seen in Georgia are clearly both economically inefficient and represent an unacceptable degree of human misery. However there are no easy short term cures. Subsidies to existing enterprises, in the form of tax and energy payment arrears, have been used to avoid the largest enterprises disappearing. These can really only be justified as a temporary measure in areas where the employment problem is much worse than average. More direct subsidies are both fiscally unfeasible and, as noted in Chapter Three, no longer supported by the majority of the population.

The other short term alternative is active labour market policies, such as the provision of temporary jobs and large scale retraining schemes. If provided indiscriminately these can be extremely expensive and involve a lot of administration. Even among OECD economies only Sweden has attempted to provide training and temporary work schemes to all those who become unemployed. With Georgian unemployment and tax revenue levels full coverage of the unemployed is clearly not an option. Measures will have to be focused on those most in need, such as the long term unemployed. Temporary job creation schemes financed by donors can provide labour for infrastructure development and environmental cleanup, temporarily lowering unemployment, reducing social stress and keeping workers attached to the labour market. Low wages ensure that only those in most need take up the work. The State Employment Fund has started some very small scale programmes of training in computer skills and English language, but funding is clearly inadequate. This is another area where donors could play a useful role. Once financing is found, training programmes can be usefully contracted out to specialised private agencies rather than actually carried out by labour exchange staff. The larger private employers can also play a role in financing training. As major restructuring occurs local labour authorities could become more active partners in local economic development, as in some market economies where labour offices help to screen employees and organise custom-made training programmes from firms agreeing to make new investments and to support community development.

If such active policies are to be used it is crucial to be able to monitor, target and evaluate their cost-effectiveness. For this automation is essential. In fact the most important and cost-effective role of employment agencies may be in the provision of information. Public labour exchanges under the old system were based on a situation of labour shortage which no longer exists and concentrated on providing data for controlling and directing the economy, rather than on monitoring changing economic conditions. Now more accurate information is crucial to making the market work and matching skills and needs. Workers need to know what jobs are available and their characteristics. Firms need to know the skills and attributes of job seekers. Employment counselling, including the assessment of aptitude and interest, and the provision of information about education and training opportunities are a central aspect of labour mobility. Job search training and job club activities for the long term unemployed have also generally been cost-effective in market economies. Private agencies can be encouraged to complement this work. In the west these tend to target their services to particular segments of the labour market, usually more skilled workers or those who have a job already but are looking for a new one. This suggests that the state labour exchange might usefully concentrate on the less skilled and those that need the most retraining. Again experience in the west indicates that providing general education skills to adults with less than secondary school education has the most significant impact on earnings.

Ultimately, however, the problem is more on the demand than the supply side. A recovery of employment depends most on the growth of the private sector. Here again policy can encourage the development of small businesses and farms. The fastest way to do this might be to address some of the government imposed obstacles to business described in Chapter Three. There is also a role for more positive assistance. Although in the west few unemployed successfully start small businesses there may be much greater opportunity in Georgia, and there is a need for more effective basic technical assistance for those who would like to try. Existing enterprise support programmes have often been prey to corruption and distorted a market that could have been better filled by private consulting firms. Still, however effectively such assistance is implemented, for a long time there will be many who are unable to find work, and financial support for them will have to be found, whether in the form of cash benefits or subsidised workfare schemes. As mentioned earlier, this will require that those who have jobs pay some taxes.

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### 5.3. HEALTH

1995 saw the start of a very radical programme of health care reform in Georgia, necessitated by the rapidly falling availability and quality of health care, and the disastrous fiscal situation. Briefly the government aims to increase private

sector participation in the health sector and limit the state's role to areas such as health promotion, immunisation, establishment of a regulatory framework, accreditation and licensing, research, and education. It also promises to ensure access to basic services for the most vulnerable groups.

These reforms remain deeply controversial. In most western countries the recent trend in healthcare has been to move towards greater government involvement, because of clear market failures in this area. It is known that public investment in improved methods of administration and finance can hugely reduce public costs. In the USA state health spending in 1990 was the same proportion of GDP as in the UK, although most of the US health system is private and the UK runs an almost entirely nationalised system. The asymmetry in information available to a doctor and to a patient means that market signals fail to work in many areas. Now public resources are having to be cut at precisely the time when, because of falling incomes and increasing social stress, the population requires healthcare most.

Reform of the old system was clearly essential. Health levels in Georgia never approached European standards despite quite high spending. Life expectancy in 1990 stood at 68.1 for men and 75.7 for women, compared to 71 and 78 respectively in western Europe. Although the infant mortality rate declined 50% between 1960 and 1990, it was still twice as high as in western Europe. Maternal mortality rates were approximately four times as high. Waste and inefficiency were widespread. The main measures of performance were staff and bed numbers. The ratio of doctors to population in Georgia is still over twice the OECD average. Very few resources were devoted to disease prevention and public health, and above all the system lacked anyone with management skills. Still very significant steps had been made in areas like eliminating tuberculosis, and most importantly health care was universally available. The collapse in national income and particularly government revenue now makes reduced funding of the health sector inevitable, and reform can clearly bring significant efficiency gains. Yet the actual share of revenue being transferred to health funding is now showing worrying falls. Despite some improvements since 1994 the health sector remains in a deep crisis.

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## Indicators of health

The last census of the population was made in 1989. Information available since then is often speculative, and the collapse in hospital administration and the reduced tendency to visit hospitals in the case of illness all make data extremely approximate. Data given below come from the Ministry of Health. While absolute levels may not be reliable they give an interesting idea of tendencies. The mortality rate appears to have fallen slightly in recent years, but maternal mortality shows an extraordinary and very alarming increase.

