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Acronyms

BSECO	Black Sea Economic Cooperation Organization
CIS	Commonwealth of Independent States
DVV	Deutschen Volkshochschul-Verbandes (German Institute for International Cooperation)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECD	Delegation of the European Commission to Georgia
ECTS	European credit transfer system
EMIS	education management information system
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EQF	European Qualifications Framework
ETF	European Training Foundation
EU	European Union
EUR	euro
FDI	foreign direct investment
GDP	gross domestic product
GEL	Georgian lari (EUR 1 = GEL 1.994 on 15 September 2008)
GEPLAC	Georgian-European Policy and Legal Advice Centre
GSP	Generalised System of Preferences (EU trade access scheme)
GTUC	Georgian Trade Unions Confederation
GTZ	Gesellschaft für Technische Zusammenarbeit
HEI	higher education institution
IBRD	International Bank for Reconstruction and Development
ICT	information and communication technology
IDA	international development association
IDP	internally displaced person
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IPM	Institute of Public Opinion and Marketing Research
ISCED	International Standard Classification of Education
JCRC	Job Counselling and Referral Centre
MED	Ministry of Economic Development
MES	Ministry of Education and Science
MLHSA	Ministry of Labour, Health and Social Affairs
MTEF	medium-term expenditure framework
NBG	National Bank of Georgia
NCAC	National Curriculum and Assessment Centre
NGO	non-governmental organisation
NPA	National Professional Agency
NQF	National Qualifications Framework
NTB	non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
PAE	per adult equivalent
PFM	public finance management
PPP	purchasing power parity (exchange rate)
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper

PSFMRSP	Public Sector Financial Management Reform Support Project
SBA	Stand-By Arrangement
SDR	Special Drawing Right (IMF reserve asset)
SIDA	Swedish International Development Cooperation Agency
SME	small and medium-sized enterprise
SWAp	sector-wide approach
Tacis	Technical Aid to the Commonwealth of Independent States
TSA	targeted social assistance
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USD	United States dollar
VAT	value added tax
VET	vocational education and training
WTO	World Trade Organization

Foreword

The Georgia Country Report is part of the Black Sea Labour Market Reviews project, which was initiated and funded by the European Training Foundation (ETF) to collect data and analyse selected labour market and related human capital issues in six countries of the Black Sea region (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

This ETF project is being carried out in two phases: the preparation of country reports in 2008–09; a regional analysis with cross-country comparisons in 2009–10. In the first phase, a common thematic outline was developed for the preparation of the country reports, including the collection of comparable data and other relevant qualitative information in the countries as well as their basic analyses. These country reports constitute the main preparatory work and stocktaking exercise for the second phase, in which a comparative cross-country analysis of the labour markets with a regional Black Sea perspective is conducted on the basis of issues emerging from the country reports.

Eduarda Castel Branco, ETF expert and country manager for Georgia, is the main author of the Georgia Country Report, the draft of which has been reviewed by a team of ETF experts (Jesús Alquézar, Ummuhan Bardak, Xavier Matheu and Natalia Popova). The author alone is responsible for the interpretation of labour statistics.

The ETF greatly appreciates the cooperation and input from a number of institutions and experts in Georgia, which was essential in the production of the present report. Thanks are due to the Ministry of Economic Development's Department for Statistics (especially Nino Ormodzaze); the Ministry of Education and Science (in particular EMIS and VET departments); the Ministry of Economic Development (notably Georgi Nanobashvili), George Kakachia from the Ministry of Labour, Health and Social Affairs; Tsiuri Antadze and the DVV International Project Office Tbilisi; Nino Kutetaladze from the World Bank; Georgian-European Policy and Legal Advice Centre experts; and Gocha Alexandria from the Georgian Trade Unions Confederation. The International Labour Organization (ILO) and the International Organization for Migration (IOM) also shared useful information and data. Finally, special recognition is due for the support and information received from the Delegation of the European Commission to Georgia in Tbilisi.

The report was finalised at a national workshop held on 9 July 2009 in Tbilisi, on the basis of valuable input from three key experts: Maria Iarrera (EC Delegation), Tsiuri Antadze (IOM) and George Berulava (Economic Research Institute), with additional comments from key national stakeholders and experts.

Executive summary

Reforms and economic performance

Georgia is seeking to position itself as an attractive international business location. In recognition of its achievements, the World Bank has pointed to Georgia as the world's leading economic reformer. The country's ranking in the bank's *Doing Business* survey has improved from 137th place in 2004 to 37th place in 2006. In 2008 its ranking rose to 21st place and in 2009 to 15th place. The transition indicators for 2006 issued by the European Bank for Reconstruction and Development (EBRD) show that Georgia is now roughly in line with the EBRD average. The Heritage Foundation's *2006 Index of Economic Freedom* reclassified the Georgian economy as 'mainly free', a change from its 'mainly non-free' position on the 2005 index. The World Bank's *Georgia country profile 2008* Corruption Survey (World Bank, 2008) is also positive about Georgia's anti-corruption progress, estimating that only 4.1% of firms in Georgia are expected to make informal payments, an indicator which is much higher in other countries of the Eastern Europe and Central Asia region (approximately 33%).

From 2004 to 2008, the government implemented macroeconomic reforms that allowed the country to: (i) register consistently high economic growth (12.5% in 2007); (ii) become a high performer in terms of foreign direct investment (FDI); (iii) significantly increase budget revenues (particularly tax revenues); and (iv) reduce corruption. However a large and growing trade deficit (28% of GDP in 2007) and high inflation (peak in March 2008 with 12.25%) have accompanied these economic developments.

The reforms launched in 2004 aimed to liberalise the economy and facilitate growth, embracing major deregulation in order to limit state intervention; fighting rampant corruption; reforming the civil service; liberalising labour relations (new Labour Code, 2006) to enhance job creation; reformulating and simplifying the Tax Code and Customs Code; reducing taxes and simplifying licensing. Budget revenues have increased significantly since 2004, particularly the share of tax revenues thanks to reforms in taxation and tax administration, the rapid growth of VAT and profit tax, and social and income tax collections. The growth of total revenues as share of GDP was substantial: 23.1% in 2004 against 30% in 2008. Budget expenditure also increased, from less than 16% of GDP in 2004 to over 28% in 2008. Both figures were expected to fall in 2009, to 27.2% and 24.5% respectively.

In 2008, following the political changes of November 2007, the newly elected government placed more emphasis on social spending, particularly pensions, salaries and social projects. In February 2008 the government presented its programme for 2008–12, 'Georgia without poverty', whose two main goals are the well-being of the population and ensuring national security with complete territorial and civil reintegration. While the most recent assessment showed substantial progress in the reduction of poverty, the prospects for national security and total territorial reintegration are much less positive.

The government programme aimed to reach these goals by facilitating rapid economic growth and implementing large-scale social projects, subscribing to the idea that economic growth will be based on macroeconomic stability, limited state role in the economy, high FDI and low inflation. The programme envisages the transformation of Georgia into an international financial centre and the enhanced role of exports in the economy. State budgets should accumulate surplus, and budget expenditure as share of GDP should progressively decrease to approximately 20%. The well-being of the population would be improved by increased expenditure on social projects (up to one-third of budget), more jobs, and expanded healthcare infrastructure, with compulsory health insurance. The taxation reform simplified the system and reduced the number of taxes from 21 under the former code to six. Corporate profit tax is 15% and the flat personal income tax was reduced to 25% in 2008, then to 20% in 2009 and will be further reduced to 15% in 2012. While this strategy predates the significant changes to the economic environment following the

August 2008 armed conflict with Russia and the global economic crisis, many of the policy directions remain valid although the pace at which they are expected to be implemented will need to be adjusted.

After a period of four years (2004–08) of consistently high economic growth (12.5% in 2007), increased budget revenues and improvement in the overall business and investment climate, Georgia saw its macroeconomic performance affected by the twin crises of the August conflict and the global economic downturn. The effects of the war might have exacerbated some of the vulnerabilities of the economy, such as high trade deficit (largely financed by FDI), non-productive use of remittances from migration, and a vulnerable employment framework threatening the income security of the labour force.

The large current account deficit and reliance on FDI inflows to finance it, together with the links between foreign inflows and domestic financial intermediation, have led to a large external financing gap after the shock of August 2008. Growth-oriented macroeconomic reforms since 2004, with international assistance, are expected to help to solve the balance of payments gap and meet reconstruction needs (infrastructure and energy, as well as problems affecting business and markets). Despite the disruptive effects on macroeconomic performance of the conflict with Russia, the International Monetary Fund (IMF) considers that the economy has a good chance of resisting and recovering against the background of recent reforms. Substantial international assistance is expected to ease the balance of payments gap, ensure the necessary reconstruction and restore stability.

Maintaining macroeconomic stability has been a central challenge for the government following the hostilities of August 2008. A programme entitled 'Helping Georgia to get back on its feet' was presented on 22 October 2008 at the International Donor Conference. In 2009 the government intends to pursue strategic initiatives in the following directions: further easing the tax burden; fully resolving resettlement issues for internally displaced persons (IDPs); developing infrastructure in order to improve efficiency in the economy and attract investors; promoting the creation of new jobs in the private sector; further liberalising trade and reducing barriers to entry; encouraging further deregulation of the economy; and privatising state property while promoting transparency and efficiency in its management.

Through an 18-month Stand-By Arrangement (SBA) totalling SDR 477.1 million (about USD 705.3 million) signed in October 2008, the IMF will finance, over 2008/09, much of the gap in the balance of payments. The spending of USD 370 million foreign assets of the sovereign wealth funds would help to close the gap. The IMF debt assessment analysis shows that Georgia's external debt is low and will remain sustainable despite the adverse impact of the conflict. Economic growth was estimated at 2% in 2008, projected at 2.5% in 2009 and to start improving in 2010 (6%). The IMF Country Report (No. 09/1) of January 2009 providing the results of the first review under the SBA confirms that all the end of September performance criteria have been observed, and that the authorities have decided not to draw the SBA purchase available after the first review. The IMF completed the second review of Georgia's performance under the SBA in March 2009, allowing for the immediate disbursement of an amount equivalent to SDR 26.2 million (about USD 186.6 million).

With the double impact of the August 2008 armed conflict and the global crisis, real economic growth suffered a dramatic decline from 12.5% in 2007 to an estimated 2.1% in 2008, after a sharp contraction in the second half of the year. Inflation slowed to 5.5% at the end of 2008 as global food and energy prices fell and demand weakened. The external current account deficit is estimated to have reached 22.5% of GDP in 2008 but narrowed substantially in the second half of the year, as imports declined. Private capital inflows, which had been financing the current account deficit, dropped from USD 1.7 billion during the first half of the year to an estimated USD 450 million during the second half. Gross official reserves fell immediately after the conflict but recovered later, aided by donor support, borrowing from the IMF under the

Stand-By Arrangement approved in 2008, and transfers from the sovereign wealth funds to government accounts in the central bank.

In 2009 the economic environment has continued to deteriorate. The third IMF review (August 2009) under the Stand-By Arrangement revised the GDP growth rate projections from -2% down to -4% in 2009, reflecting the weaker economic and external financing prospects. The IMF staff report recommended the augmentation of access under the SBA by SDR 270 million, of which SDR 200 million would be available in 2010; and the extension of the arrangement to June 2011.

The IMF review of August 2009 reports that the balance of macroeconomic challenges has shifted from foreign exchange market pressures to the worsening economy and external accounts. While much of this is caused by the crisis affecting trading partners, the domestic political uncertainties have affected confidence and the deteriorating quality of bank loans have contributed to adverse financial-macroeconomic interactions. Contraction of output shows signs of stabilisation, but recovery in 2010 is expected to be slow. Pressures in the foreign exchange market have slowed down, with imports declining and exports slightly resurging. FDI continued to fall and in March 2009 reached a record low, despite rallying in December 2008. Remittances were halved in the first quarter of 2009, but there was a clear trend towards recovery.

Fiscal sector developments in 2009 were marked by the further fall in tax revenue, and a less pronounced contraction in expenditure. The accumulation of deficits has greatly increased Georgia's public debt in 2008 (approximately 27% of GDP, up from approximately 21% in 2007), projected to reach a figure slightly below 50% in 2010 and 2011.

Under the pressure of the crisis in early 2009 the government planned to contain the economic slowdown through donor-financed fiscal stimuli and the reorientation of expenditure. The authorities have reduced the targeted 2009 fiscal deficit in line with a downward revision in expected official external financing, and have switched expenditure from imported defence goods towards essential productivity-enhancing infrastructure investment and better targeted social spending.

Defence spending was substantially reduced (from some GEL 200 million in April 2008 to GEL 60 million in April 2009), while social spending was sustained at a level comparable with the figure of April 2008 (around GEL 100 million). If social spending was approximately equivalent to 50% of defence spending in April 2008, it was substantially higher than defence spending in March 2009.

The World Bank published its new Country Partnership Strategy (2010–13) in September 2009. This strategy reflects the Bank's intention to support Georgia in recovering from the August 2008 conflict and the global economic crisis, and setting the stage for future competitiveness. With per capita income about USD 2 480 in 2008, Georgia now ranks as a lower middle-income country and has become an IDA/IBRD blend country. Combined with undisbursed amounts of about USD 135 million as of end of 2009, total financing during this period from the World Bank Group is expected to total about USD 740–900 million, to be complemented by a focused programme of advisory services.

Social sector

Living standards in Georgia have improved in several ways since 2003. This is borne out by: (i) household monetary incomes increased substantially in real terms from 2003 to 2007; and (ii) non-income indicators of poverty have improved, including access to and quality of education and healthcare, and provision of public services (supply of electricity, etc.). GDP per capita (PPP) grew significantly in the period 2004–08 (from USD 3 242 per capita to USD 4 931).

From 1998 to 2003, poverty affected more than half of the population: poverty headcount rates (based on poverty line towards living minimum) exceeded 50% with an upward trend (54.5% in 2003). Using the poverty line towards 60% of median, poverty rates varied between 23.3% (1998) and 20.9% (2003). According to the most recent World Bank poverty assessment based on 2007 survey data, the poverty headcount rate had declined to 23.6% in 2007, and extreme poverty was down to 9.3%. Between 2003 and 2007, growth of per adult equivalent income in real 2007 prices was much higher among the poorest quintiles of the population, and was lowest in the middle quintiles. Growth of income was higher among the rural than the urban population, however poverty (on both poverty lines – total poverty GEL 71.6; extreme poverty GEL 47.1) remains a greater problem in rural Georgia: 29.7% against 18.3% in urban areas.

The regional incidence of poverty is very unequal, with three regions having poverty rates above 40%: Shida Kartli, Kakheti and Mtskheta-Mtianeti, and the Shida Kartli region having the greatest number of poor (18.9%). Tbilisi, the capital, has the lowest poverty headcount rate (half of the country rate), but is home to one of the largest shares of poor people (15.6%). Poverty particularly threatens the unemployed, the self-employed in agriculture, and households headed by someone with secondary education or lower.

Among the monetary income components, social transfers registered the largest increase during 2003–07. Pensions and targeted social assistance (TSA) are the main types of social transfers, accounting for about one-third of disposable income for households in the bottom quintile and reducing both poverty and inequality substantially. They also accounted for 4.1% of GDP in 2007, and 13.2% of total budget expenditure. But relative to other countries in transition, and in particular to European countries, Georgia does not spend much on social protection. The system of social transfers reaches 57.8% of the population. Relative to pensions, TSA covers a much smaller number of individuals, reaching only 30.4% of the extreme poor and 19% of the poor population, falling short of its objective of assisting all those living in extreme poverty. TSA is, however, very well targeted, and therefore the World Bank 2008 poverty assessment considers Georgia's TSA among the best-performing programmes of its kind in the world.

Labour market and employment

The Georgian population has become demographically aged. According to the calculations of the UN Population Fund, Georgia's population will decrease to 2.5 million by 2050 (from 4.4 million in 2008). However, according to the forecasts of Georgian analysts, the demographic contraction will be less severe; the average result being 3.3 million by 2050. Anticipated changes in the labour force will have a bearing on:

- the economy's capacity for employment generation and the relative influence of different growth components (labour supply and labour productivity);
- the type of adjustments required within the education and training system in order to adapt to the economy (in particular, productivity growth needs).

Key labour market indicators have slightly worsened since 2000: the unemployment rate that stood between 10.3% and 12.6% from 2000 to 2005 increased to 13.8% in 2005, but declined to 13.3% in 2007. Armenia has much higher unemployment rates (18%–20%) while Azerbaijan is better placed with unemployment below 7% (2006). The employment rate reached a maximum of 58.8% in 2001, but in 2007 it was only 54.9%. In absolute numbers there has been a decline in the employed population between 2000 (1 840 000) and 2007 (1 704 300). Interestingly, the unemployment rate is higher among men (15.2% in 2007, against 12.6% for women).

In 2008 labour market indicators significantly worsened, affected by the crisis. The unemployment rate grew to 16.5%, and the total number of unemployed increased by some 55 000.

The Georgian economy is a mix of modern and productive activities (financial intermediation, communication and transport, mining and quarrying, for example) and low productivity activities (principally

the agricultural sector, which still absorbs over 53% of the employed population, but also hotels and restaurants, trade and repair services). This means that economic development faces different types of problems and policies needed to specifically address the objectives of higher productivity, reallocation of a productive labour force and the creation of more jobs in the formal economy.

Approximately 20% of workers are employed in the corporate sector (firms and organisations). The business sector employs less than 400 000, peaking in 2005 with almost 389 000 but falling to 330 000 in the third quarter of 2008. Almost two-thirds of workers are self-employed, a common feature in Georgia, most of them in agriculture. This rural self-employment is mainly of a subsistence nature.