### Birth and death rates 1991-1997

	1991	1992	1993	1994	1995	1996	1997
Birth rate (per 1000 pop'n)	16,6	14,9	12,6	11,8	11,6	11,1	10,7
Infant mortality rate (per 1000 births)	13.8	12.4	18.3	16.7	13.1	17.4	15.3
Mortality rate (per 1000 pop'n)	10,4	9,6	10,0	8,6	7,8	7,1	7,5
Maternal mortality (per 1000 births)	-	-	0.32	0.40	0.55	0.55	0.70

Source: Ministry of Health

Among the most frequent causes of death are (per 100,000 population)

### 1996 1997

Cardiovascular illness 493,7 529,6

Cancer 71,5 75,6

Wounding and poisoning 31,7 29,2  
 Disorders of stomach and intestine 28,9 27,6  
 Diseases of respiratory system 19,3 17,4  
 Infections and parasitic diseases 9,2 10,4

Source: Ministry of Health

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## Frequency of diseases

Available data on diseases in 1998 cover only the first three quarters of the year, so comparisons are better made for 1996 and 1997. Again indicators of changes are probably more reliable than absolute figures.

### Newly registered cases of disease, per 100,000 people, 1992-8

	1992	1993	1994	1995	1996	1997	1998
Cardiovascular diseases	5014,3	5157,6	4711,5	4207,2	3124,7	3221,3	
Cancer							
<i>primary:</i>					66,5	83,8	74,2
<i>total:</i>		479,9	505,0	457,7	482,5	475,1	
Diabetes	995,4	960,7	961,2	990,5	940,6	1010,3	
Tuberculosis	122,4	117,7	267,6	149,3	152,6	163,9	147,2
HIV			3	10	18	35	22
Hepatitis					79,7	57,7	44,9
Rabies					0,4	0,2	0,1
Influenza					195,7	147,4	138,2
Diphtheria					6,7	5,5	3,1
Dysentery					18,5	13,2	11,4
Parasitic diseases		0,2	0,2	0,4	1,9	1,5	2,2
Syphilis					19,2	42,1	38,4
Gonorrhoea					21,8	24,8	22,4

Source: Ministry of Health, and for 1998 medical institutes specialising in these diseases

Notes: Data for 1998 cover only the first nine months of the year. There is also no data for institutions under the Ministries of Defence and Internal Affairs. It is estimated that in prisons between 8 and 13% of inmates are infected with tuberculosis.

The majority of serious diseases showed an increase in registered cases in 1997. This may be partly due to the fact that, after the desperate times of 1993 and 1994, people are now be slightly less afraid to visit hospitals and call ambulances. Conditions in some areas have slightly improved and costs have become less intimidating for some. A more significant factor however is likely to be the long term decline in primary and preventive health care, something which may be storing up even greater troubles for the future. The system has long been biased towards inpatient care and neglected public health programmes. Abortion for example remains the most widespread form of contraception, with the number of abortions in 1994 almost equal to the number of live births. Alcoholism is still largely addressed by the criminalisation of extreme alcoholism, combined with an effective encouragement of mild abuse through relatively very low prices. Preventative health care and education would be cheap and effective.

The most common serious illness and most common cause of death is cardiovascular problems. The gradual fall in registered cases of these diseases was reversed in 1997. Very high smoking rates and stress levels appear to be a major cause. Cases of malignant tumours also increased, as did the death rates of those diagnosed. Many now seek medical attention for such problems far too late, either through ignorance or more usually through fear of costs. Cases of people deciding for financial reasons not to undergo chemo or radio-therapy, or to have essential surgery, are now quite common.

Infectious diseases have been increasing, mainly as a result of food poisoning, meningitis and tetanus. Disruptions to vaccination programmes in the past few years may be having some effect. Parasitic diseases have also increased considerably in the past two years, including for the first time cases of malaria. However the incidence of typhoid, diphtheria, dysentery, influenza and rabies have all decreased. Despite the lack of a vaccination programme there is a slight tendency towards a reduction in cases of viral hepatitis.

Recorded cases of sexually transmitted diseases have increased substantially, with social changes and increased poverty leading to obvious growth in prostitution. The ratio of cases of syphilis to gonorrhoea in Georgia in 1997 was 1:0.57. Internationally the ratio is closer to 1:2.5 suggesting a large number of unregistered cases of gonorrhoea in Georgia, and perhaps another indication of people's reluctance to seek medical attention for diseases that are perceived as less life-threatening. The number of new cases of HIV infection also increased sharply in 1997, though remains relatively low. Between 1992 and 1998 only 70 cases of HIV have been registered, of which 11 have died. There have so far been no cases recorded of HIV transmission from mother to child in Georgia, and no cases among people under 15. Yet doctors working in the area estimate that there may be up to 800 unregistered cases of HIV infection. Information on AIDS is still hard to obtain, partly a legacy of the Soviet view of AIDS as only a foreign phenomenon. Several NGOs are involved in raising the public's awareness of AIDS and other sexually transmitted diseases, making TV and radio programmes, writing newspaper articles, and distributing condoms and disposable medical equipment. Many hospitals are now in such desperate financial circumstances that patients have to supply disposable gloves and needles.

The situation with tuberculosis remains particularly serious. It is well known that this disease is a very good indicator of the general well-being of the population and its incidence is directly linked to economic and social conditions in the country. From the table above it can be seen that the highest peak of the spread of TB was in 1994, reflecting the dreadful conditions of 1993, particularly the aftermath of war, lack of food and medicine and social stress. It is noteworthy that, apart from prisoners, the highest rates of TB are registered among IDPs. TB has been a particular focus of international assistance, and with help from donors it has been possible to somewhat limit its spread. In 1997 and 1998 cases of pulmonary TB declined, although non-pulmonary cases increased.

Another focus of international help, particularly by UNICEF, has been iodine deficiency disorders. Enlargement of the thyroid gland appears to be a widespread problem, particularly among children. 1% children and 1% of old people surveyed in Tbilisi by the SDS at the end of 1996 had been diagnosed as suffering from goitre. Disease prevention programs have been elaborated, including plans for the widespread iodisation of salt.