Between 2002 and 2007, four sectors contributed most to job creation: first, construction; followed by real estate, financial intermediation, and hotels and restaurants. Agriculture was responsible for almost 40% of jobs lost in the same period, followed by the sectors of trade and repair services, public administration, energy and education. Net job creation was a negative 134 900 jobs between 2002 and 2007.

Average real wages have grown significantly between 2005 and 2008, particularly in the sectors of financial intermediation, mining, public administration, energy, construction, and transport and communication. Wages in the education sector have also increased, but the negative gap relative to the national average is large. Thus in 2007 the ratio of average education sector wages to average country wages was only 41.6% (below agriculture), making employment in this sector uncompetitive. Even considering teachers' wages (secondary education) alone, the average country wage is 50%–23% higher.

Some 28.3% of the adult population of working age (25–64 years) have completed tertiary education and 61.2% upper-secondary education. Within the 25–34 age group the share of graduates from higher education is even higher (approximately 32%), so a large stock of human capital is not being fully used in the economy.

Primary and secondary gross enrolment rates in 2005 were approximately 96% and 80% respectively, comparable with regional rates. However public expenditure on education in Georgia, at levels between 2.2% and 3% of GDP between 2000 and 2007 (peaking at 3% in 2006), is very low relative to the Organisation for Economic Co-operation and Development (OECD) and EU-19 country average, where the averages stood at 5% of GDP in 2005. Public expenditure on vocational education and training is low, approximately 2% of the total budget of the Ministry of Education and Science (peak in 2007 with 3.2%, 2.2% in 2008).

The figures below show some of the key challenges to be addressed by a consolidated education reform, and indicate that the top priority given to the development of higher education is not fully justified by the economy and labour market, hence the need for an alternative strategy: a flexible, diversified and relevant VET system.

- In 2005–07 the unemployment rate of holders of higher education largely exceeded the average rate in the country (13.3% in 2007) at 19%–20%, against 13%–14% of those with vocational education. These figures indicate a degradation of unemployment rates of these categories, particularly of holders of higher education. Analysis in fact indicates a consistent and growing trend towards an over-supply of labour with higher education in the country.
- Although the Georgian labour force has the significant strength of relatively high educational attainment (30% with higher education in 2007), this potential is not fully used in the economy. In fact almost half of the unemployed (a disproportionately high 42%) are holders of higher education, as against only 28% of the employed.

Interestingly, the female labour force is relatively well positioned, with a proportional share in employment (47% of active population and 48% of employment, against 45% in unemployment). What these figures do not show is the unequal wage treatment of women across all sectors. Although labour migration flows have lessened in recent years, many skilled and educated Georgians have sought employment abroad. Remittance flows have been relatively less significant in terms of share of GDP and foreign exchange than they are in countries such as Albania, Armenia and Moldova, particularly in the recent years of strong

economic growth and boom of FDI. These remittances are a significant help in household consumption, but on average have had limited impact on productive investment and business start-ups.

Georgia and the European Community were to sign a Mobility Partnership by mid 2009, aimed at better management of legal migration, including circular and temporary migration, in particular for development purposes, establishing cooperation on migration and development, preventing and combating illegal immigration to Europe and trafficking of human beings. The partnership will also promote an effective readmission and return policy, and endeavour to develop further dialogue and cooperation on migration issues along the following lines: (i) mobility, legal migration, integration and asylum; (ii) migration and development; and (iii) border management, identity and travel documents, fighting illegal migration and trafficking of human beings. One of the foreseeable difficulties for the implementation of Mobility Partnership activities in Georgia is the absence of public employment services, which have been the focal point for implementation of similar agreements in countries such as Moldova.

In 2008, in the crisis context, real growth in all production sectors was negative, unlike the trend of previous years. Only mining maintained a growth rate comparable with previous years, while construction registered a substantial contraction of -11%. The services sector has been more resilient to the crisis, and only transport shows the significant impact (growth rate -10%) that accompanies the decline in the production sector (manufacturing and agriculture). Some of the sectors most affected by the crisis are at the same time the larger employers (manufacturing, construction and transport). With neither active labour market policies nor unemployment benefits in place there is a risk of a sharp increase in social vulnerability.

Georgian public employment policy has followed the overall liberal/deregulating direction taken since 2004. A new Labour Code was adopted in 2006 that prompted numerous negative reactions from social partners, the ILO and other international organisations. The code aimed to promote strong job creation by offering an extremely flexible framework for employment, but the flexibility was not supported by the security aspects of the employment policy, such as income and employment (rather than job) security or (re)training measures. Public employment services ceased to exist, as did any former unemployment insurance or subsidies for unemployed workers, although these had been poor and largely irrelevant.

The Georgian labour market is marked by various forms of informal and non-standard labour in the form of the so-called self-employment registered by labour force surveys. This form of employment is unusually large and the question of how to implement policy measures in such a context undoubtedly challenges established practice.

By the end of 2008 social dialogue had improved after years of deterioration and complaints against the government by international bodies. A new social partnership agreement was signed in December 2008 which includes topics of substantial importance for the labour market and employment policy.

Of the four key themes in discussion under the new agreement – freedom of association, collective bargaining, labour standards, and labour administration – priority will be given to the first two in 2009, while the others will be debated at a future date.

As the issue of weak or irrelevant employment and labour institutions has not been given top priority, public employment services remain one of the most visible gaps in social institutions and policy. However in 2009 the government position in respect to relaunching employment services remains explicitly against any further state intervention, as the market is expected to be the main regulatory factor in matching supply and demand, and other related matters.

However, the lack of public employment services creates serious difficulties not only for Georgian job seekers and employers, but also for the implementation of a number of international agreements. Even the national VET development policy faces stressing prospects, as functioning, accessible services for job matching are inexistent. Most of the effort in such a complex task, such as support for graduates of VET centres seeking their first job, is made by the VET centres and the individuals themselves, without higher and more competent institutional support.

Sub-sector vocational education and training

Gross enrolment rate in general education has evolved from 94% in 2005/06 to 100% in 2007/08.¹ Net enrolment rates in primary education and also in secondary education evolved positively from respectively 93% to 100% (2005/06 and 2007/08) and from 63% to 76% (2005/06 and 2007/08)². But a closer look shows a concerning trend with basic education (last phase of compulsory education of nine years of schooling), as declined both gross (99% to 97%) and net enrolment rates (88% to 85%) in the period 2005 to 2008. Facing a net enrolment rate of only 85% in 2007/08 the MoES needs to address the factors behind such a low performance that will affect the overall educational profile of the next generations.

The gross enrolment rate in tertiary education (bachelor and master programmes) has declined from 39% in 2005/06 to 25% in 2008/09³. Partly this trend can be explained by the more restrictive entrance policy and procedures and the limitation of places in accredited higher education institutions that are a direct result of the reforms started in 2004/05.

Vocational education and training is considered an important part of the policy to reduce poverty and unemployment, as stated in various country development papers of 2008. Soon after the revolution of late 2003, Georgia determinedly engaged in reform of the education system, aiming to raise credibility and quality of outcomes, efficiency and international comparability. Two new VET levels have been set up since 2007/08: occupational, providing a professional qualification; and higher professional (tertiary short cycle), provided by higher education institutions with the required licence. The new VET legislation⁴ is oriented towards lifelong learning, setting the legal basis for the introduction of national qualifications frameworks. In this initial period of the reform implementation, MoES registered 39 VET centres with a new status, and concentrated current and capital expenditure on this renewed network. Currently 10 out of these 39 centres have modernised/rehabilitated infrastructure and equipment, and in 2010-2012 the MoES plans to focus further capital expenditure in another 15-16 VET centres.

The VET reform has not yet been evaluated to show why the system has not become the attractive pathway that the Ministry of Education and Science envisaged when the reforms began in 2005. By 2009 the MES had recognised these issues and was seeking viable solutions. At present the capacity of this new VET system is smaller than before the reforms, as borne out by the low take-up. Disruption of the continuity of education pathways for students of VET centres is another problem created by the reform options. The 'dead-end' problem has been criticised by various stakeholder groups for its negative influence on the attractiveness of VET centres for youth after basic education. The short duration of the new programmes has also been questioned because of its effect on the quality and credibility of qualifications. Training an adult with experience and education is not the same as training young people after their basic and general education. VET is part of the education continuum and the structure and content of VET programmes, in particular those for youth, need to offer basic and social skills, and relevant general knowledge, beyond technical skills. Otherwise it does not fulfil its functions for individual and social development and makes little contribution to the smooth flow of education pathways.

At present the VET system faces the double problem of quality (the relevance of programmes and qualifications) and quantity (the capacity of the existing network of VET centres to satisfy demand). The rationale for further strengthening the system is both social and economic.

- *Supply and demand of training:* the VET offer, both in VET centres and various types of school is largely overtaken by potential demand. In 2007–08 some VET centres had three applicants for every training place (e.g. Tbilisi ICT Centre), while others have waiting lists for upcoming training courses for construction workers, electricians, car mechanics, and in tourism-related areas.

¹ <http://mes.gov.ge/upload/editor/file/Emisi/Zogadi%20Ganatileba/Eng%20-%202006-2007/axali/Educational%20Participation/gross%20enrolment%20ratio.doc>

² Ministry of Education and Science, available at:
<http://mes.gov.ge/upload/editor/file/Emisi/Zogadi%20Ganatileba/Eng%20-%202006-2007/axali/Educational%20Participation/net%20enrolment%20ratio.doc>

³ <http://mes.gov.ge/upload/editor/file/Emisi/Vocational%20education/participation%20in%20education/gross%20enrolment%20ratio%20in%20tertiary%20education.doc>

⁴ VET Law of 2007

- *Youth*: the number of secondary graduates who have no access to formal education and training (mainly higher education) represents approximately 30% of the yearly cohort (of 60 000 graduates some 20 000 succeed in accessing higher education). In the first year of the reformed VET offer (2007/08) the total training capacity of the public VET system was approximately 6 000 places across the country, a figure that bears no relation to potential demand. This is not a new problem, but it has been aggravated with the reduction of places in higher education (accredited institutions, from 2005), and the fact that neither the quantity nor the quality of VET provision has recovered from the reforms.
- *Adults*: the first year of the reformed VET provision (2007/08) saw a great influx of young adults, many with higher education, seeking further qualifications to give them a chance in the restricted labour market. With an ageing population and smaller share of younger groups in the labour market, the requalification/training of adults for employment will remain a major objective for the education sector, particularly in the context of growth in certain service and production sectors.

Although the MES intends to diversify VET provision by promoting it in various types of education institutions, this will require time and investment. A pilot MES project to introduce vocational optional courses in upper-secondary schools is run on a limited scale (39 schools), and was just launched in 2008/09. Some interested schools will organise vocational courses in partnership with VET centres or with local enterprises, although the available budget seems limited. While this pilot seeks to attract young people to vocational courses, it will provide them with skills but no complete qualification for the labour market.

The share of the education budget dedicated to occupational VET is low. A peak was reached in 2007 with 3% of the total MES budget, but fell to 2% in 2008 and to 1% in 2009. The VET share of MES expenditure floated from 2% in 2006 to 3% in 2007 but was set to decline in 2009.

In 2008-09 the policy debate on VET has been largely dominated by the issue of "privatisation" of VET. This issue is highly controversial and shows significant difference of positions between the government (which supports the privatisation principle, but is not totally clear on the steps and implications for providers and students of this future policy), and the various stakeholders groups that fear: (i) disruption of state financing for VET provision; (ii) lower access for students unable to pay fees; and (iii) misuse of future privatised VET centres by the new owners.

In the same period, other issues have remained under great uncertainties regarding the regulatory role of the state. Amongst these, the most important theme is certainly the qualifications system. For example, it remains unclear what will be the status of the new professional standards and their use/application by VET providers. In 2009 MoES has started or reinforced actions to address the VET system needs in the following areas.

- 1) *Quality of VET provision*: concept of quality in VET, school self-assessment methodology and tools, review of legislation. ETF contributes with expertise and exposure to EU experience in this topic. Initial technical and conceptual papers are elaborated, and a national technical working group formed that steered the national experts' inputs. Further steps in 2010 include the finalisation of these papers, and start the piloting of the new approaches.
- 2) *VET financing system*: MoES endeavours to build a fair and transparent system of public financing of VET provision, based on sound evidence of market demand, unit costs of training, and private contribution. MoES sought to involve international expertise in 2009 to guide the assessment and analytical work and financing methodology proposals, however progress has been limited.
- 3) *VET teachers development*: MoES reinforced actions to train teachers, mainly in generic competences (simple IT skills, management and strategy). These actions have not been guided by an overall development plan for teachers, as the overall assessment of teachers training needs is planned for 2010. Various international donors carry out their teachers training programmes following their project strategies. Important training needs remain open in areas of technical competencies, as well as VET pedagogy.

4) *VET strategy and implementation action plan*: started mid 2008, the consultations and discussions of the various versions of the sector strategy have stretched for over a year, and the Strategy was officially approved by the Prime Minister by the end of 2009 (2009-2012). This is an important foundation that highlights the state policy regarding VET, and the intended priorities to be developed up to 2012. At the same time this document was essential to start the EU VET Sector Policy Support Programme (SPSP). Financing Agreement was signed end 2009.

5) *System governance*: with the establishment in Quarter IV 2009 of the National VET Council (NVETC) under the steering of the Cabinet of Prime Minister, the government gave a positive response to one of the pressing requests of the stakeholders. The EU contributed to advocating for the establishment of this sector consultation and co-ordination body.

The EU SPSP covers the period 2009–11, and is based on the budget support modality (€17 million + €2 million for technical assistance). The policy matrix of the EU SPSP is well co-ordinated with the national VET strategy and if successfully implemented, will contribute to substantial systematisation of policies and instruments that are much needed in this sector, and to strengthening the credibility of competencies and qualifications in Georgian VET. Additional public budget is programmed in the mid-term perspective (government's *Basic data and directions 2010–2013*), as a pledge for public commitment to the sector.

1. Background review of data sources and key demographic and labour market indicators

1.1 Review of data sources

Population census

The first general population census in Georgia took place in 1897, when the country formed part of the Russian Empire. Throughout the Soviet period, general population censuses were conducted in 1926, 1939, 1959, 1970, 1979 and 1989. There was another census in 2002, after independence, covering the territory under government jurisdiction. Census data, available to the public, provide in-depth information on population size, gender and age group composition, and on distribution according to the territorial administrative units. Census results also reveal levels of education, family structure, economic activity and so on. Despite certain discrepancies, population censuses are deemed to be the most reliable sources of information. Population size, structure and territorial distribution in the periods between censuses are defined on the basis of current registration for demographic purposes (birth rate, mortality, natural increase, migration).

Labour force surveys

Labour force surveys in Georgia have been carried out within the household research framework since 1996, and are integrated surveys. The surveys are conducted on a quarterly basis, in compliance with the relevant system of modern international standards throughout the country, excluding the Abkhazia and Tskhinvali regions. Approximately 3 500 households are selected. As research is based on random selection, discrepancies are estimated to vary from 0% to 15%, and in some regions (e.g. Samtskhe-Javakheti) from 20% to 25%.

The research provides considerable multifaceted, interesting and relevant information on household composition, economic activity, employment, unemployment, incomes and expenditures, consumer structure, standard of living and other data. In 1998 and 1999 labour research was carried out through an expanded questionnaire on 6 645 households that sought more in-depth information on the economic activity of the population, types of employment, reasons for unemployment, job-seeking methods, and duration of unemployment duration. The results are published as quarterly and mid-annual statistics in *Labour force in Georgia*; *Labour market in Georgia*; *Households of Georgia*; *Statistical yearbook of Georgia*, and are available online⁵.

From 2008 it was planned to increase the sample size in household surveys (to almost double) and improve reports and reliability. Estimates of economic activity and unemployment in household surveys are based on the ILO concepts. On this basis, however, the government has taken the criterion of employment as 1 hour of activity meeting personal needs during a given week. In the judgement of Georgian experts, this artificially increases the number of self-employed and lowers the unemployment level, as the activities of the majority of residents are based on the survival strategy' and their employment status is questionable.

For a country such as Georgia, it is expedient to carry out estimations of economic activity through observation over a longer period of time (e.g. one month) and to count activity as self-employment only in cases where it meets a significant part of the household income (as specified in ILO guidance). In order to register as self-employed in Georgia it is essential to determine the maximum limit of hours worked (15 or 18 hours per week) as accepted in many countries worldwide.

Establishment surveys

Statistical research within enterprises and organisations takes place annually in Georgia using specially designed forms. Establishment surveys do not contain information on the hidden economy, illegal and

⁵ www.statistics.ge/printpublication.php?plang=1&pform=-999999

informal part of businesses of all sizes, and sales in flea and other public markets, which were studied by selective statistical research (last carried out in October 2007 covering 16 000 market traders on Georgian territory). Establishment surveys yield information on enterprise size, number of employees, labour expenditure and other details as declared. Data are processed and published on large-scale, medium and micro enterprises; both under economic activity and according to type of property and region. The following model for statistical observation is applied:

- large-scale enterprises completely researched;
- medium- and micro-sized enterprises selectively researched.

Data on the registered enterprises are published. The difference between the total number of enterprises registered and the number effectively active is often considerable, however, because they may have registered without being able to launch their activities, or they may have temporarily ceased trading, whereas enterprises are only removed from the register in case of liquidation.