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## Financing and access to health services

The idea of treatment for a serious illness not being an option for financial reasons is a new and alarming one in Georgia. In the past people in practice also tended to pay to ensure that they received good treatment, but major operations were accessible to all. Now many feel obliged to pay unofficial charges on top of official ones, further reducing the accessibility of health care. Yet conditions in most hospitals are still frightening, many areas still being without reliable electricity, water or heating. Buildings are often leaking and unstable. Equipment is often unrepaired, inoperable due to power supply problems or lack of inputs like x-ray film or chemical reagents. The enthusiasm of many doctors and nurses, who have often worked to repair hospitals themselves or brought heating equipment from home, has done much to create tolerable conditions for patients. However the main rehabilitation programmes have not been implemented because of lack of financial support.

The 1998 health budget of Georgia totalled GEL 54.2 million, a very slight increase on GEL 49.3 million in 1997. This money was supposed to be allocated towards three components:

- preventative programs (GEL 6 million);
- curative programs (GEL 39 million);
- other programmes (GEL 9 million).

Funds for preventive medicine are to cover immunisation and vaccination, quarantine, prevention of AIDS and venereal diseases, iodine deficiency disorders, drug abuse prevention, development of information services. This is an area that was particularly neglected under the old system, where the vast majority of resources went to hospitals and specialised physicians.

Other programmes are to cover development of medical education and science, assistance to homeless children and conscripts, population of the mountainous and border areas, ecology, medicine within the prison system, transplantation, and disaster and epidemic management.

Money for curative programmes will be concentrated on certain illnesses: tuberculosis, cancer, infectious diseases, children's heart surgery, blood dialysis, and psychiatric disorders. Programmes will also be financed directed at safe childbirth, seriously ill children and destitute patients. Payment is made for doctors fees, food, equipment, tests and medicine, with any additional or unforeseen expenses to be covered by the patient. Treatment of diseases not in the above list, or that cannot be disguised as such, are not subsidised by government and patients have to find alternative ways to pay.

While the whole country is so poor it is clearly not feasible to devote anything like the previous resources to health care. Measures to obtain greater value for money from what is spent and to focus spending on basic health care and the poor are also clearly essential. However the share of national income being spent on health shows some alarming tendencies. The share of GDP allocated to health expenditure actually fell from 1.8% of GDP in 1997 to 1.7% in 1998. Far more worrying is what is actually paid. Arrears on health expenditure in 1997 amounted to at least GEL 7 million and the Ministry of Finance made firm promises that these would be covered in 1998. Yet by October 1998 the situation was far worse. Only GEL 13 million had been transferred from the Ministry of Finance to the Ministry of Health for the curative treatment programme. Only GEL 2.7 million had been transferred for the 'other programmes' and only GEL 0.9 million to the preventative medicine programme. Regional authorities had transferred GEL 6 million of the GEL 9 million due in the period. The health budget for nine months was fulfilled by less than half. The World Bank estimated in 1993 that USD 22 per person per year was necessary to offer a minimum package of public health and essential clinical services in a middle income country. Total spending so far in 1998 in Georgia amounts to less than a third of that.

Under such circumstances achievements have been remarkable. 1.07 million people are recorded as having been treated in the first nine months of 1998 under the preventative programme. 653 thousand have been immunised. Yet many medical institutions are apparently now on the verge of bankruptcy, and unable to pay for water or electricity. Tension between patients and doctors is notably rising, as the latter are forced to ask for extra unofficial payments. Medical reform is in danger of becoming largely discredited by non-payment, the extent of which cannot be justified even in the current fiscal crisis.

Qualified medical treatment is clearly becoming a privilege of the rich, and significantly inaccessible to many. A large proportion of hospitals have apparently had over half their beds lying empty for several years. Many patients prefer to

attempt to treat themselves, and even many with diseases like cancer do not return for treatment after being diagnosed. That fees for consultation, averaging about GEL 10, are a major obstacle for a lot of people is shown by the experience of clinics that occasionally declare free consultation days and generally find themselves overwhelmed with patients. Lacking paying patients, many clinics find themselves unable to cover all their expenses and pay taxes.

The State Department for Statistics conducted a survey of people who had had serious illnesses in Tbilisi in the winter of 1996 to 1997. Medical care in Tbilisi is significantly more accessible than in most of the rest of Tbilisi, yet the results look alarming. 25% of respondents said they had not been to a doctor or summoned an ambulance because of the cost. The responses are treated as mutually exclusive, which may lead to some inaccuracies in the survey. An additional 24% followed earlier prescriptions or attempted to treat themselves. Many of these might also have gone to a doctor if they could afford it. People still make much greater sacrifices to get medical care for their children, but old people are particularly poorly served.

**Medical treatment for serious illnesses among the population in Tbilisi, winter 1996/7  
(percentages, based on survey of 1000 cases)**

	total	below 15 years old	above 60 years old
treated at hospital	5.6	6.3	4.7
treated at a polyclinic	23	38	19.8
treated by a private doctor	6.7	9.2	5.2
treated by a doctor friend (for free)	11	10.6	12
treated by ambulance staff	2.3	1.4	4.7
did not call ambulance because of lack of money	3	0	6.3
used free medical service	1.8	0.7	2.6
followed treatment prescribed before	10.3	6.3	13.5
self-treatment	13.2	13.4	3.6
did not apply to doctor because of lack of money	20.5	9.9	24
does not trust doctors	1	0	0.5
other	2.6	3.5	3.1

Source: SDS

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## Medicines

Pharmaceutical needs in Georgia have always been mostly supplied by import. In the Soviet period five relatively small pharmaceutical factories produced only a very limited range of products. Registration and licensing was all controlled from Moscow. From independence until 1995 the market for medicines was entirely unregulated, and relied largely on stolen humanitarian aid and low quality or out of date private imports. The market is now more effectively regulated and is supplied by private and government imports (approximately 35%), by humanitarian aid (approximately 40%), and about a quarter by unlicensed production. Traditional alternative medicines are also being developed for commercial use, and some foreign companies have expressed interest in establishing pharmaceutical production plants in Georgia.

The majority of important medicines are thus now available in Georgia. Over 3000 types were imported in 1997 from over 46 countries. The value of officially imported pharmaceuticals amounted to over USD 11 per capita in 1997, compared to USD 6.1 in the previous year. For some medicines over-consumption may actually be now more of a problem than lack of availability. Georgian doctors traditionally prescribed medicine in relatively large quantities and now that the prescription system has broken down, those who can afford to sometimes treat themselves with a huge variety of medicine, not always consistently and not always taken in full courses. Antibiotic immunity appears to be an increasing problem.

Inevitably expense is also a major problem. Below are figures on the public's ability to afford medicine based on the same SDS survey of 1000 cases of illness used above. Informal safety nets ensure that only 9% of people could not find any medicine at all when it was needed, and only 2% when the ill person was a child. Still only just over one third of respondents could afford to buy themselves all the medicines they required.

#### **Access to medicine prescribed for 1000 cases of serious illness, Tbilisi, winter 1996-7** (percentages)

	all	under 15 years old	over 60 years old
<b>purchased all</b>	34.3	44.4	29.7
<b>purchased only part</b>	21.4	20.4	25
<i>then were assisted by:</i>			
relatives	3	1.4	6.8
used medicines purchased earlier	3.9	4.2	5.2
got humanitarian aid	1.6	1.4	1.6
did not apply to other sources	12.9	13.4	11.5
<b>could not afford to buy any</b>	12.8	2.8	21.4
<i>then were assisted by:</i>			
relatives	2.5	0.7	4.7
used medicines purchased earlier	1.3	0	2.1
got humanitarian aid	0.3	0	1
did not apply to other sources	8.7	2.1	13.6
<b>medicines were not needed</b>	4.3	7.7	1
<b>were assisted by relatives</b>	8	7	8.9
<b>used humanitarian aid received earlier</b>	16.4	14	10.4
<b>received new humanitarian aid</b>	1.5	3.5	1
<b>others</b>	1.3	0	2.6

Source: SDS

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## Medical science

All medical institutions come under the authority of the Academy of Science and Ministry of Health, who co-ordinate and finance all medical research in Georgia. As with all other scientific research, medical funding has been drastically cut in recent years. To preserve qualified specialists, buildings and equipment, institutions have attempted to move towards self-financing. Many have set up small pharmaceutical factories, diagnostic laboratories and chemists. Foreign organisations like the Soros Fund have also provided grants for some of the most promising research. In 1997 for the first time GEL 1.3 million was also allocated from the state budget to finance competitive research grants. However in 1997 only one fifth of this sum was transferred. In 1998 GEL 670,000 was allocated to finance research on 52 topics at 26 institutions. Again funds are transferred late and partially.

The reduction in funding for medical science has caused a reduction in jobs and forced many researchers to join the private sector, leave the country or even change profession. A lot of diagnostic and analytic equipment is becoming unusable, whether through ageing and obsolescence, or simply lack of inputs. Yet despite the obvious difficulties a small number of institutes are now managing with the help of grants, state programmes and foreign contacts to restore some of their former scientific potential. The rate of publication and participation in international conferences has notably increased over the last year. The system of assessment of higher research degrees, previously controlled from Moscow, has also been reformed. The independence and authority of assessment committees, and their demands in terms of quality of research, seem to have increased. This, as well as the drop in funding, may have contributed to the reduction in the number of theses accepted - from 33 Doctoral dissertations in 1993 to 14 in 1998, and from 85 to 36 Candidate dissertations in the same period. As in other areas of research, while the extent may have to be lower now than in Soviet times, the quality at the top could even improve with greater openness and less politicisation.

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## Medical Education

For many decades the main sources of medical training have been the State Medical University and the Medical Academy. The latter was the main centre for further professional training of doctors. Over the last five to seven years a large number of private medical colleges have also appeared. There are now 58 of these in the whole country, 49 of which are in Tbilisi, currently training about 11,000 students. Qualifications from such institutes are technically equal to those of the state institutes. Approximately ten of the private colleges, in Tbilisi and Kutaisi, genuinely compete with the state university in almost all fields. Lecturers are invited from the university and the main medical and biological research institutes. However the quality of instruction in most of the rest is notably low. Many cannot attract qualified teachers, lack libraries and equipment, and because of the reduction in the number of people who can afford medical treatment, lack affiliation to practising hospitals and clinics. The majority of private students failed to enter the State University, often due to poor preparation at school. Most private colleges accept any student who can pay.

There is thus now considerable oversupply of doctors. About 80% of newly qualified doctors remain unemployed and the low quality of many new graduates further reduces the standard of available medical care. This is a clear case for government intervention, and the Ministry of Health is currently beginning a programme of testing and certification of colleges. Institutes that do not come up to standard will lose the right to recruit new students, be merged with other institutes, or in the worst cases closed. A state programme of standard medical education is to be enforced, involving five years of academic training followed by a minimum two years internship before qualification. All students at state or private institutes are to take a single state final examination. In 1998, out of 2000 final year students at private institutes, only 183 opted to take this exam, 70 of whom passed. This gives some indication of training quality. The availability of internships is also to be strictly limited, with the aim of reducing the number of graduates. Such restrictions, and externally

enforced standards, should go some way to encouraging genuine competition among medical colleges, and make a medical education a less easy option.

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## 5.4. EDUCATION

It is now widely accepted that education and training are crucial determinants of economic success. Governments in most economically successful countries have heavily promoted education. Since the badly educated are more likely to be poor and unemployed, a failure to invest in the education of young people can lead to great public costs in the future. And the effects can be very long lasting: the most reliable predictor of children's educational attainment is the level of education of their parents. Education can also play a key role in social integration, particularly important in a country with communal tensions. Freedom of thought is an essential part of building a democratic society. The development of an effective social contract depends on the existence of an education system that emphasises freedom of expression, equity, and the responsibilities and rights of individuals.