Income, consumption or household expenditure surveys

A family income and expenditure survey is conducted within the household survey framework. The survey methodology envisages the observation of up to 3 500 households through the application of pre-designed special tools.

- **Daily expenditure blank form** that reflects the daily expenses of a household for consumer goods and services. The form is completed by a family member once per quarter during a one-week period. In line with the daily expenses incurred for personal consumption by the family, it registers consumer goods or services obtained from the personal household.
- **Quarterly questionnaire on expenditure** that reflects any expenses incurred by a household throughout three pre-survey months. It also includes data on the yield obtained by the household, its processing and disposition of income throughout the same period.
- **Transfers, savings and property income.** This survey, which takes place once per quarter, includes incomes obtained by the household as private or state transfers, as well as transfers, dividends, etc. obtained from property sales.
- **Employment and income.** This survey, which takes place once per quarter, includes information on economic activity, employment and unemployment of household members (over one pre-survey week), as well as on incomes obtained from employment (in the previous three months).

Household research is conducted in 10 regions (city of Tbilisi, Kakheti, Shida Kartli, Mtskheta-Mtianeti, Kvemo Kartli, Imereti, including Racha-Lechkhumi and Svaneti, Samegrelo, Guria, Samtkhe-Javakheti and Ajara), with the data published by country and region. The volume and structure of family income and expenditure is analysed for the entire population, and per household and per person, by city and village as well as the territorial entity. The volume and structure of consumer trends is also studied by decile groups, and the results published as a statistical review (*Georgian Households*), as well as online.⁶

There is a general problem in household income research arising from the tendency of the respondents to reduce (show less volume) their actual income. Clearly this can be detected during comparison of incomes and expenses, when the latter are higher than income. Nevertheless, household research provides multi-faceted information on income and expenditure, which in turn allows an estimation to be made of the living standard of the population.

Individual sources of information

In-depth information on demographic tendencies is published as the *Demographic yearbook of Georgia* on the initiative of the United Nations Population Fund (UNFPA) Georgian office.⁷ Supported by the same foundation, the authors have also prepared *Georgian demographic perspectives* (Tsuladze et al., 2003),

⁶ www.statistics.ge/printpublication.php?plang=1&pform=-999999

⁷ <http://georgia.unfpa.org/>

published in Georgian and English, which reflects prognostic calculations up to 2050. Calculations are in three versions – optimistic, pessimistic and average.

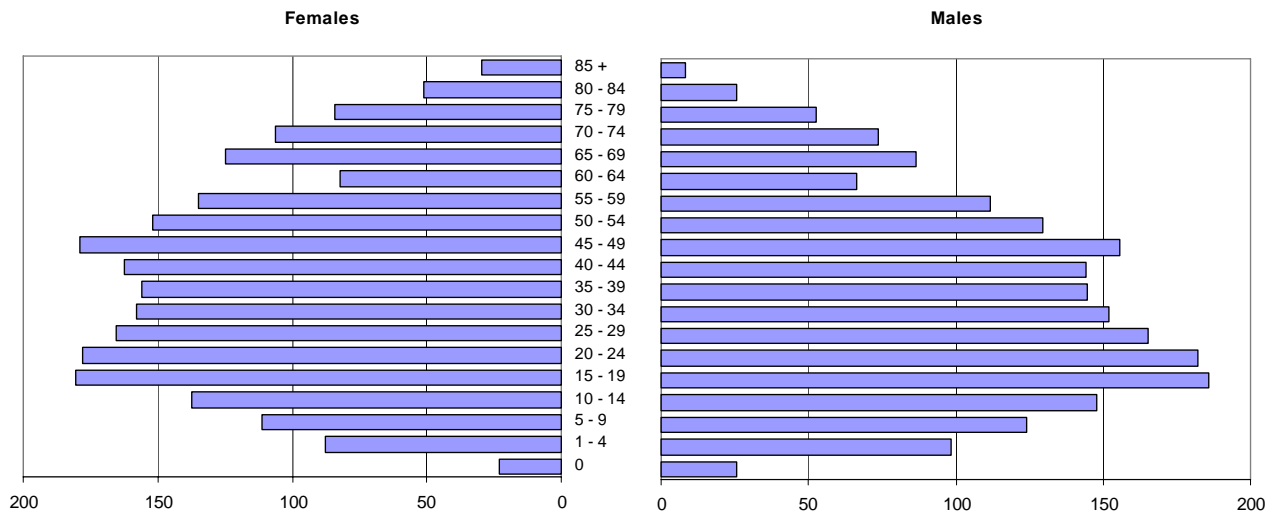
Georgian labour special research was carried out in 2002 by the IPM (Institute of Public Opinion and Marketing Research) at the request of the Ministry of Labour, Health and Social Affairs (MLHSA). The survey was extensive and multi-faceted (covering economic activity, employment, unemployment, demand for labour, employment problems for youth and refugees). The research covered three regions: City of Tbilisi, Imereti and Samtkhe-Javakheti. In 2007-08, with USAID support, the Georgian IOM mission conducted special research to study the demand for labour employers in Georgia, the results of which are published in Georgian and English as well as online⁸.

1.2 Demographic trends and demographic transition

The Georgian population has become demographically aged (Figures 1.1 and 1.2). As of 2007, 14.7% of the population was over 65 years of age (17.2% female, 11.8% male). According to projections, by 2050 almost one in four residents will be aged over 65. This will significantly increase the indices of the economic burden of the employed population unless an effective system for social assistance is established. Note that currently there are 1.4 retired persons to each wage earner (a ratio of 1.4 to 1).

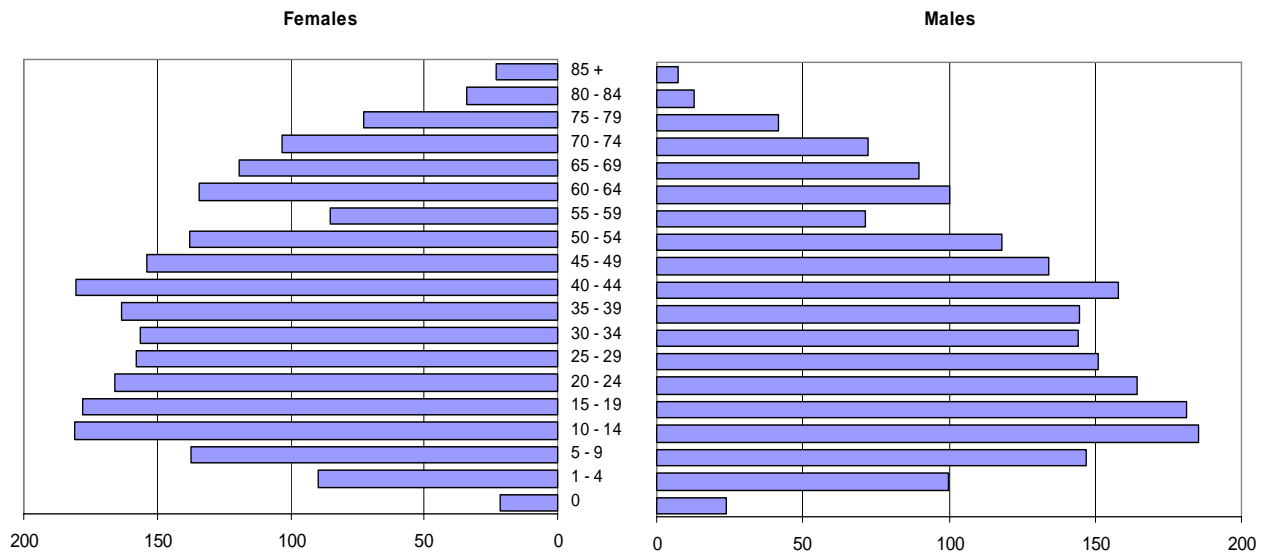
⁸ www.iom.ge and www.jcrc.ge

Figure 1.1: Pyramid population for 2008 (thousands)



Source: MED Department for Statistics.

Figure 1.2: Pyramid population for 2003 (thousands)



Source: MED Department for Statistics. www.statistics.ge

Table 1.1: Population by age and gender at beginning of year, 2003–08 (thousands)

Age	2003			2004			2005			2006			2007			2008		
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
Total	4 342.6	2 046.6	2 296.0	4 315.2	2 032.1	2 283.1	4 321.5	2 036.7	2 284.8	4 401.3	2 083.9	2 317.4	4 394.7	2 079.5	2 315.2	4 382.1	2 078.4	2 303.7
of which:																		
-1	45.4	23.8	21.6	44.9	23.7	21.2	48.4	25.4	23.0	46.0	24.4	21.6	47.0	24.8	22.2	48.5	25.5	23.0
1-4	189.6	99.7	89.9	184.1	96.8	87.3	179.6	94.5	85.1	184.8	97.1	87.7	185.2	97.6	87.6	186.3	98.5	87.8
5-9	284.3	146.9	137.4	274.0	142.3	131.7	267.3	139.5	127.8	256.1	134.2	121.9	243.8	127.8	116.0	235.1	123.9	111.2
10-14	366.0	185.2	180.8	353.8	179.4	174.4	338.8	172.2	166.6	323.1	165.0	158.1	303.2	155.8	147.4	285.1	147.7	137.4
15-19	359.3	181.2	178.1	359.8	181.5	178.3	360.8	182.2	178.6	368.9	187.0	181.9	370.4	187.8	182.6	366.5	185.9	180.6
20-24	329.9	164.2	165.7	331.4	165.4	166.0	338.5	169.4	169.1	353.7	177.8	175.9	357.9	180.1	177.8	359.8	182.0	177.8
25-29	308.9	150.9	158.0	309.4	151.1	158.3	312.8	153.4	159.4	324.9	160.8	164.1	328.0	162.8	165.2	330.9	165.3	165.6
30-34	300.7	144.2	156.5	297.2	142.5	154.7	301.1	145.0	156.1	310.7	151.7	159.0	310.7	151.3	159.4	309.7	152.0	157.7
35-39	308.0	144.7	163.3	297.3	139.6	157.7	290.6	136.8	153.8	299.4	143.0	156.4	299.3	143.5	155.8	300.5	144.6	155.9
40-44	338.8	158.1	180.7	337.4	157.1	180.3	335.9	156.1	179.8	333.4	155.7	177.7	320.1	149.4	170.7	306.4	144.0	162.4
45-49	287.8	134.0	153.8	297.0	137.8	159.2	304.1	141.0	163.1	322.4	150.2	172.2	329.4	153.3	176.1	334.5	155.4	179.1
50-54	256.0	118.0	138.0	258.5	118.8	139.7	265.5	121.9	143.6	271.9	125.5	146.4	279.6	128.3	151.3	281.0	129.3	151.7
55-59	156.6	71.5	85.1	177.9	80.9	97.0	200.2	91.1	109.1	224.9	102.1	122.8	236.8	107.4	129.4	246.7	111.7	135.0
60-64	234.4	100.1	134.3	200.3	86.1	114.2	172.9	74.5	98.4	150.2	65.1	85.1	140.0	61.3	78.7	148.2	66.2	82.0
65-69	209.1	89.9	119.2	220.2	93.1	127.1	228.4	95.7	132.7	237.0	98.8	138.2	233.3	96.9	136.4	211.7	86.7	125.0
70-74	175.8	72.3	103.5	167.0	69.1	97.9	165.2	68.3	96.9	163.1	67.8	95.3	172.5	70.7	101.8	179.9	73.5	106.4
75-79	114.6	41.7	72.9	127.1	46.9	80.2	128.1	47.9	80.2	136.4	51.7	84.7	134.1	51.5	82.6	136.7	52.5	84.2
80-84	47.3	13.0	34.3	48.8	13.7	35.1	55.8	16.2	39.6	61.3	18.8	42.5	68.9	21.8	47.1	76.9	25.6	51.3
85+	30.1	7.2	22.9	29.1	6.3	22.8	27.5	5.6	21.9	33.1	7.2	25.9	34.5	7.4	27.1	37.7	8.1	29.6

Age	2003			2004			2005			2006			2007			2008		
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
out of total:																		
Age	957.3	492.4	464.9	926.5	477.4	449.1	905.7	467.9	437.8	889.4	460.9	428.5	855.2	444.5	410.7	824.8	430.9	393.9
Working																		
male 16–64	2 674.1	1 330.1	1 344.0	2 682.3	1 325.6	1 356.7	2 712.4	1 335.1	1 377.3	2 795.9	1 378.7	1 417.2	2 817.5	1 386.7	1 430.8	2 832.4	1 401.1	1 431.3
female 16–59																		
Retired																		
male 65+	711.2	224.1	487.1	706.4	229.1	477.3	703.4	233.7	469.7	716.0	244.3	471.7	722.0	248.3	473.7	724.9	246.4	478.5
female 60+																		

Source: MED Department for Statistics. www.statistics.ge/main.php?pform=47&plang=1

Table 1.2: Summary of vital statistics, 2003–07 (%)

	2003	2004	2005	2006	2007
Birth rate (per thousand population)	10.7	11.5	10.7	10.9	11.2
Mortality rate (per thousand population)	10.6	11.3	9.9	9.6	9.4
Infant mortality rate (per thousand live births)	24.8	23.8	19.7	15.8	13.3
Natural increase rate (per thousand population)	0.0	0.2	0.8	1.3	1.8
Stillbirth rate (per thousand births)	17.3	17.2	15.6	14.7	12.7
Marriage rate (per thousand population)	2.9	3.4	4.1	5.0	5.7
Divorce rate (per thousand population)	0.4	0.4	0.4	0.5	0.5

Source: MED Department for Statistics (2009).

The summary of vital statistics indicates a positive development of the rate of natural increase since 2003, where it stood at 0, and reached 1.8 in 2007. But this seems to be due to decreased mortality rate (since 2005 particularly visible) rather than improvements in the birth rate.

According to the Department for Statistics (2008, p. 9), the number of births for each 1 000 women of the relevant age declined across all age groups, and most particularly among women of the age groups 20–24 and 25–29. Thus in the age group 20–24 this indicator declined by 52% between 1990 and 2000, and by another 7% between 2000 and 2007. The same indicator, for the age group 25–29, registered a sharp fall of 49% in the decade 1990–2000, but increased by 6% in 2007.

According to the calculations of the UN Population Fund, Georgia's population will fall to 2.5 million by 2050. However, according to the forecasts of Georgian analysts, the demographic contraction will not be so steep, as the average result of the forecasts indicates that the population will be 3.3 million by 2050 (Tsuladze et al., 2003, pp. 30–31).

Anticipated changes in the labour force will have a bearing on:

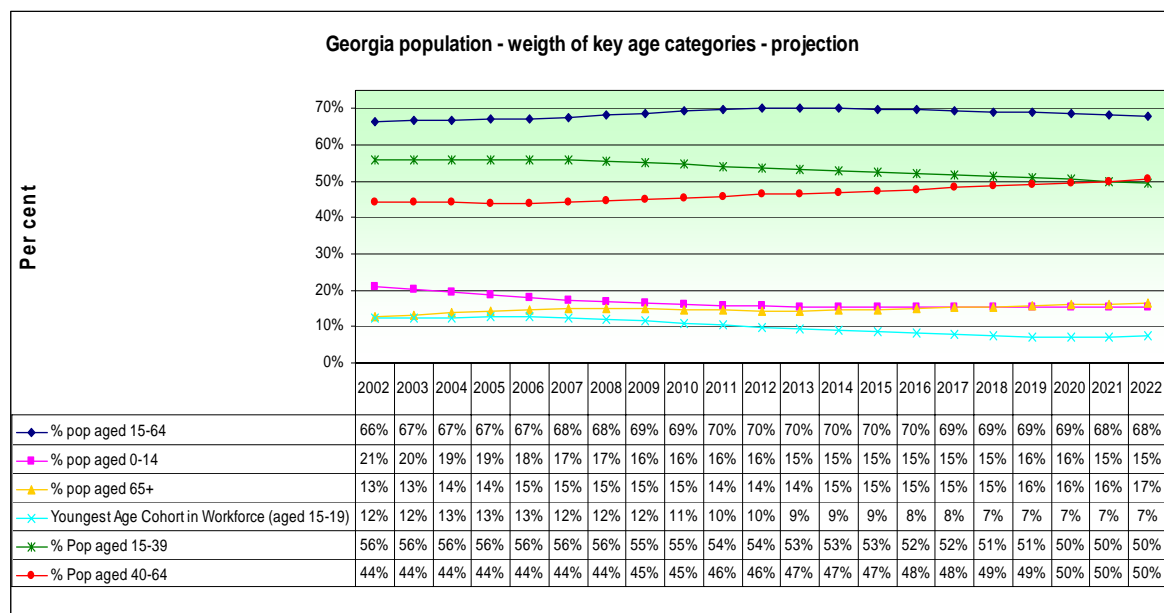
- the economy's capacity for employment generation and the relative influence of different growth components (labour supply and labour productivity);
- the type of adjustments required within the education and training system in order to adapt to the economy (in particular, productivity growth needs).

The analysis of projections of the structure of the population and labour force for the period from 2002 (a census year) to 2022 leads to some relevant conclusions (see Figure 1.3).

- The total population is projected to remain largely stable (4.37 million in 2002 and 4.34 million in 2020), although it will age overall.
- The working-age population (aged 15–64), which currently represents 68% of the total population, is projected to change minimally overall (from 2.9 million in 2002 to 2.94 million in 2020) and to peak in 2013 (at 3.08 million).
- The groups at each extreme of the labour force (youngest and oldest workers) currently represent a larger proportion of the labour force than those in the middle. This is partly because of high emigration in the 1990s. The share of the youngest cohort (aged 15–19 years) is projected to decline sharply, particularly after 2009.
- The portion of the labour force composed of young people aged 15–39 years is expected to decrease by 6% and to be overtaken by the group aged 40–64, which is projected to grow steadily during this period. This is because fewer young people are entering the labour force as a result of a sharp drop in birth rates in the 1990s.