In many ways Georgia's educational inheritance is enviable. Coverage was very wide and in many areas standards were high. Although wages provided little incentive to study, education was culturally valued and universally free. Close central control and standardisation of teacher training, curricula and textbooks ensured reasonable equity of access, near universal literacy and basic numeracy. However, as in the rest of the economy, the mix of skills was seriously distorted by ideology. Social sciences in particular were thoroughly undermined by politics and not a subject for the scrupulous. A disproportionate number of the most talented chose the natural sciences as military funding was plentiful and political interference minimal. Teaching stressed passive reception and memorisation of facts more than the development of learning skills and critical thinking. There was great reluctance to distinguish good and bad teachers and students, and marking was often far from objective. Wide-ranging reform now has to be attempted with an education budget that is in real terms still less than 10% of that in 1989.

Reform is still very much a work in progress. A World Bank led programme began in 1996, including 22 separate reform areas. A new Law On Education was passed in the summer of 1997, but many normative and sublegal acts have yet to be adopted. A law on secondary specialist education was passed in 1998 and a law on higher education is still under discussion. Some reform programmes have not been fully financed because of failure to implement the state budget, and the consequent delay in transfer of international credits. The main thrusts of reform have been to try to decentralise control, make financing sustainable, and to adjust the type and content of teaching to the requirements of a market economy. The end of 1998 saw a series of seminars discussing future directions and progress so far. Recent widespread strikes by teachers suggest that such exchanges of opinion could usefully be extended.

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### Financing

The decline in the budget of the Georgian public education system between 1990 and 1995 is among the worst any education system has ever experienced. Available resources have increased four times between 1995 and 1998, but funds allocated to education amounted to only 1.7% of GDP in 1998, far lower than the averages in developing and developed countries (3.9% and 5.1% respectively). As in most other sectors, the amount actually transferred from the Ministry of Finance in 1998 was considerably less even than this. For the first six months of 1998 the Ministry of Education was supposed to receive 1.8 million lari, but actually received 1.2 million, of which 886 thousand lari were arrears from 1997. At the end of 1998 many teachers had not been paid for up to eight months.

### Public expenditure on education:

	1995	1996	1997	1998
By central government (million lari)	9.8	24.2	38.2	45.5
By local governments (million lari)	19	47.4	63	87.8
% of total public expenditure	6.7	9.9	10.2	11.3
% of GDP	0.8	1.3	1.5	1.7

Source: World Bank

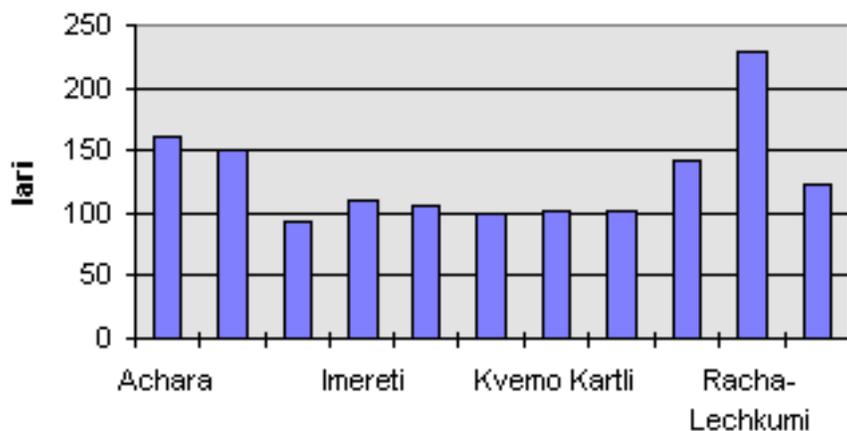
The quality of education does not depend on financing alone. Many Asian countries with very high education levels spend a lower than average proportion of GDP on education. Money needs to be carefully directed, and supported by the active participation of parents, employers and other stakeholders. Market failure considerations suggest that government attention should be particularly directed to areas, like basic education and advanced research, where individuals do not personally reap most of the benefits of their education.

The amount received even by these areas is far from adequate, but there is also still scope for improving the efficiency of what is spent. As noted below, teacher-pupil ratios remain relatively high. With declining birth rates it may be possible and necessary to close and merge some smaller schools. Such measures may not be easy but in the current fiscal situation the alternative is cuts in more vital areas. Universities in particular often duplicate faculties and overspecialise.

Many educators, administrators and parents have been ingenious in finding new and additional funds. Some have managed to increase their self-sufficiency, for example supplying school meals from school gardens, by merging with other local institutions like libraries, and by renting out spare buildings. In the future it may be possible to create closer ties with local enterprises. Universities have scope to make money from contractual training programmes outside the formal curricula. The sprouting of new institutions suggests that the old established ones are failing to take advantage of market opportunities. In total it might be possible to increase direct household contributions to education. The SDS household survey suggests that private household expenditure on education amounted to about 0.6% of GDP in 1998, which is also below the world average of 1%. However at current rates of poverty and inequality it would be very dangerous to rely on greater contributions for primary and secondary education. The majority of families spend most of their income on food and can hardly afford even textbooks. Meanwhile a small but significant number can pay for their children to attend US universities.

Above all, improving the quality of financial management is essential. Regional governments are now responsible for financing schools, since they are in theory better able to identify needs and opportunities for efficiency. In practice local spending relies largely on a transfer received from the Ministry of Finance. The fiscal capacity and competence of regional governments varies widely but is rarely high. Despite transfers in 1998 being earmarked for paying teachers wages, the problem of widespread non-payment continues. There are great differences in regional spending: in 1998 Kvareli planned expenditure of 70 lari per pupil while Ambrolauri planned 279 lari. The average in Georgia was 122 lari. There are significant differences in needs, particularly due to differing population densities, but the criteria for calculating transfers and the portions earmarked for education are not transparent and are apparently based largely on historical spending levels. It should be possible to assess variations in educational performance and refine the transfer system. Transfers should be based on known formulae and include incentives for improved performance. Since local administration is usually very poor, problems still often have to be resolved at higher levels, keeping centralised structures in place and failing to provide incentives for innovation or efficiency at the local level. At the school level also, many directors are unused to dealing with financial questions, and urgently require training.