- A gender imbalance can be seen in the Georgian population, with women predominating in the labour force (representing 52% overall and more than 60% in the oldest group). This phenomenon, partly linked to strong emigration, may have welfare implications.
- The share of the youngest population group (aged 0–14) is expected to fall to 15% in 2020 (from 21% in 2002), and the decline will occur very rapidly (16% by 2009). The share of the population aged over 65, which is already large (15% in 2007), will continue to increase, reaching 17% in 2022.

Figure 1.3: Georgian population and labour force structure, projection 2002–22 (%)



Source: ETF graph based on data from McPherson and Ignatowski (2007).

These figures have implications, particularly for policies, as follows.

- As there will be no growth in labour force numbers, policies can focus on the quality of the skills mix in order to boost productivity and maintain a growing wage curve, rather than on expanding the total number of jobs.
- As the labour supply will not change, any increase in national income will depend essentially on increased labour productivity, which will be the key growth component.⁹

Sustained efforts will be required to ensure the success of education reforms at all levels (general, vocational, higher and adult). What these reforms need to achieve is essentially to turn around public and employer confidence in the actual relevance of the skills and competences implied by formal qualifications. In other words, qualifications need to be credible. Education outcomes and qualifications need to recoup value in the eyes of the public and employers, and this will require sustained improvements in the quality and transparency of outcomes. The transformation has to combat the widespread perception that education diplomas do not match the competences they certify – a perception that is the result of years of corruption and degradation of standards. The reforms already initiated in the education field have been tackling this highly topical issue, but the challenge will be to maintain their focus and to adequately finance both the necessary reform programmes and institutional capacity-building.

⁹ Income growth (output) consists of two components: growth in labour supply and improvements in labour productivity.

1.3 Employment trends

Sources of tables and graphs are listed at the end of the chapter unless otherwise indicated. All labour market data are based on the acknowledged ILO conceptual framework.

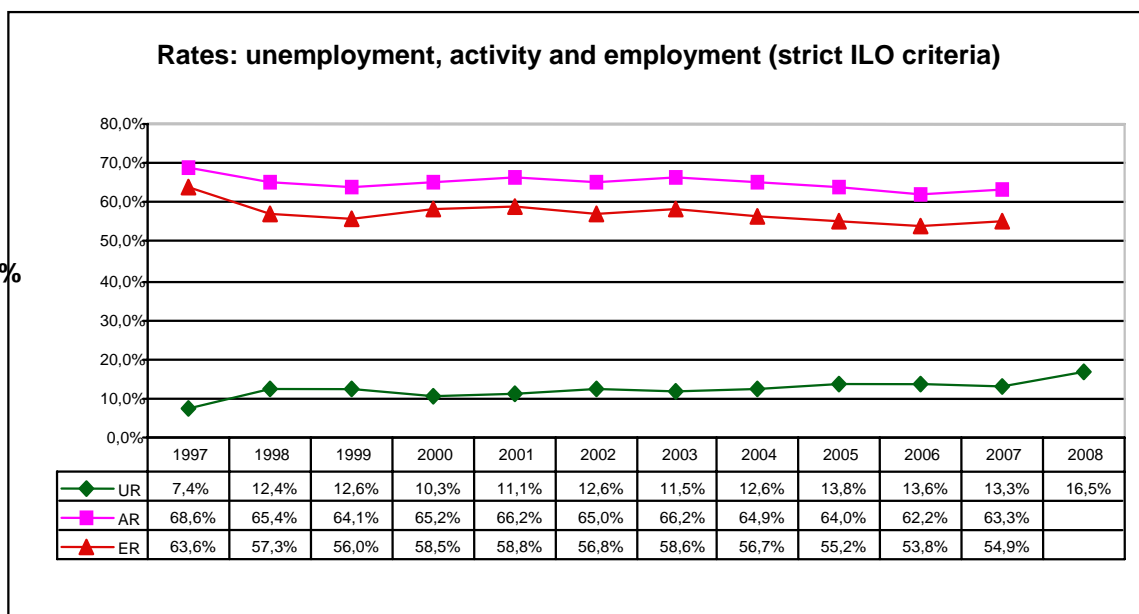
1.3.1 Labour market indicators

The Georgian labour market is characterised by a predominance of self-employment over wage employment, and better labour market indicators among the rural population (higher employment rates and lower unemployment rates).

The gender divide is evident in the high non-participation of women (45%), although the unemployment rate among is lower among women.

Georgian labour market indicators have gradually worsened in the last decade, as Figure 1.4 and Table 1.3 clearly indicate. In 2007 a slight improvement emerged, particularly in the falling unemployment rate and slightly rising employment rate. But in 2008 this positive trend totally turned around, as the unemployment rate grew to from 13.3% to 16.5%¹⁰, with the number of unemployed increasing by almost 55 000. But the employment rate of less than 55% remains far below the 70% rate that is the benchmark set for EU countries for 2010.

Figure 1.4: Georgian unemployment, activity and employment rates, 1997–2008 (%)



UR = unemployment rate; AR = activity rate; ER = employment rate. Strict ILO criteria were applied.
Source: MED Department for Statistics. Graph: ETF.

¹⁰ www.statistics.ge/main.php?pform=48&plang=1

Table 1.3: Key labour market data and indicators, 1998–2007 (thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total population aged 15 and older (as working-age population)	3 016.8	3 026.2	3 141.6	3 191.0	3 239.5	3 099.1	3 146.9	3 159.9	3 249.8	3 103.8
Total active population (labour force)*	1 972.8	1 939.3	2 049.2	2 113.3	2 104.2	2 050.8	2 041.0	2 023.9	2 021.8	1 965.0
Total active population (labour force)**	2 018.5	2 036.5	2 166.5	2 229.3	2 174.6	2 112.7	2 103.9	2 080.1	2 073.6	
Employed	1 728.5	1 694.4	1 837.2	1 877.7	1 839.2	1 814.9	1 783.3	1 744.6	1 747.3	1 704.3
hired	724.4	697.5	683.9	654.3	650.9	618.5	600.9	600.5	603.9	625.4
self-employed	987.1	918.6	1 041.2	1 135.9	1 184.9	1 195.2	1 180.8	1 143.3	1 141.6	1 078.8
undefined	17.0	78.4	112.1	87.3	3.4	1.3	1.6	0.8	1.8	0.1
Unemployed*	244.2	244.9	212.0	235.6	265.0	235.9	257.6	279.3	274.5	261.0
Unemployed**	289.9	342.1	329.3	351.6	335.4	297.8	320.5	335.5	326.4	
Working age population other than labour force*	1 044.0	1 086.9	1 092.3	1 077.7	1 135.3	1 048.4	1 105.9	1 136.1	1 228.0	1 138.6
Working age population other than labour force**	998.4	989.5	975.1	961.6	1 064.9	986.5	1 043.0	1 079.9	1 176.2	
Unemployment rate* (%)	12.4	12.6	10.3	11.1	12.6	11.5	12.6	13.8	13.6	13.3
Unemployment rate** (%)	14.4	16.8	15.2	15.8	15.4	14.1	15.2	16.1	15.7	
Participation rate* (%)	65.4	64.1	65.2	66.2	65.0	66.2	64.9	64.0	62.2	63.3
Participation rate** (%)	66.9	67.3	69.0	69.9	67.1	68.2	66.9	65.8	63.8	
Employment rate (%)	57.3	56.0	58.5	58.8	56.8	58.6	56.7	55.2	53.8	54.9

*Strict ILO criteria; **Soft ILO criteria.
Source: MED Department for Statistics.

Table 1.4: Key labour market data and indicators – female, 1998–2007 (thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total population age of 15 and older (as working age population)	1 649.5	1 638.7	1 726.9	1 750.3	1 775.0	1 680.2	1 706.7	1 699.0	1 744.8	1 697.1
Total active population (labour force)*	937.4	917.6	987.0	1 019.7	994.6	968.7	971.3	949.5	935.9	933.5
Total active population (labour force)**	961.2	963.4	1 043.6	1 072.9	1 021.5	996.3	995.3	971.4	953.3	
Employed	823.2	815.3	891.7	911.0	885.1	857.0	856.9	829.4	826.8	816.2
hired	349.6	326.8	329.5	318.3	317.9	294.9	296.5	286.4	287.4	293.5
self-employed	466.6	445.7	505.2	551.9	566.5	561.7	560.1	542.8	539.0	522.6
undefined	7.1	42.9	56.9	40.7	0.7	0.4	0.2	0.2	0.4	0.1
Unemployed*	114.2	102.3	95.3	108.7	109.5	111.7	114.4	120.1	109.1	117.3
Unemployed**	138.0	148.1	151.9	161.9	136.4	139.2	138.4	142.0	126.5	
Working-age population other than labour force*	712.1	721.1	739.8	730.6	780.4	711.5	735.4	749.5	808.9	763.6
Working-age population other than labour force**	688.3	675.2	683.3	677.2	753.6	684.0	711.4	727.6	791.5	
Unemployment rate* (%)	12.2	11.1	9.7	10.7	11.0	11.5	11.8	12.6	11.7	12.6
Unemployment rate** (%)	14.4	15.4	14.6	15.1	13.3	14.0	13.9	14.6	13.3	
Participation rate* (%)	56.8	56.0	57.2	58.3	56.0	57.7	56.9	55.9	53.6	55.0
Participation rate** (%)	58.3	58.8	60.4	61.3	57.5	59.3	58.3	57.2	54.6	
Employment rate (%)	49.9	49.8	51.6	52.0	49.9	51.0	50.2	48.8	47.4	48.1

*Strict ILO criteria; **Soft ILO criteria.
Source: MED Department for Statistics.

Table 1.5: Key labour market data and indicators – male, 1998–2007 (thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total population age of 15 and older (as working age population)	1 367.3	1 387.5	1 414.7	1 440.7	1 464.5	1 418.9	1 440.2	1 461.0	1 505.0	1 406.7
Total active population (labour force)*	1 035.4	1 021.7	1 062.2	1 093.6	1 109.6	1 082.0	1 069.7	1 074.4	1 085.9	1 031.8
Total active population (labour force)**	1 057.3	1 073.1	1 122.9	1 156.4	1 153.1	1 116.4	1 108.6	1 108.7	1 120.3	
Employed	905.3	879.1	945.5	966.7	954.1	957.9	926.5	915.2	920.5	888.1
hired	374.9	370.7	354.4	336.0	333.0	323.6	304.4	314.1	316.5	331.9
self-employed	520.6	472.9	536.0	584.0	618.4	633.4	620.8	600.5	602.6	556.2
undefined	9.9	35.5	55.1	46.7	2.7	0.8	1.3	0.6	1.4	0.0
Unemployed*	130.0	142.6	116.7	126.9	155.5	124.2	143.2	159.2	165.4	143.7
Unemployed**	152.0	194.0	177.4	189.7	199.0	158.6	182.1	193.5	199.9	
Working age population other than labour force*	331.9	365.8	352.5	347.1	354.9	336.9	370.5	386.6	419.1	374.9
Working age population other than labour force**	310.0	314.3	291.8	284.5	311.4	302.5	331.6	352.3	384.6	
Unemployment rate* (%)	12.6	14.0	11.0	11.6	14.0	11.5	13.4	14.8	15.2	
Unemployment rate** (%)	14.4	18.1	15.8	16.4	17.3	14.2	16.4	17.5	17.8	
Participation rate* (%)	75.7	73.6	75.1	75.9	75.8	76.3	74.3	73.5	72.2	73.3
Participation rate** (%)	77.3	77.3	79.4	80.3	78.7	78.7	77.0	75.9	74.4	
Employment rate (%)	66.2	63.4	66.8	67.1	65.1	67.5	64.3	62.6	61.2	63.1

*Strict ILO criteria; **Soft ILO criteria.

Source: MED Department for Statistics.

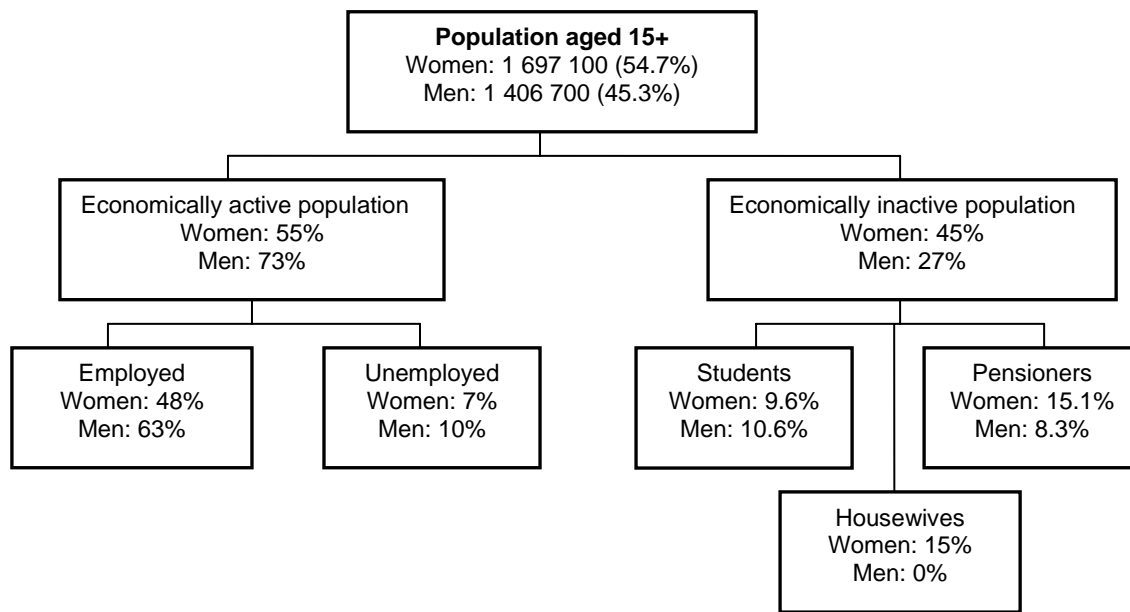
In 2008 labour market indicators showed a significant decline, which is certainly strongly associated with the economic slowdown. Table 1.6 highlights the changes that occurred in 2008. As the number of employed fell in 2008 by much more than 55 000 (102 000), the implication is that some 47 000 became inactive, or at least temporarily left the labour market.

Table 1.6: Key labour market data and indicators, 2007 and 2008

	2007	2008	% change 2007 to 2008
Active population (labour force), total	1 965.3	1 917.8	-2.42
Employed	1 704.3	1 601.9	-6.01
hired	625.4	572.4	-8.48
self-employed	1 078.8	1 028.5	-4.66
unidentified worker	0.1	1.1	
Unemployed	261.0	315.8	21.03
Population outside labour force	1 138.6	1 145.2	0.58
Unemployment rate (%)	13.3	16.5	24.02
Economic activity rate (%)	63.3	62.6	-1.11
Employment rate (%)	54.9	52.3	-4.75

Source: MED Department for Statistics.

Figure 1.5: Labour market status of the population (aged 15+), 2007

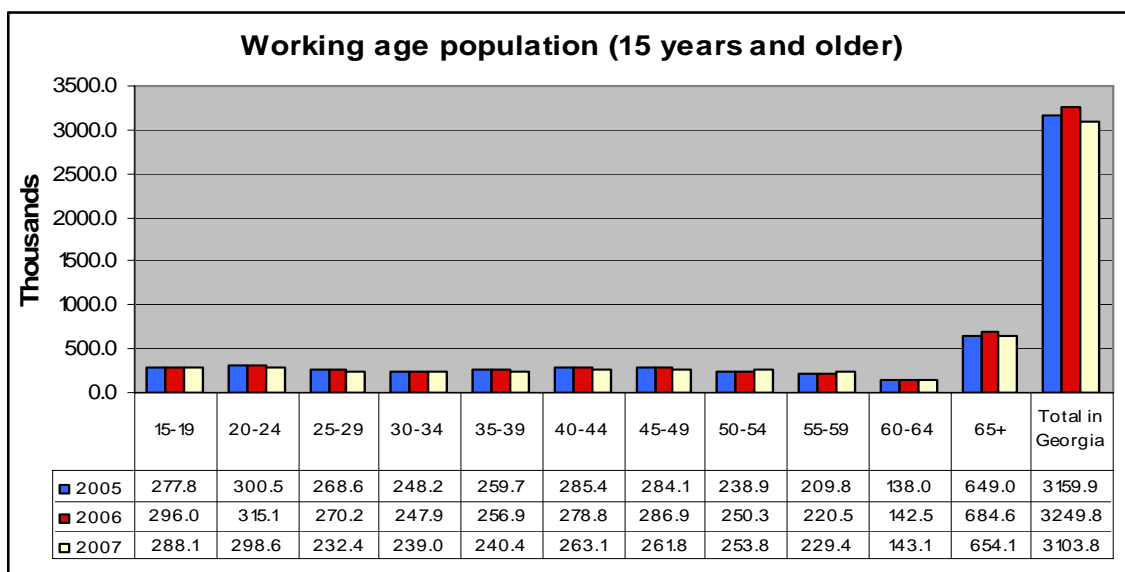


Source: MED Department for Statistics (2008e).