### **Planned primary and secondary education spending per pupil by regions, 1998**



Source: World Bank

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### Primary and secondary education

Public investment in basic education has some of the highest rates of return of any investment, public or private. It develops a person's capability for learning and interpreting information, and is a major determinant of future well-being. However the yields come only in the long term and budgetary pressure can mean there is temptation to make excessive cutbacks.

Under the Law on Education the state now finances the first nine years of a child's education and the next three years are free only for the top 30% of pupils. In practice slightly over half study free since a third leave school altogether after the ninth year. The rest currently pay ten lari per month. Since international experience suggests that performance in school is often related to household wealth and status, the Ministry of Education has decided that the extra free places should be awarded based on need, with need assessed by the school. Pre-primary education is no longer financed at all, and the proportion of children having attended kindergarten before the age of six has fallen from 42% in 1990 to 19% in 1998. While there is no research on this yet in Georgia, evidence from other countries suggests that the effects of this in terms of socialisation and later educational achievement may be serious.

The results of economic collapse are highly visible in schools. The effects of unstable family incomes and worsening diets are noticeable on many pupils. The majority cannot afford to eat regularly at school canteens. Few schools now have medical facilities. Teachers complain that they more often encounter neuroses, introversion, apathy or aggression. Attendance levels and homework performance have clearly been worsening. Increasingly few parents have the time or inclination to play an active role in their children's schooling and co-operate with teachers. The extracurricular activities and cultural trips that were an important part of the old education system have largely disappeared. Computers are still a great rarity and scientific demonstrations are already largely impossible. In practice the only items of school expenditure that are normally financed are wages and payments for water and electricity, and even these are paid very unreliably. Building repair, stationery and textbooks have to be financed almost entirely by parents, both through regular contributions and one-off appeals. School staff are also frequently known to pay fees for particularly needy pupils.

Teachers themselves have been hit harder than most other workers. In 1995 average teaching salaries were the equivalent of just USD 4 per month. In 1998 they average about 44 lari, a sum on which it is still extremely difficult to present a respectable figure to pupils. Those unable to earn extra money by giving private lessons have mostly had to rely on the support of friends and family or to live by selling their property. Many complain that they also have to buy new teaching aids out of their impossibly small wages. While most appreciate the need to change teaching methods, few have any idea how to start going about this. Unable to afford newspapers and journals, they particularly lack any means of keeping up with developments in the profession and sharing opinions and experiences with colleagues. The status of teachers in society may be declining, and as job opportunities elsewhere increase it may become hard to retain the most talented. Already there are signs that those with the most marketable skills, particularly in modern languages, are in short supply. In particular the few men in the profession have been leaving. Teaching was always female-dominated in Georgia but now

the impossibility of supporting a family on a teacher's wage means that over 90% of teachers are women.

A central part of reform has been a programme started in 1997 to test teachers and retain and reward them on the basis of performance. Teachers are assessed on six measures of competency and classified into four categories, with pay for the most skilled set at 61 lari per month and for the lowest at 31 lari. The Ministry of Education acknowledges that there have been faults in the implementation and marking of tests so far, and that in some cases the process has not been objective. However testing is widely acknowledged to be an essential part of reform. The second stage of testing, due in October and November 1998, has been postponed because of lack of financing.

Further pay rises combined with further monitoring and training of teachers will be essential if the quality of teaching is not to decline further. Teacher student ratios are still high by western standards, and there is clearly scope for efficiency savings by reducing the number of teachers. In primary schools for example there are often different teachers for drama, dancing and crafts, all with their own classrooms. International research suggests that secondary class sizes in the range of 15 to 35 have little effect on learning. The OECD average of about 16 pupils per teacher compares to just over 10 in Georgia. Policies to increase the flexibility and mobility of the teaching force should free resources for salaries and retraining.

While the curriculum has already changed substantially, the style of teaching and teacher's knowledge of new subjects is harder to adjust. The amount of time devoted to Georgian language, literature and history, religion, foreign languages and environmental studies has been increased. Teachers not accustomed to encouraging questions and debate, or in primary schools even to allowing left-handedness, need some help to be able to equip citizens who can adapt to the changing requirements of a market economy. Although post-communist textbooks are now available in history, geography, law and sociology they remain unaffordable to many. Standard textbooks at secondary level are now generally printed for about one third of the relevant student population. There may be some room for new and not so new technologies to help spread information at low cost. If teaching by internet is not yet feasible in rural areas, many countries have successfully used radio to provide information cheaply to rural teachers, and even to deliver lessons in new subjects, accompanied by teacher led classroom activities.

There could also be more focus on equity. As well as a wide range of regional spending there were also strong regional differences in teacher assessment results. Although only 148 of 3192 secondary schools are now fully private, there are still privileged schools to which access is mostly gained through connections or bribes. Even under the communist system free education often did little for the advancement of the rural population. A strong emphasis is still put on the winning of international science and mathematics competitions, gaining national pride sometimes at the expense of neglecting pupils not capable of such standards. Those at the bottom of the range of ability, with disabilities or from disadvantaged backgrounds, rarely receive the specialised assistance they require. Apart from in international competition, success is still too often measured by inputs of teachers and money rather than by the quality of education received.

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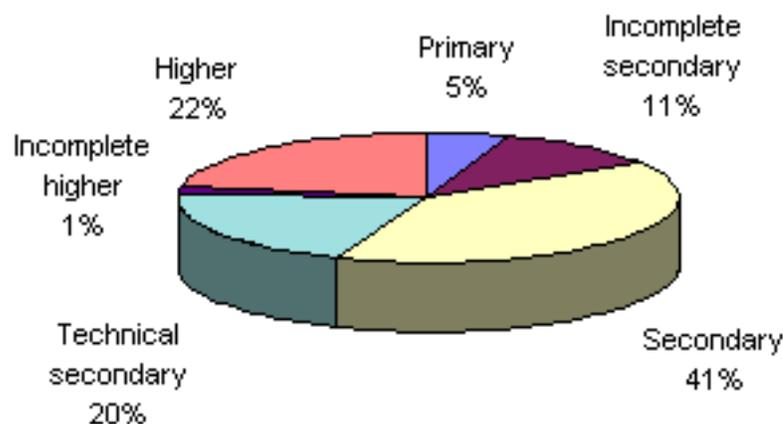
## Vocational education

The system of specialised secondary education is in particularly fast decline. The number of students at these schools has fallen from 70 thousand in 1990 to 35 thousand in 1998. Such early specialisation, usually beginning at around 14, before children are mature enough to choose their own career, may be little missed. Much of such training is also likely to be inappropriate to the demands of a market economy. The structure of the Georgian economy has already changed substantially and few workers are now likely to remain in one occupation throughout their working lives.

If such schools are to be retained a more progressive specialisation might be a better option. A first phase could concentrate on basic knowledge and skills in a broad occupational areas such as engineering, construction, or commerce. A second phase would develop occupational skills and qualifications with a large practical learning component, preparing graduates for a career where the nature of their employment is likely to change and adaptability and further training will be required. Alternatively, more training could be provided by existing conventional schools, colleges and businesses. Vocational education and training need to be able to respond to local labour markets in a flexible way. To compete successfully and ensure that their curricula and research remain relevant schools and universities of all types in many

countries are establishing closer links with business. The majority of market economies rely on employers and trainees themselves to finance and provide most training, since they both benefit most and can adapt more quickly to changing needs. Clearly there will need to be greater emphasis on adult education, and more individual responsibility for career development. There is still no clearly defined policy on this in Georgia and the existing system is largely being left to collapse.

### Maximum education level achieved by adult population in 1997



Source: Data from SDS Household survey

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### Higher education

Access to higher education in Georgia has never been completely equitable. Under the old system party officials and the intelligentsia could ensure their children places at elite academic secondary schools and universities. Students placed early in secondary vocational education found it very hard to enter university and a white-collar profession. Now fee paying in higher education is widespread. By 1998 the government had licensed 240 private colleges and most state universities had opened fee-paying sections.

Nevertheless the number of students in higher education has actually risen sharply, largely because of limited employment opportunities and lower admission standards in some new institutions. For the 1998 academic year there were 127.9 thousand students in higher education, compared to 103.9 thousand in 1990. Of these, 40.2 thousand were studying at private institutions and 22.8 thousand were at fee-paying faculties of state universities.

The expansion of private education may be worrying from the point of view of equity. The government may consider requiring private colleges, and schools, to make a proportion of their places available free to the most qualified pupils. The system of separate fee-paying sections may also be a dangerous one, risking inefficient duplication of activity and a movement of resources to the private section, while ability is concentrated in the free section. Yet, given current resources, a return to fully state financed universities may be unrealistic. Many rich countries charge for higher education since the benefits accrue very largely to the students themselves. In Georgia the money now used to finance the free sections of state universities could perhaps more fairly be used to provide scholarships to the needy and deserving in the context of a completely fee-paying system. Such a change would be controversial and difficult but the alternative may be the continuing decline of universities and continuing subsidy of people who are not poor. It would also require a rather more sophisticated financial system to provide loans to students who could not get scholarships. In the long term a government organised loan scheme could make repayment contingent on income after graduation. The introduction of work-study programmes would also particularly help lower-income students.

A widely perceived decline in quality is even more alarming. While demand for courses in law, economics and foreign languages has risen, teachers of many other subjects report declining motivation among students, brought on by the lack of opportunities afterwards. Many students have their course chosen for them by parents or relatives, and a significant minority still study mainly as a means of avoiding military service. Professors who are not paid properly frequently miss lectures and those with alternative employment options have mostly left academia.

Here there is a clear role for government intervention. Even more than in the markets for health and other knowledge-based services consumers have a difficult time judging the quality of education offered to them. Governments in many countries have begun to focus on providing information about, for example, test score improvements and placement records for universities and schools. Such information can make parents and children better able to choose appropriate places to study, and stimulate debate about the objectives and achievements of the education system. In Georgia an accreditation commission was created in 1998 and in 1999 will begin work on testing and relicensing all higher and secondary educational institutions.

Although the issue of government interference in higher education is sensitive for obvious historical reasons, the government can also still do much to improve efficiency and equity in the state funded sector. The Ministry of Finance currently allocates money for very specific budget items, leaving universities with very little discretion about what they spend where, and little opportunity or incentive to make savings. At the same time the government fails to intervene in questions of broad strategy where it could make useful rationalisations. Many universities still contain very specialised faculties which duplicate staff and equipment, as well as being unable to provide a reasonably broad education. Many could usefully be merged. It is still common for universities to set their own entrance exams, rather than relying on final results from secondary schools, burdening students and wasting scarce funding. Research remains poorly organised and often isolated from the teaching process in special institutes and academies. In the past rigid management meant that there was little cross fertilisation among academic disciplines or flexibility to introduce new subjects. Interdisciplinary subjects like materials science and biotechnology that have become important in the west were not offered at all. Since social scientists were discouraged from studying poverty, crime and other 'negative' social issues, institutions to assist disadvantaged sections of society are now weak at a time of great social stress. Even in the economic sections of the government few appear to understand the IMF inspired measures they are implementing. Government support may be necessary to correct such imbalances. Assistance from abroad and programmes that use information technology to share courses and information with foreign universities will also be essential.