Figure 1.5 highlights in visual manner the allocation of the key labour market statuses of the population, namely the gender differences. Women have significantly lower unemployment rates than men, although the same does not apply to employment rates, which are higher among men. Logically the participation rate of men is higher (over 70%), whereas women never reached a 60% participation rate throughout the decade 1998–2007. In 2007 activity among men reached 73.3%, against only 55% among women. Considering the potential human capital among the female population, this relatively high non-participation of women (45% in 2007) points to mismatches in access to the labour market. As Chapter 3 highlights, wage discrepancies on a gender basis are visible across all types of economic activity.

The working-age population declined in 2007 (Figure 1.6). Note the size of the over-65 age group (over working age).

Figure 1.6: Working-age population (aged 15+) by age group, 2005–07 (thousands)



Source: MED Department for Statistics. Graph: ETF.

1.3.2 Employment

The Georgian labour market is marked by one outstanding feature, the predominance of self-employed workers among the working population. This feature is consistent over time, and at least in part it reflects the resilience of the informal economy and informal employment.

But in 2006–2007 the share of self-employment in total employment decreased, indicating that recent reforms have generated a tendency to legalisation of informal labour market activities. Table 1.7 shows that in 2007 the number of self-employed fell by 6% in comparison with 2006. In 2007 the number in hired total employment grew by 3% compared with 2006. However, the role of income from self-employment remained substantial, as well as the share in total employment.

The substantial decrease in self-employed workers (by over 62 000, or 6%) is largely responsible for the fall in the total employed (by 43 000) and in the economically active population (by over 56 000, or 3%) in 2007. The decline in numbers of unemployed (by 13 500, or 5%) likewise contributed to the total economically active population in 2007 (see Table 1.7).

The figures for 2008 show a serious decline, as the number of employed fell by 6% and the number of unemployed grew by a dramatic 21%, compared with 2007. The fall in the number of employed was particularly severe among wage earners (53 000, or 8.5%), and currently the total number of wage earners (572 400) is only 36% of total employment. This trend could be reversed if economic activity were to recover and government policy were to promote job creation and decent work. But employment dynamism might follow a different recovery curve and be slower than output and investment growth.

Table 1.7: Distribution of population aged 15+ by type of economic activity, 2000–08 (thousands, unless otherwise indicated)

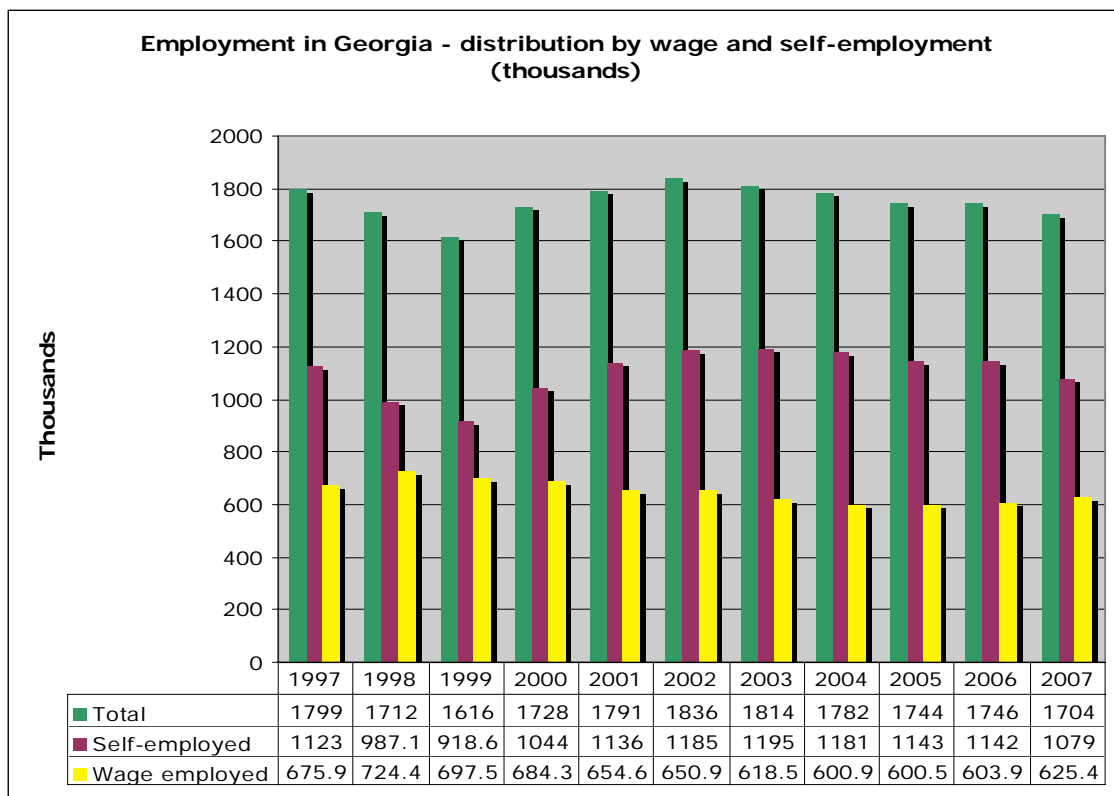
Status	2000	2001	2002	2003	2004	2005	2006	2007	2008	% change (2007 to 2008)
Active population (labour force), total	2 049.2	2 113.3	2 104.2	2 050.8	2 041.0	2 023.9	2 021.8	1 965.3	1 917.8	-2.42
Employed	1 837.2	1 877.7	1 839.2	1 814.9	1 783.3	1 744.6	1 747.3	1 704.3	1 601.9	-6.01
hired	683.9	654.3	650.9	618.5	600.9	600.5	603.9	625.4	572.4	-8.48
self-employed	1 041.2	1 135.9	1 184.9	1 195.2	1 180.8	1 143.3	1 141.6	1 078.8	1 028.5	-4.66
unidentified worker	112.1	87.3	3.4	1.3	1.6	0.8	1.8	0.1	1.1	
Unemployed	212.0	235.6	265.0	235.9	257.6	279.3	274.5	261.0	315.8	21.03
Population outside labour force	1 092.3	1 077.7	1 135.3	1 048.4	1 105.9	1 136.1	1 228.0	1 138.6	1 145.2	0.58
Unemployment rate (%)	10.3	11.1	12.6	11.5	12.6	13.8	13.6	13.3	16.5	24.02
Economic activity rate (%)	65.2	66.2	65.0	66.2	64.9	64.0	62.2	63.3	62.6	-1.11
Employment rate (%)	58.5	58.8	56.8	58.6	56.7	55.2	53.8	54.9	52.3	-4.75

Source: MED Department for Statistics.

These figures convey a mixed message. On the one hand, they show that the economically active population continues to contract, as in past periods. On the other hand, the rate of employment grew by over 1%, while the number of those employed in firms and companies (wage earners) grew quite substantially (by 2% to 37% of total employment). However, it is premature to draw conclusions about the sustainability of the latter trend, without knowing more about job quality and relative stability within the overall framework of high liberalisation and deregulation that has characterised Georgian employment and labour market legislation in recent years. At present the ILO, in coordination with other international organisations and the MED, is carrying out a study that is expected to shed light on whether this legislation does in fact contribute to motivating job creation, flexibility and economic growth.

Figure 1.7 confirms the trends in Georgian employment over a period of 11 years.¹¹

Figure 1.7: Georgian self-employed versus wage-earning population, 1997–2007 (thousands)



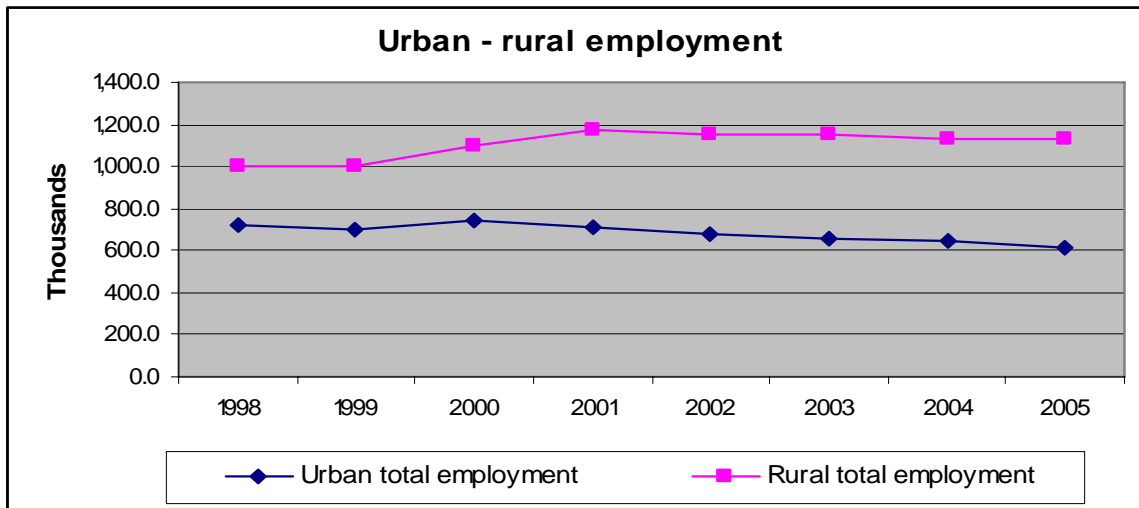
Source: MED Department for Statistics. Graph: ETF.

This structure of the employed population in Georgia, which has a disproportionately large self-employed component, reflects a rural/urban divide and a dynamically poor modern labour market. One of the explanations for this is the large incidence of typically low-productivity agricultural employment (mainly of a subsistence nature), which represents the majority of the self-employed.

The corollary of this predominance of self-employment in Georgia is the urban/rural divide. In the period 1998–2005, rural total employment grew while urban total employment steadily declined. In 2005 the ratio of rural to urban employed was 1.8 to 1, as shown in Figure 1.8.

¹¹ Although based on ILO criteria and integrated household budget and labour force surveys, international organisations and experts have questioned the reliability and/or consistency of the data series of the Georgian Department for Statistics in recent years, due to reduced resources and lack of institutional independence.

Figure 1.8: Urban/rural employment, 1998–2005 (thousands)

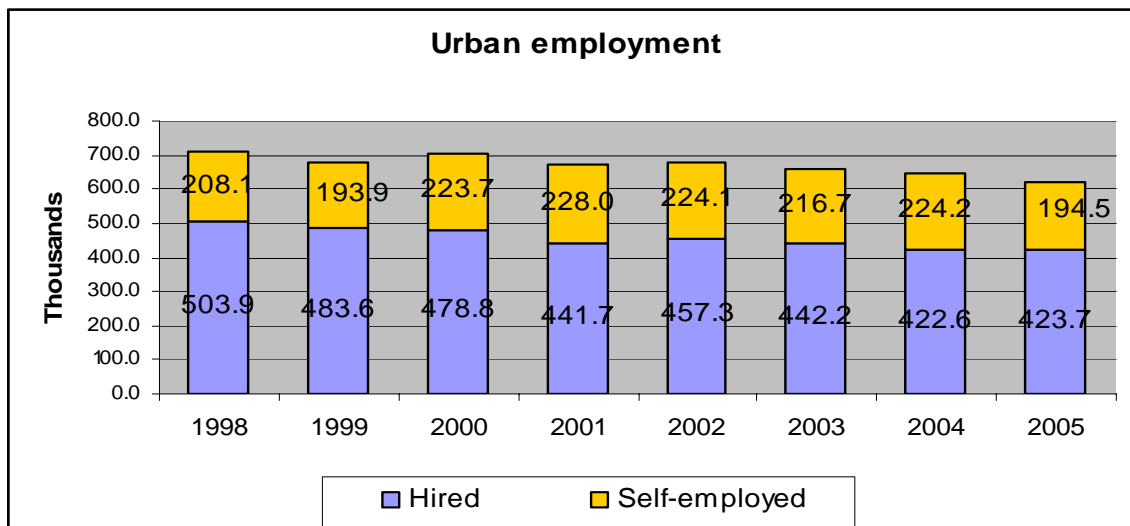


Source: MED Department for Statistics, unpublished data. Graph: ETF.

Rural employment is dominated by self-employment, while urban employment has a large majority of wage earners (private and public companies or legal entities). However, even in urban labour markets, the number of waged jobs declined over the period, while the number of jobs in the category of self-employment has tended to remain stable or to decline in recent years (Figures 1.9 and 1.10).

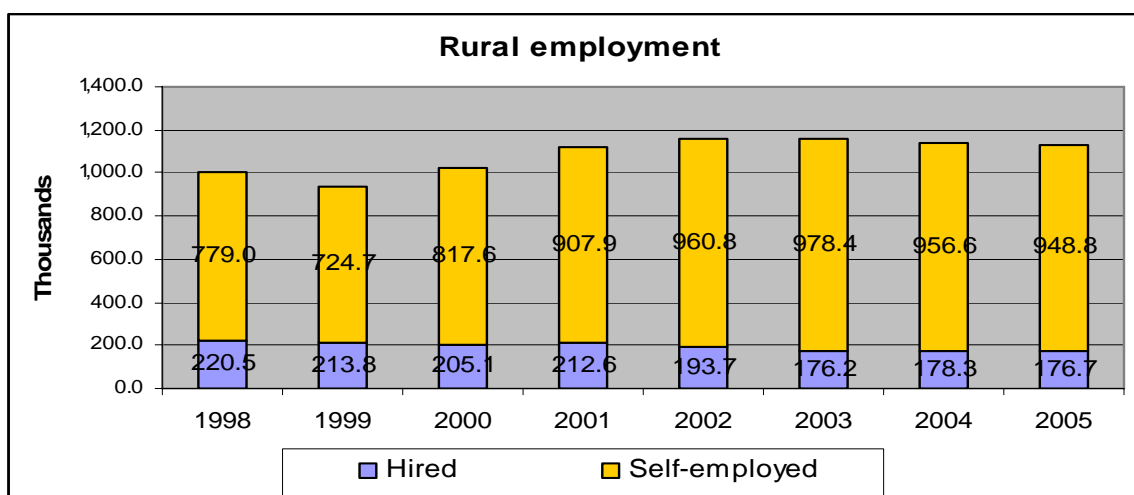
The rural economy has acted as a shelter through its small land ownership and use. However poverty is much higher in rural areas – an additional proof of the low productivity of rural employment.

Figure 1.9: Urban employment, 1998–2005 (thousands)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

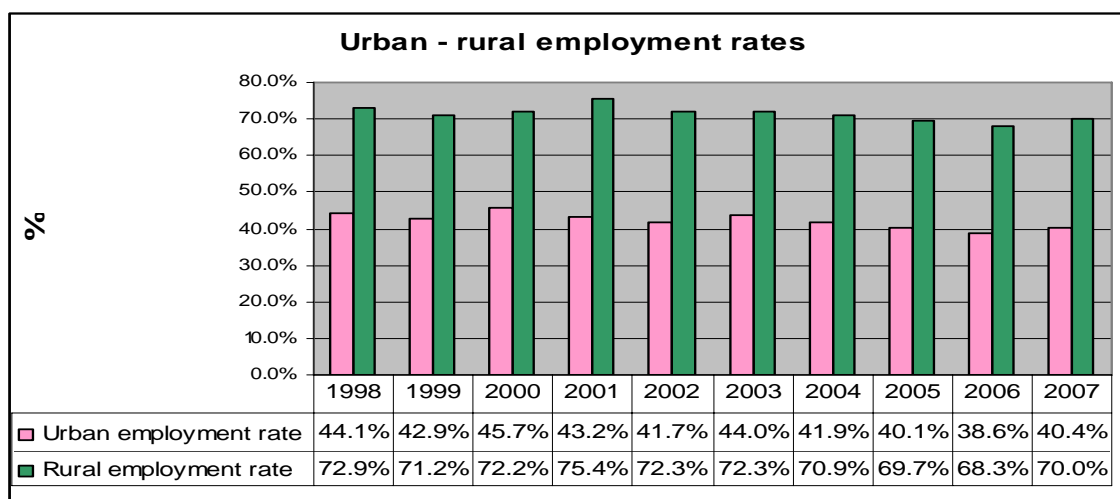
Figure 1.10: Rural employment, 1998–2005 (thousands)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Figure 1.10 shows the opposite trend that seems to characterise the rural labour market in Georgia: growing total employment and the overwhelming predominance of self-employment. However, the rural economy (agriculture) receives the lowest share of foreign direct investment and has the lowest productivity (added value). In 2007, as Chapter 3 shows, employment in agriculture was declining.

Figure 1.11: Urban/rural employment rates, 1998–2007 (%)

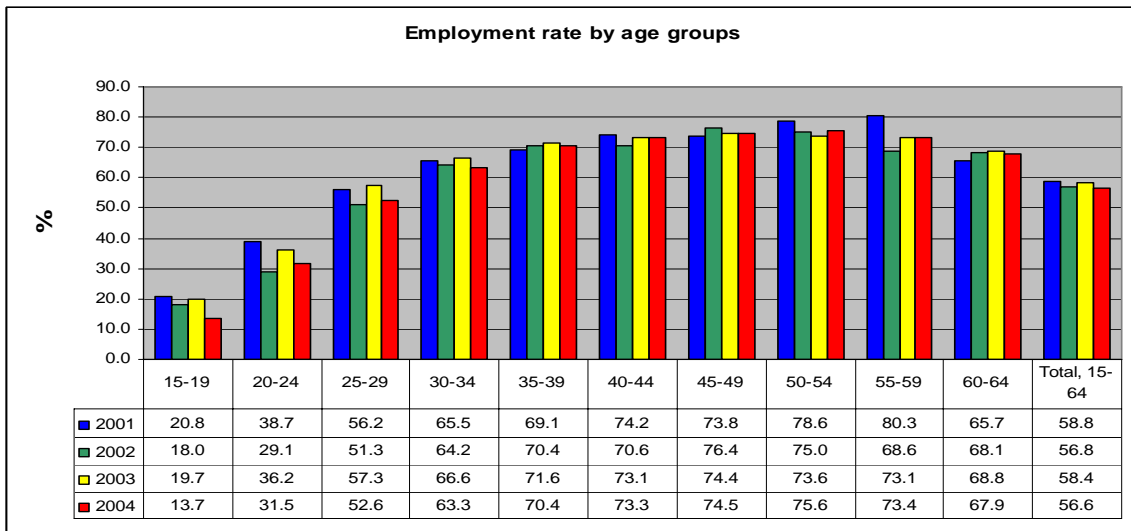


Source: MED Department for Statistics, unpublished data. Graph: ETF.

The employment rate of the rural population is significantly higher than that of the urban population (Figure 1.11).

Another divide is linked to age, and in Georgia older age groups perform better than younger. An analysis of employment by age group reveals that the older age groups (45–64 years) have higher employment rates than average (Figure 1.12). Even the over-65 age group has employment rates around 45%, which is comparatively high. This may reflect a certain labour market rigidity in favour of insiders (those who have jobs), and would also indicate that young people experience difficulty entering the labour market.

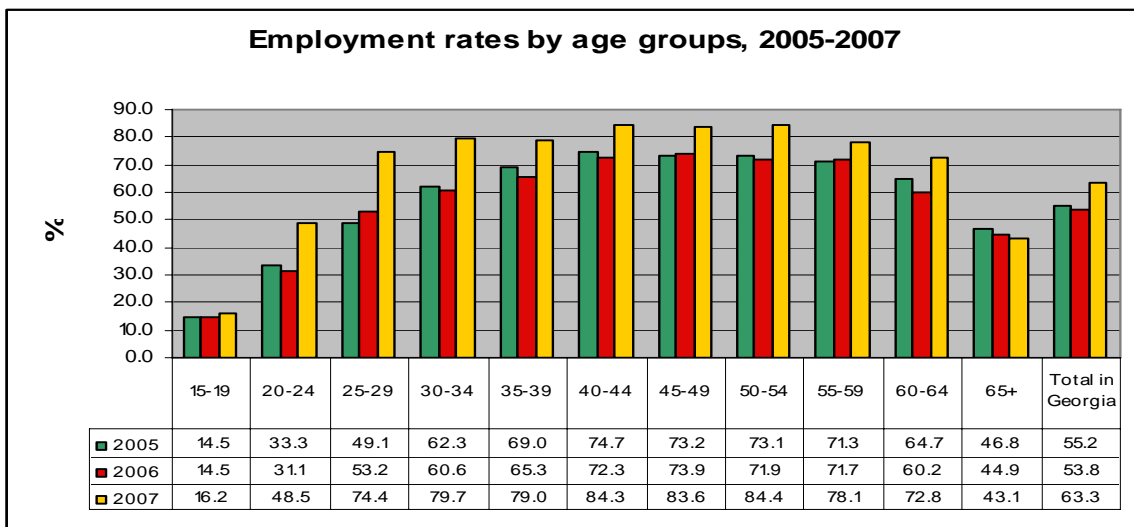
Figure 1.12: Employment rate by age group, 2001–04 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

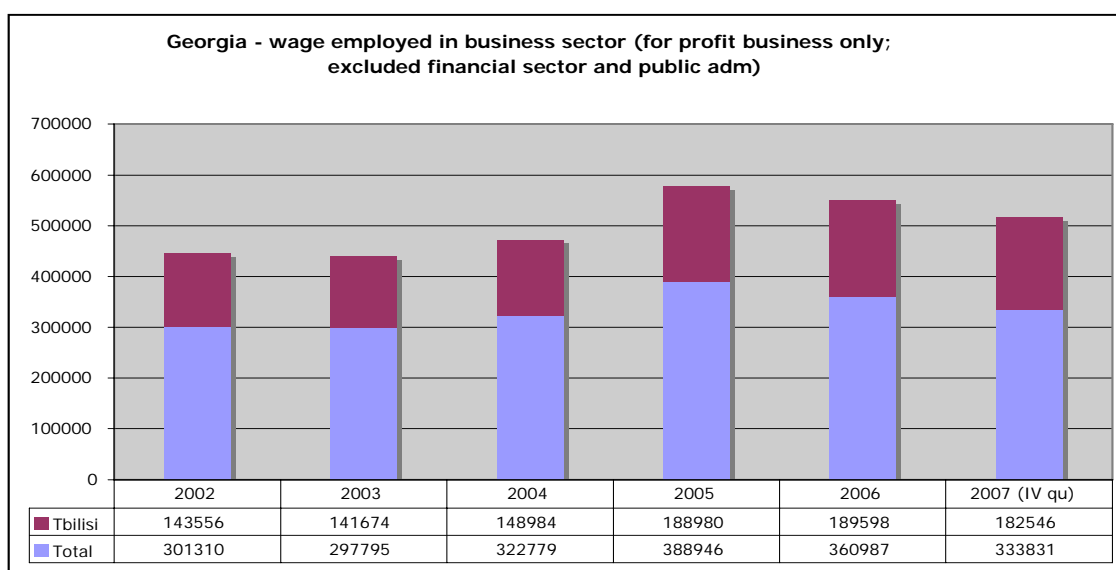
Figure 1.13 shows a visible increase of the indicator in 2007 across all age groups. This is partly linked with the decrease of the denominator figure (population of working age, by groups) in 2007 (see also Figure 1.6).

Figure 1.13: Employment rate by age group, 2005–07 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Figure 1.14: Wage-earning population in the business sector*, 2002–07



*For-profit business only, financial sector and public administration excluded.

Source: MED Department for Statistics (2008). Graph: ETF.

Data on wage earners in the business sector show a growing concentration in the capital city, as shown in Figure 1.14. Tbilisi offers wider market opportunities, better market infrastructure and better sources of finance than the regions and rural zones, hence the greater dynamism of the business sector in the capital (in terms of both job creation and growth of added value). From 2002 to 2007, employment in the business sector¹² in the capital grew by more than 25%. Note that this figure is a proxy for formal employment (since 2006 these data exclude public administration, non-commercial legal entities, financial intermediation) and focuses on the corporate sector and individual enterprises¹³.

Despite economic restructuring and the consolidation of the market economy, the public sector employs a large share of wage earners, overtaking the share of workers employed in private/non-state enterprises, which should be the engine driving the labour market.

1.3.3 Unemployment

Although unemployment has shown a tendency to increase, it seems to have peaked in 2005 at 13.8%, declining to 13.3% in 2007. In 2008, unemployment rate increased to a record figure of 16.5%, reflecting the effects of the economic crisis. The unemployment rate is much lower in Georgia than in Armenia (where it reaches 25% to 28%), and it is higher than in Azerbaijan (where it dropped from 10.7% in 2003 to less than 7% in 2006).

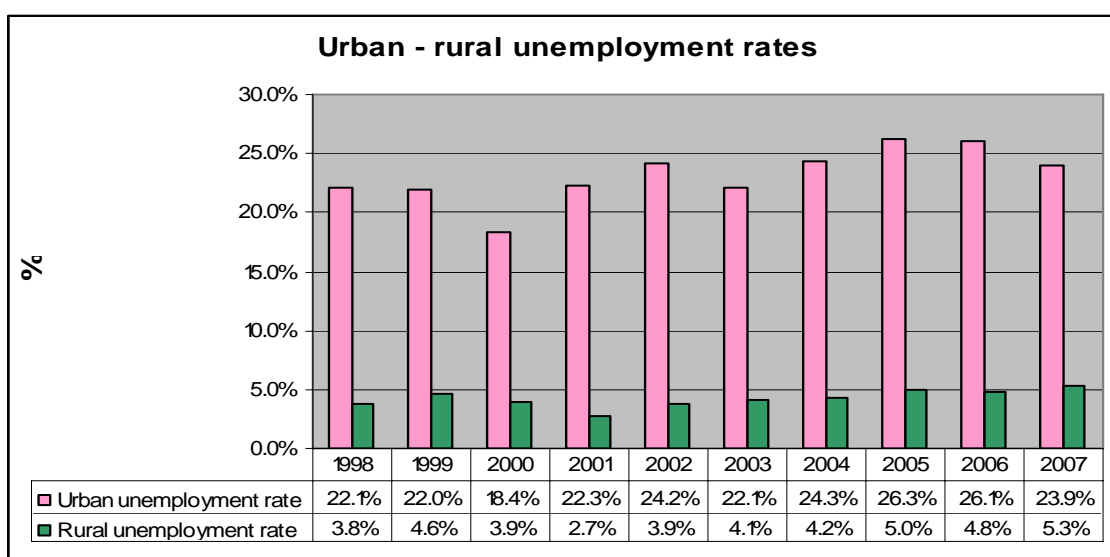
Unemployment tends to be long-term in nature. According to data issued by the OECD in 2007, two-thirds of the unemployed have been out of work for a year, and more than 50% for two to three years. Urban areas have higher numbers (five to seven times more) of long-term unemployed than rural areas.

Urban unemployment is much higher than rural, as Figure 1.15 shows.

¹² Statistics of employment in the business sector comprise for-profit enterprises of all sizes. The financial sector, public administration and not-for-profit organisations are excluded. Here, employment is reported to be mainly formalised.

¹³ www.statistics.ge/publication.php?plang=1&pform=-507

Figure 1.15: Urban/rural unemployment rate, 1998–2007 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Unemployment rates by regions are also very diverse (Table 1.8). It is significant that Tbilisi, the capital, displays an unemployment rate twice as high as the national average. Neither is Adjara, the region with greatest autonomy in Georgia and with significant natural and economic potential, well-positioned in terms of unemployment rate.

Table 1.8: Regional unemployment rate, 2002–07 (%)

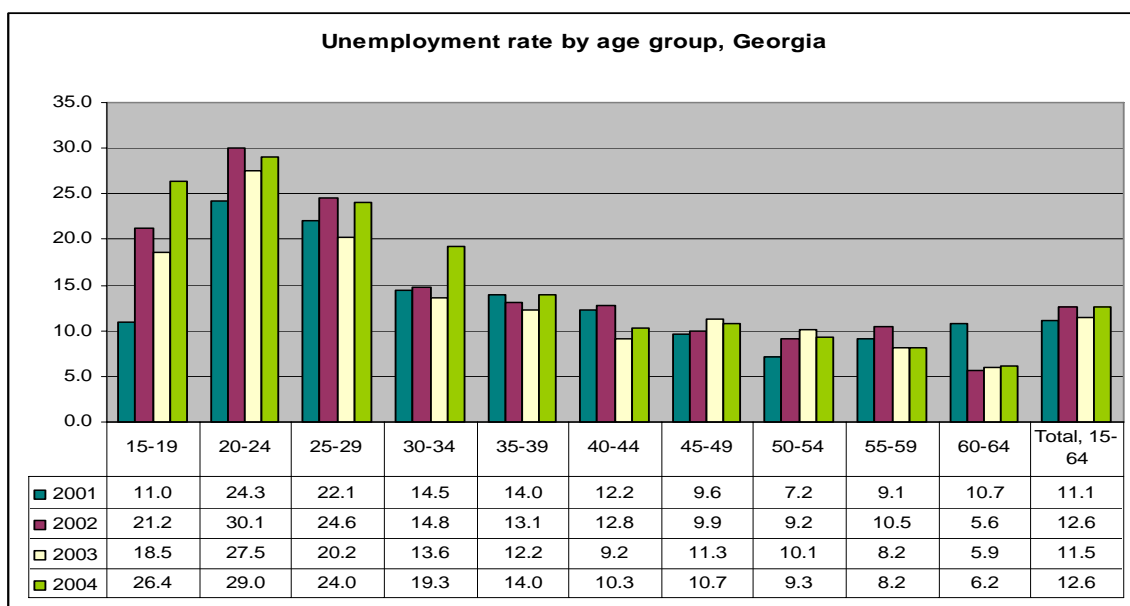
Region	2002	2003	2004	2005	2006	2007
Kaheti	3.9	5.8	5.2	4.5	6.5	6.8
Tbilisi	28.8	26.1	26.0	29.0	30.2	25.7
Shida Kartli	11.4	9.3	10.9	12.0	10.2	9.1
Kvemo Kartli	7.7	6.9	8.1	9.2	8.4	8.7
Samtskhe-Javaheti	4.5	4.2	4.0	5.8	4.5	8.3
Adjara	14.7	12.1	17.6	20.4	18.9	23.4
Guria	5.0	3.8	3.4	4.9	2.5	3.6
Samegrelo	8.6	6.2	7.6	7.2	6.4	7.5
Imereti	7.9	7.8	10.5	10.3	9.7	8.4
Mtskheta-Mtianeti*	–	14.8	11.4	13.3	16.1	15.8
Georgia	12.6	11.5	12.6	13.8	13.6	13.3

*Before 2003 included in Shida Kartli region.

Source: MED Department for Statistics, unpublished data. Calculation: ETF.

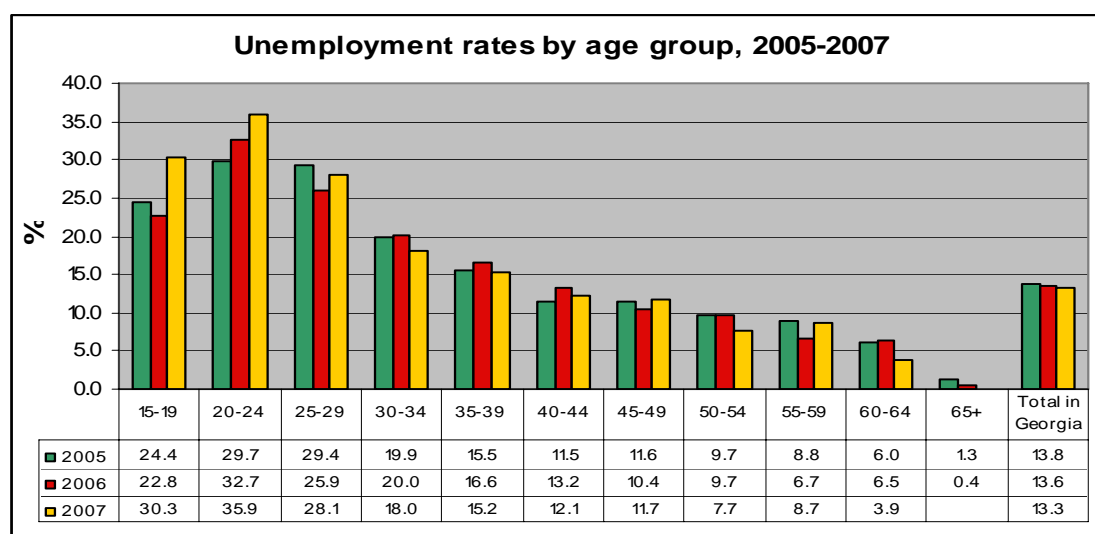
Age is another aspect of the divide – youth unemployment is significantly higher than the average rate: among the age groups 20–24 and 25–29, the rate is more than twice the national average. While the oldest age groups (50–54, 55–59 and 60–64) have unemployment rates below the national average (Figures 1.16 and 1.17).

Figure 1.16: Unemployment rate by age group, 2001–04 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Figure 1.17: Unemployment rate by age group, 2005–07 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

1.3.4 Underemployment¹⁴

This section is entirely based on data from an unpublished report by the World Bank (2008, pp. 83–84), which analysed the Household Budget Survey data of the Department for Statistics.

The total number of underemployed decreased in 2006, and the rural predominance of the phenomenon has accentuated, so the share of rural underemployed increased from almost 69% to almost 76%. The Imereti region has the largest share of underemployed. The share of female underemployment grew from 50% to 60%. Underemployment affects more people with higher education, and people of the mature but productive age groups (41–55). In 2006 the largest share of underemployed belonged to the 46–50 age

¹⁴ Underemployed (in main job) are defined as those working 21 to 35 hours a week in a main job and reporting that they hold a secondary job. In most cases it is not by choice that they do not work full time in their main job.

group. In 2006 the share of underemployed with higher education decreased from 48% to 42%. Table 1.9 summarises data on underemployment in 2003 and 2006.

Table 1.9: Underemployment profile, 2003 and 2006

		2003			2006		
		Number of underemployed	Underemployment rate (%)	% of total underemployed	Number of underemployed	Underemployment rate (%)	% of total underemployed
Total		87 820			73 448		
Location	Urban	27 385	4.3	31.2	17 675	3.0	24.1
	Rural	60 435	5.4	68.8	55 773	5.1	75.9
Gender	Female	45 261	5.4	51.5	43 998	5.5	59.9
	Male	42 559	4.6	48.5	29 450	3.3	40.1
Education	Basic education	3 243	1.4	3.7	970	0.6	1.3
	Secondary general education	18 451	2.6	21.0	17 718	2.5	24.1
	Vocational education	9 917	6.8	11.3	9 094	5.9	12.4
	Secondary vocational	14 291	6.4	16.3	14 936	6.9	20.3
	Higher education	41 718	9.1	47.5	30 730	7.0	41.8
Age group	15–20	–	–	–	–	–	–
	21–25	1 761	1.5	2.0	1 620	1.5	2.2
	26–30	5 456	3.3	6.2	4 120	2.8	5.6
	31–35	7 765	4.5	8.8	4 710	3.4	6.4
	36–40	9 344	4.9	10.6	8 857	4.6	12.1
	41–45	15 510	7.0	17.7	12 694	6.5	17.3
	45–50	14 482	7.6	16.5	13 951	7.0	19.0
	51–55	12 983	7.7	14.8	9 815	6.1	13.4
	56–60	4 786	4.8	5.4	9 267	6.5	12.6
	60+	15 733	4.2	17.9	8 414	2.4	11.5

Source: World Bank (2008, p. 83).