# ANNEX

## Selected socio-economic indicators for Georgia

	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Crude Birth Rate</b> (per 1,000 population)	16.7	17.0	16.6	14.9	12.6	10.7	10.88	11.1	10.7
<b>Crude Death Rate</b> (per 1,000 population)	8.6	8.4	8.7	9.6	10.0	9.4	8.1	7.1	7.7
<b>Population Size</b> (mid-year de facto population in 1,000s)	5449	5460	5464	5455	5438	5419	5411	5381	
<b>Net External Migration</b> (in 1,000s)	-28.8	-39.0	-44.1	-41.6	-30.3	-32.3	-16.8	-8.0	0.47
<b>Crude Marriage Rate</b> (per 1,000 population)	7.0	6.7	7.0	5.5	4.9	4.5	4.4	4.0	3.5
<b>Crude Divorce Rate</b> (per 1,000 population)	1.4	1.4	1.4	1.0	0.7	0.6	0.6	0.5	0.5
<b>Total Fertility Rate</b> (children per woman)	2.13	2.20	2.15	1.79	--	--	--	--	--
<b>Abortion Rate</b> (per 100 live births)	70.9	61.2	47.1	49.2	52.9	62.3	57.1	55.9	45.0
<b>GDP in 1990-1995</b> (in current prices, mill. Lari)	--	14.9	19.1	138.0	25.3	1,418.9	2,615.9	4,547.0	6,432.0
<b>Real GDP Growth Rates</b> (annual change)	-4.8	-15.0	-20.1	-39.7	-29.3	-12.1	3.3	11.2	11.3
<b>Growth Rate of Industrial Production</b> (ann.change, %)	-6.9	-29.9	-22.6	-45.8	-26.6	-39.7	-13.5	7.7	8.2
<b>Budget Deficit/GDP Ratio</b> (%)	--	--	-3.0	-28.0	-34.0	--	-4.7	-5.6	-3.6
<b>Annual Inflation Rate</b> (%)	6.4	3.3	75.3	746.4	1037.2	7741.5	57.4	13.5	7.3
<b>Total Consumer Price Index</b> (%)	--	103.3	175.3	846.4	1137.2	7841.5	158.8	113.5	107.3
<b>Food and Nonalcoholic Beverages</b> (%)	--	108.7	186.8	1117.5	15141.1	--	153.8	108.1	107.9
<b>Public Revenue/GDP Ratio</b> (%)	31.6	33.3	29.8	10.2	9.7	7.7	7.7	9.8	11.7
<b>Public Expenditure/GDP Ratio</b> (%)	30.6	32.0	31.7	35.6	33.3	23.5	11.1	17.0	15.0
<b>Budget Social Expenditure/GDP Ratio</b> (%)	--	--	0.6	0.1	2.2	2.2	1.5	2.9	3.0
<b>Budget Expenditure on Health/GDP Ratio</b> (%)	--	--	4.2	2.8	2.5	2.5	0.9	0.7	0.8
<b>Budget Expenditure on Education/GDP Ratio</b> (%)	6.2	7.2	7.0	3.1	0.6	--	1.0	1.2	1.6
<b>Family and Maternity Allowances/GDP Ratio</b> (%)	0.5	0.6	1.8	1.3	0.2	--	0.1	0.1	--

<b>Public Expenditure on Pensions/GDP Ratio (%)</b>	4.5	4.8	7.9	5.6	1.3	--	1.8	1.5	1.9
<b>Employment Rate</b> (as % of working-age population)	84.3	87.0	79.7	63.2	62.8	--	61.8	--	
<b>Annual Registered Unemployment Rate (%)</b>	--	--	0.2	2.3	6.1	3.7	2.9	2.8	4.8
<b>Minimum Wage/Average Wage Ratio (%)</b>	35.6	31.0	41.4	36.8	26.6	--	25.5	23.6	31.2
<b>Food Share</b> (% of consumption expend-s spent on food)	38.2	35.6	46.8	62.6	65.1	70.0	70.0	63.6	53.5
<b>Area of Agricultural lands Under Cultivation</b> (Thousand ha)	--	11 27.3	11 28.6	11 29.5	11 21.7	11 17.6	10 66.3	10 65.7	1065.7
<b>Immunisation Rate</b> (% of children under 1) DT	82.1	41.4	73.8	54.1	53.2	100.0	52.0	97.3	99.3
Diphtheria	100.0	50.2	100.0	79.8	81.5	100.0	60.3	87.0	100.0
Tetanus	89.4	44.6	92.9	68.1	78.2	100.0	59.0	97.3	100.0
Polio	98.0	47.4	100.0	67.3	83.9	100.0	63.0	99.3	100.0
Measles	82.0	42.0	76.3	16.1	65.5	91.9	50.8	97.0	100.0
Tuberculosis	88.2	40.3	69.5	60.9	26.8	91.2	33.6	82.9	81.8
<b>Infant Mortality Rate</b> (per 1,000 live births)	19.6	15.8	13.7	12.4	18.3	25.2	17.8	17.4	16.3
<b>Total Number of Maternal Deaths</b>	50	19	9	4	--	1	19	10	32
<b>Number of Low Birth Rate Newborns</b> (<2501 grams)	4840	4553	7681	4214	3684	3794	3481	3823	3635
<b>Pre-Primary Enrolment Rate</b> (% of relevant population)	44.1	43.6	39.9	31.0	26.8	19.0	19.9	21.3	19.0
<b>Basic Enrolment Rate</b> (% of relevant population)	95.1	95.2	95.3	92.4	83.3	82.4	80.7	79.8	80.7
<b>Secondary Enrolment Rate</b> (% of relevant population)	55.2	61.3	61.6	52.4	40.0	35.9	33.5	36.9	36.9
<b>Total Crime Rate</b> (per 100,000 population)	324.0	361.0	402.0	443.0	406.0	325.6	255.0	297.4	285.0
<b>Number of newspapers</b> (copies/per annum/per thous.population)	--	131.2	--	26.6	61.6	43.9	1.2	2.7	2.6