Underemployment was greatest in the following sectors of economic activity:

- education, with over 30% of total underemployed in 2006 (and 16.8% underemployment rate);
- wholesale and retail trade, services, with over 10% of total (and 4.8% underemployment rate);
- agriculture, which has approximately 14% of total underemployed in 2006 (but only 1.1% underemployment rate).

In 2006 underemployment rates were highest in the sectors of manufacturing (7.6%), electricity, gas and water supply (8%), financial intermediation (14.7%), education (16.8%) and health and social services (13.8%). In 2003 these sectors also head this indicator, which did however improve in 2006, particularly in electricity, gas and water supply, education and health.

Hotels and restaurants with 2.7% underemployment rate in 2006 and transport, storage and communications with 3.3% are in the best situation. Both sectors had much higher underemployment rates in 2003 (6.2% and 7.5% respectively).

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2. Human capital and economic transition

This chapter, central to the present report, is a challenging one. It discusses whether the high educational attainment of the population and the labour force translate into adequate benefits for individuals and businesses, households and the economy, through employment and an efficient transition from school to work.

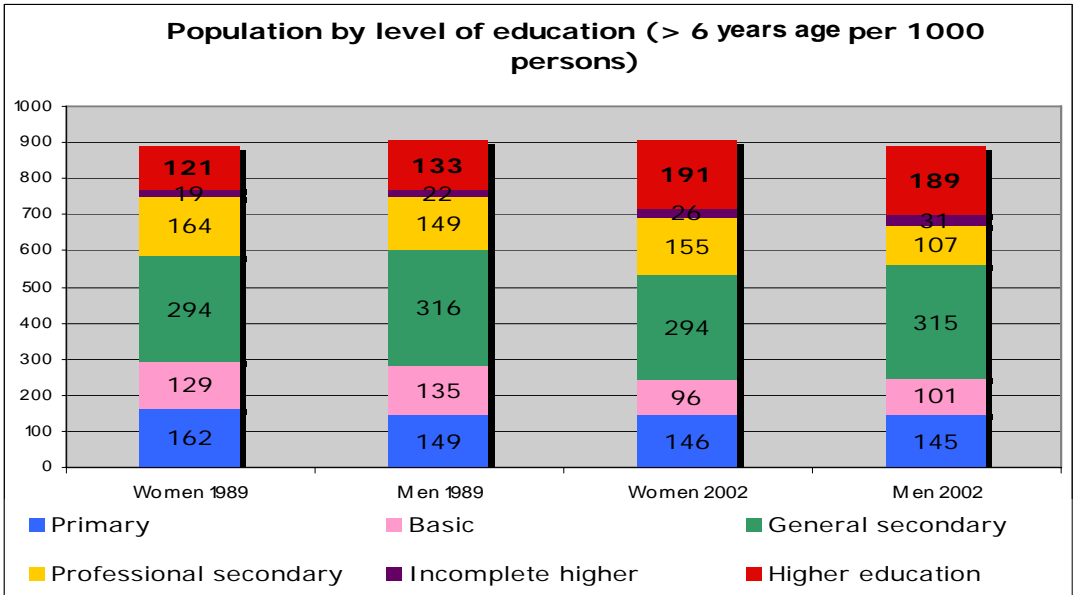
Note that the analysis shows that in Georgia, unlike other CIS countries, seems to have an over-supply of labour with higher education, given the current labour market potential. This trend is consistent over several years and could be used as a signal for reforms and policy-making.

2.1 Investment in human capital

According to the Human Development Index 2005, Georgia ranks 96th out of 177 countries, but the country leads in the adult literacy rate (100% of population over 15 years), which is a component of one of the three dimensions of the HDI¹⁵.

In the period between censuses, the education attainment profile of the population aged over 6 years has changed through a significant increase in the category with higher education together with a reduction of those with vocational education. After a steep growth of over 50% in 2000, the female population with higher education overtook the male population with the same level of education (Figure 2.1).

Figure 2.1: Population (aged 6+) by level of education, censuses 1989 and 2002 (thousands)



Source: MED Department for Statistics. Graph: ETF.

In the first decade of the transition, private higher education institutions multiplied in Georgia, and so did enrolment, although the quality and credibility of higher education declined. But after 2004 the education reforms became strongly oriented towards quality, credibility and convergence with international or European developments. The accreditation of higher education led to a sharp drop in available study places in the relatively few accredited universities (at present, after four years of the process, approximately 60 universities have received accreditation, of which 20 are public). So the trends expressed in Figure 2.1 might change in the coming decade, although achieving higher education remains the essential aim of practically every family in the country.

¹⁵ http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_GEO.html

The distribution of the population by education level (Table 2.1(a)) shows that over a quarter have higher education and 59% have secondary education (general and vocational).

Table 2.1(a): Education level, distribution of population, 2007 (%)

Education level	Distribution of population
Incomplete secondary/below	14.9
Secondary	39.3
VET (primary, secondary)	19.7
Incomplete higher	1.0
Higher	25.2
Total	100.0

Source: World Bank (2008, p. 43).

This picture is confirmed by the distribution within educational attainment groups of the population of age 25–64, according to the last available Census data (2002), displayed in Table 2.1(b). Note that the younger group (25–34) has an indicator of tertiary education more than double the indicator for the older age group. This means that younger Georgians have been investing much more in higher education, which has become common through the multiplication of private universities in the transition period. The quality and credibility of many of these universities was very questionable, however, in particular until 2004/2005 when the government launched a number of reforms to improve outcomes and credibility of higher education (see Chapter 5 of this report).

Table 2.1(b): Working-age population (25–64 years) – percentages within educational attainment groups (Census 2002)

Educational attainment	Total active population	Male	Female
No education	100	100	100
25–34 years	14.9	20.4	11.7
35–44 years	18.1	22.0	15.8
45–54 years	20.7	20.1	21.0
55–64 years	46.3	37.5	51.5
Primary (ISCED 1)	85.1	84.0	85.8
25–34 years	14.5	16.5	13.0
35–44 years	1.7	1.8	1.6
45–54 years	21.3	20.3	21.9
55–64 years	47.7	45.3	49.3
Lower-secondary (ISCED 2)	100.0	100.0	100.0
25–34 years	23.5	26.5	20.8
35–44 years	24.4	25.2	23.7
45–54 years	23.7	22.9	24.4
55–64 years	28.4	25.4	31.1
Upper-secondary or post-secondary non-tertiary (ISCED 3 and 4)	100.0	100.0	100.0
25–34 years	27.2	29.0	25.5
35–44 years	31.2	31.2	31.3
45–54 years	24.5	23.9	25.0
55–64 years	17.1	15.8	18.2
Tertiary (ISCED 5 and 6)	100.0	100.0	100.0
25–34 years	31.6	29.9	33.0
35–44 years	29.7	29.9	29.6
45–54 years	24.0	25.2	23.0
55–64 years	14.7	15.0	14.4

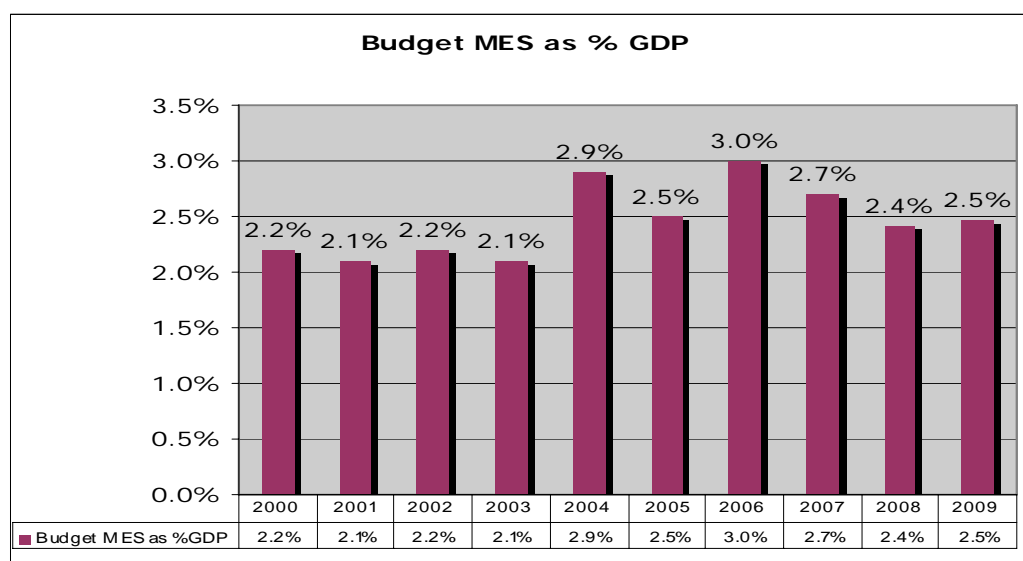
Source: MED Department for Statistics (2009), at ETF request.

2.1.1 Public expenditure on education

Public expenditure on education as share of GDP remains lower than the OECD and EU-19 average. But it is approximately comparable with the situation in the neighbouring Caucasus countries.

Figure 2.2 shows the budget of the Ministry of Education and Science (MES) as share of GDP.¹⁶ Although the MES is the institution leading all sub-sectors of education, there is additional, but minor, public expenditure under other entities (budgets of territorial units). This additional expenditure is not considered in Figure 2.2. The MES budget as share of GDP reached a peak of 3% in 2006, but afterwards tended to decline again close to 2.5%.

Figure 2.2: MES budget as percentage of GDP, 2000–09



Source: MED Department for Statistics. Calculation and graph: ETF.

Table 2.2 is based on information provided by the MES in 2009 and provides an overview of the relative positions of the key segments of education in terms of MES financing. The largest share of MES financing is absorbed by the most important segment of education: basic and secondary education. Before 2006 this segment was funded through budgets of territorial units (regions). From 2006 the MES budget shows a huge increase linked, among other factors, with this change. VET absorbs a minor share of the MES budget.

Table 2.2: Shares of various segments of education from total MES financing, 2003–09

	2003	2004	2005	2006	2007	2008	2009
Budget of Ministry of Education (GEL thousands)	14 966.7	67 676.7	80 941.1	358 165.1	410 828.8	458 177.5	537 967.7
Expenditure on general education (GEL thousands)	958.4	14 157.4	21 827.6	281 319.4	314 533.0	340 580.1	397 635.1
% of total	6.4	20.9	27.0	78.5	76.6	74.3	73.9
Expenditure on VET (GEL thousands)	2 778.1	7 152.5	3 699.7	7 779.1	12 960.0	10 058.0	9 800.0
% of total	18.6	10.6	4.6	2.2	3.2	2.2	1.8
Expenditure on higher education (GEL thousands)	5 036.5	26 151.1	22 061.0	33 840.8	43 746.6	51 891.6	66 030.9
% of total	33.7	38.6	27.3	9.4	10.6	11.3	12.3
TOTAL %*	58.6	70.1	58.8	90.2	90.4	87.9	88.0

*General schools were financed through regional budgets before 2006.

Source: MES estimation and table.

¹⁶ The author of the report estimated figures for 2008 and 2009, based on estimates of GDP from IMF sources. The estimated GDP for 2008 was GEL 19 353 million, and GEL 21 737 million for 2009.

With this low level of public expenditure on education, Georgia ranks low in international comparisons (Table 2.3). In 2005 OECD countries thus spent of 6.1% of their total GDP in education (5.8% on average), and the EU-19 countries spent on average 5.5%. Public expenditure on education corresponds to 5% of GDP in average in both country groups.

Table 2.3: International comparison: expenditure on education institutions by source of funds and level of education, 2005 (% of GDP)

	Primary, secondary and post-secondary and non-tertiary education			Tertiary education			Total all levels of education		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
OECD average	3.5	0.3	3.8	1.1	0.4	1.5	5.0	0.8	5.8
OECD total	3.3	0.4	3.7	0.9	1.0	2.0	4.6	1.5	6.1
EU-19 average	3.4	0.2	3.6	1.1	0.2	1.3	5.0	0.5	5.5

Source: OECD (2008, p. 240).

Armenian public expenditure on education has floated between 2.6% (2000) and 2% (2003–04), and is projected to grow to 2.6% in 2009, 2.8% in 2012 and 3% in 2015 (Armenia PRSP, 2008, pp. 228, 240). In Azerbaijan, this indicator has been stable at 2.7%–2.9% of GDP between 2006 and 2008 (ETF, 2009). Georgian public expenditure on education is thus within a similar range.

2.1.2 Private expenditure on education

Our analysis shows that private expenditure on education tends to grow. In the absence of more accurate data, we based our analysis on the following factors: cash consumption expenditure (Table 2.4); share of private education institutions; and costs of training employees.

Household expenditure on education (average monthly)

Table 2.4: Average monthly household cash consumption expenditure, 2006 and 2007 (GEL millions)

	2006			2007		
	Urban	Rural	Whole country	Urban	Rural	Whole country
Cash consumption expenditure	176.2	115.1	291.3	210.9	115.1	325.9
On food, beverages, tobacco	86.5	60.9	147.4	96.8	60.5	157.3
On clothes and footwear	8.8	6.3	15.1	9.1	6.4	15.4
On household goods	5.8	4.6	10.4	8.2	4.2	12.4
On healthcare	13.7	9.8	23.5	17.1	10.8	27.9
On fuel and electricity	18.3	11.7	30	24.6	12.1	36.7
On transport	15.5	11.5	27	19.8	10.5	30.3
On education, culture and recreation	6.6	2.9	9.5	10.2	2.8	12.9
Other consumption expenditure	21	7.3	28.3	25.1	7.9	32.9

Source: MED Department for Statistics.

Table 2.5 analyses the shares of the various groups of cash consumption expenditure. The share of the education group registered the most significant growth, by 21%, from a 3.3% share to 4% in 2007. No other share registered similar growth. Total cash consumption expenditure also grew, but by a much lower rate: 12%.

Table 2.5: Cash consumption expenditure – distribution by group, 2006 and 2007 (%)

Shares in total cash consumption expenditure	2006			2007			
	Urban	Rural	Whole country	Urban	Rural	Whole country	Change in share 2007
Cash consumption expenditure total (GEL millions)	176.2	115	291.2	210.9	115.2	325.8	12.0
Food, beverages, tobacco	49.1	52.9	50.6	45.9	52.6	48.3	-5.0
Clothes and footwear	5.0	5.5	5.2	4.3	5.6	4.7	-9.0
Household goods	3.3	4.0	3.6	3.9	3.6	3.8	7.0
Healthcare	7.8	8.5	8.1	8.1	9.4	8.6	6.0
Fuel and electricity	10.4	10.2	10.3	11.7	10.5	11.3	9.0
Transport	8.8	10.0	9.3	9.4	9.1	9.3	0
Education, culture and recreation	3.7	2.5	3.3	4.8	2.4	4.0	21.0
Other consumption	11.9	6.3	9.7	11.9	6.9	10.1	4.0

Source: MED Department for Statistics. Calculation: ETF.

This conclusion is confirmed by Table 2.6, showing that expenditure in the education group has also registered the largest growth rate in absolute figures (GEL millions). This means that in 2007 Georgians spent 35% more on education than in 2006, while expenditure in other consumption groups also grew, but at much lower rates. The smallest growth rate was registered in the fuel group (22.3%).

Table 2.6: Cash consumption expenditure – change in absolute figures in 2007, compared with 2006 (%)

	Change in expenditure 2007 to 2006
Food, beverages, tobacco	6.7
Clothes and footwear	2.0
Household goods	19.2
Healthcare	18.7
Fuel and electricity	22.3
Transport	12.2
Education, culture and recreation	35.8
Other consumption	16.3

Source: MED Department for Statistics. Calculation: ETF.

Private education providers

Private education has been dynamic in general and higher education. The reform of education financing and the liberal government policies have contributed to this dynamism on the part of private education providers.

Table 2.7 indicates that the share of higher education students in the private sector is growing. In the academic year 2007/2008 the number of students in private higher education reached 28% of the total, up from some 21% in previous years.

Table 2.7: Public and private education – institutions and students, 2003–08

Secondary education	Public		Private	
	Schools	Students (thousands)	Schools	Students (thousands)
2003/2004	3 175	654.6	156	16.9
2004/2005	3 150	625.4	176	21
2005/2006	2 470	601.4	260	33.4
2006/2007	2 282	599.7	257	36.3
2007/2008	2 215	576.7	247	38

Higher education	Public		Private	
	Establishments	Students (thousands)	Establishments	Students (thousands)
2003/2004	26	123.9	150	29.4
2004/2005	26	137	172	35.4
2005/2006	25	113.8	145	30.5
2006/2007	18	110.9	148	30
2007/2008	19	81.2	137	30.9

Source: MED Department for Statistics. Calculation: ETF.

Expenditure on staff training

As formal education is imperfectly linked with skills and competences that form human capital, particularly in the context of changing technologies and organisations, we have gathered estimates of expenditure on staff training. Statistical data on this question were published in the *Statistical yearbook 2007* (MED Department for Statistics, 2007, Chapter 3.13), but not renewed in the 2008 yearbook.

So, in the available information, which covers the period 2003 to 2005, we see a decline of cost per employee for training (Table 2.8). In 2005 training therefore absorbed only 0.1% of average labour cost per employee.

Table 2.8: Distribution of labour cost per employee, 2003–05

	GEL			% of total		
	2003	2004	2005	2003	2004	2005
Labour cost (average)	1 939.3	2 403.4	3 051.8			
Vocational training	4.6	5.2	3.5	0.2	0.2	0.1

Source: MED Department for Statistics (2007).

2.2 Returns to education

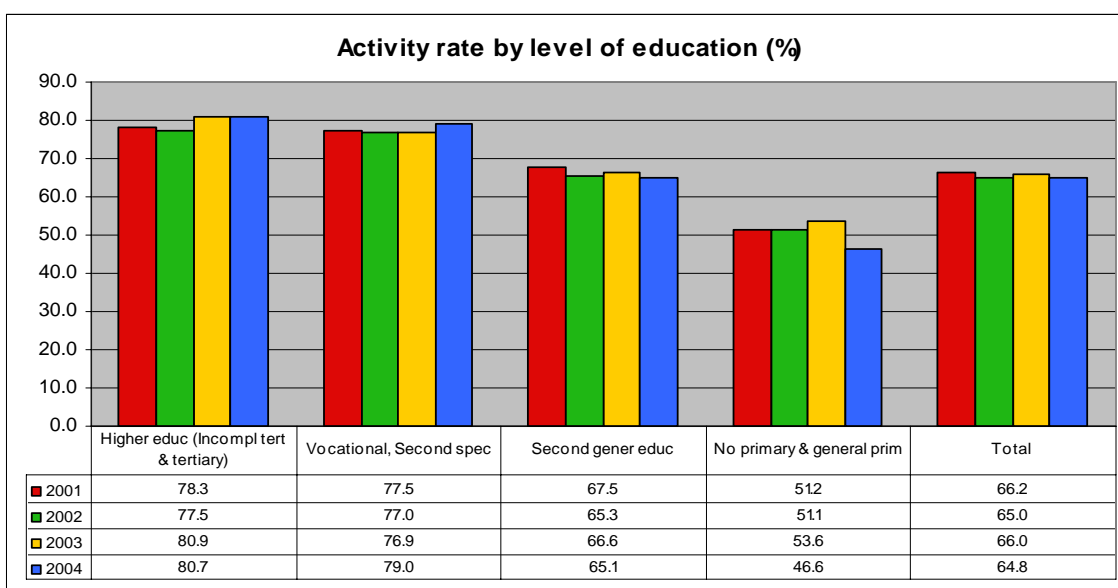
To suggest a conclusion on the question of whether investments in education promise proportional private returns, we analyse the performance of the various education levels in terms of the following variables:

(i) activity and employment, (ii) unemployment, (iii) wages, (iv) poverty, and (v) Index of Teaching Quality, proposed by Dr C. Zaman who provided expert support to this project.

2.2.1 Activity and employment

The activity rates of holders of higher education and vocational (primary and secondary) are higher than those of the remaining groups (secondary and basic) (Figure 2.3).

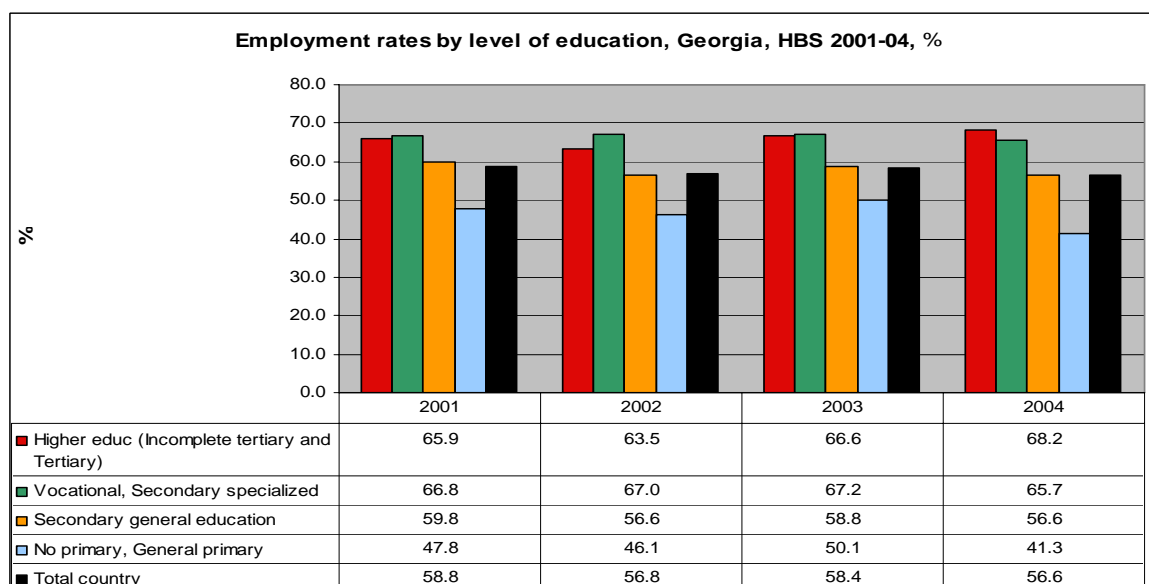
Figure 2.3: Activity rate by level of education, 2001–04 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Data on employment rates by educational level (see Figure 2.4) show that holders of primary and secondary education have significantly lower employment rates than the national average and holders of higher and vocational education qualifications. Higher education tends to improve performance in employment, and the employment rate for this category is greater than the employment rate for the vocational education category.

Figure 2.4: Employment rate by level of education, 2001–04 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

That higher education tends to improve employability could be linked to falling production demand or inaccurate job descriptions from employers who tend to overestimate the required level of formal education. Another possible explanation is an excess supply of job seekers with higher education competing with people with vocational and secondary specialised education. There are indications that holders of higher education diplomas compete for jobs based on middle-level qualifications. Evidence of this can be found in the fact that in 2007 and 2008 a high proportion of applicants for training places in the

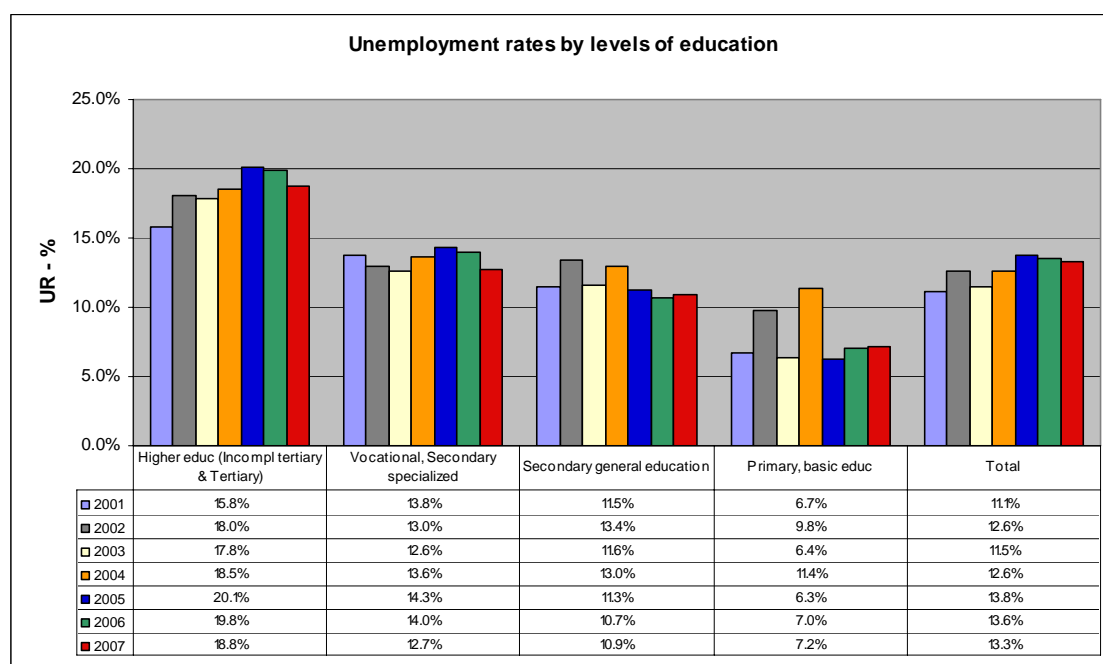
newly renovated VET centres were young adults with higher education seeking a better chance in the labour market.

The characteristics of underemployment by level of education are given in Table 2.9. The figures confirm that higher education is not dissociated from underemployment. Indeed the underemployment rate of holders of higher education is the highest among levels of educational attainment, in both years of analysis (2003 and 2006). But this indicator is also high among those with vocational education. Only holders of basic and secondary education show low rates of underemployment.

2.2.2 Unemployment

Analysis of unemployment rates¹⁷ according to education level confirms that only people with higher education have unemployment rates that exceed both the national average and the rates for other educational levels (see Figure 2.5). This might reflect a mismatch in terms of expectations, as many of the jobs on offer are unattractive because they are precarious, pay low wages and/or offer no career development. This is indicative of the vulnerability of those members of the labour force with higher education in the present condition of the economy, and demonstrates that formal education is no guarantee of relevant competences for employment. The relative disadvantage of holders of higher education remains steady over 2005, 2006 and 2007 (see Table 2.9).

Figure 2.5: Unemployment rate by level of education, 2001–07 (%)



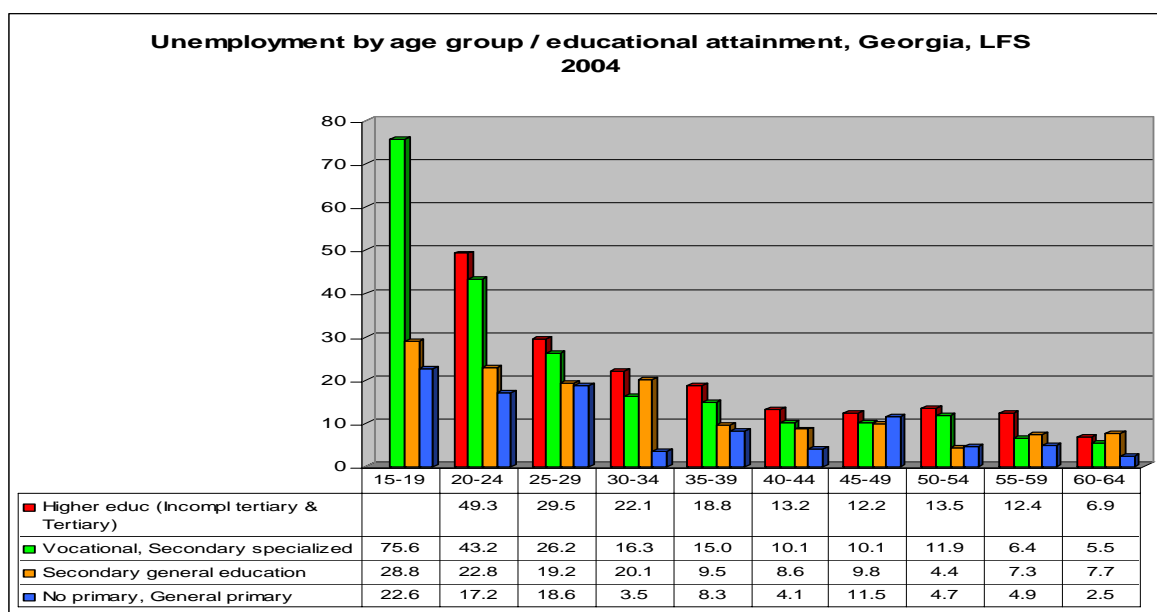
Source: MED Department for Statistics, unpublished data. Calculation and graph: ETF.

Furthermore, the household structure (with high employment levels for older workers) might act as a disincentive for younger people with higher education, leading them to ignore the unattractive jobs that are available. The availability of remittances from migration that contribute to household income might also act as an incentive for them to stay out of the labour market.

Figure 2.6 confirms a higher unemployment rate for those with higher education across all age groups for 2004.

¹⁷ Strict ILO criteria. Unemployed and active population in the same category (gender, education or age).

Figure 2.6: Unemployment rate by level of education and age group, 2004 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

At the request of the ETF, the Department of Statistics supplied an update of labour market data (but not rates) for the period 2005–2007, broken down by levels of education. Table 2.9 summarises these data.

Table 2.9: Labour market data by level of education, 2005–07

Employment by level of education (thousands)	Share of total (%)*										
	Primary	Basic	Secondary	Primary vocational	Secondary vocational	Higher	Unidentified	Total	Female	VET (primary + secondary)	Higher education
Total											
2005	65.8	132.9	698.3	165.6	240.3	436.2	5.5	1 744.6	48.0	23.0	25.0
2006	60.5	127.3	722.8	155.3	238.2	442.5	0.7	1 747.3	47.0	23.0	25.0
2007	43.7	132.0	681.8	107.6	265.6	469.5	4.0	1 704.3	48.0	22.0	28.0
Female											
2005	39.2	67.1	309.5	66.0	136.8	209.0	1.5	829.1			
2006	34.2	63.8	317.4	61.6	135.5	212.3	2.0	826.8			
2007	24.3	69.8	300.1	41.2	149.1	229.6	2.0	816.2			
Male											
2005	26.6	65.7	388.6	99.6	103.4	227.1	4.0	915.2			
2006	26.3	63.2	404.2	93.5	102.2	229.5	1.6	920.5			
2007	19.4	62.2	381.8	66.4	116.5	239.8	2.0	888.1			
Unemployment by level of education											
Total											
2005	0.9	12.4	88.8	23.5	44.1	109.5		279.3	43.0	24.0	39.0
2006	1.3	12.8	86.8	19.6	44.4	109.6		274.5	40.0	23.0	40.0
2007	0.4	12.9	83.0	10.1	44.0	110.5		261.0	45.0	21.0	42.0
Female											
2005	0.3	2.7	30.5	10.6	27.9	48.2		120.1			
2006	0.4	4.3	25.2	9.4	24.7	45.1		109.1			
2007	0.3	4.7	29.4	4.6	26.1	52.1		117.3			
Male											
2005	0.7	9.8	58.3	12.9	16.2	61.4		159.2			
2006	0.9	8.5	61.6	10.2	19.6	64.5		165.4			
2007	0.1	8.2	53.6	5.5	17.9	58.4		143.7			

Economically active population by education	Primary	Basic	Secondary	Primary vocational	Secondary vocational	Higher	Unidentified	Total	Female	VET	Higher education
Total											
2005	66.7	145.3	787.1	189.1	284.4	544.8	6.5	2023.9	47.0	23.0	27.0
2006	61.6	139.9	809.2	174.8	282.9	552.6	0.7	2021.8	46.0	23.0	27.0
2007	42.8	143.3	760.1	116.2	310.4	588.6	3.9	1965.3	47.0	22.0	30.0
Female											
2005	39.4	69.8	340.1	76.6	164.8	256.6	2.2	949.5			
2006	34.5	68.1	342.9	71.2	160.8	258.0	0.4	935.9			
2007	24.0	73.2	326.5	45.5	176.3	286.1	1.9	933.5			
Male											
2005	27.3	75.5	447.0	112.4	119.7	288.2	4.3	1074.4			
2006	27.1	71.8	466.2	103.7	122.2	294.6	0.3	1085.9			
2007	18.8	70.1	433.5	70.7	134.1	302.6	1.9	1031.8			

*(%) column shows proportion of selected categories (female, VET and higher education) in total employment, unemployment and economic activity. VET is the sum of 'primary vocational' and 'secondary vocational'. Source: MED Department for Statistics, at request of ETF (2008).

Table 2.9 confirms some of the conclusions already underlined above for the period 2001–04, but only the unemployment rate can be calculated from this table.

- In the period 2005–07 the unemployment rate of holders of higher education was about 19% to 20%, against 13% to 14% of those with vocational education, for an average rate of 13.3%. These figures indicate a decline in unemployment rates in these categories, particularly accentuated for holders of higher education.
- Although the Georgian labour force has the significant strength of its high educational attainment (in 2007, 30% of the population had higher education), this potential is not fully realised in the economy. Almost half of the unemployed (a disproportionately high 42%) have received higher education, compared with only 28% of the employed.
- Interestingly, the female labour force is well positioned. Women have a proportionate share in employment; representing 47% of the active population and 48% of the employed, while 45% are unemployed. What these figures do not show is the unequal wage treatment reserved for women across all sectors.

These figures have implications for education and employment policies. Higher than average unemployment odds for those with higher education mean a negative return on private and public investment in education and contribute to compromise enhanced labour productivity in enterprises. From another perspective, this situation reflects a poor skills mix for the active population in terms of the current and prospective requirements of the economy. Public policies in regard to professional guidance are important in influencing the future skills mix and the human resource profile of the country.

Using a simple methodology proposed by Bartlett (2006), we compare the distribution of educational attainment across employment and unemployment in Georgia and Azerbaijan, using available data from the Department for Statistics.¹⁸ The rough indicator of 'excess supply of persons of different education levels' is derived by subtracting the share of those in employment in each education attainment category from the share of those unemployed in the same category. Tables 2.11 and 2.12 show different profiles of two countries on this indicator.

Table 2.10 uses the above method to calculate the excess supply of labour by level of education, again revealing that Georgia possesses a potentially large human capital, if we consider the attainment in formal education of its active population: in 2007 30% have higher education and over 20% have vocational

¹⁸ We could not apply this comparative analysis to Armenia, despite the availability of an annual labour force survey, due to insufficiencies in data coverage that do not allow calculation of shares by category.

primary and secondary education. The table also shows the mismatch in the labour market expressed by the growing excess supply of labour with higher education.

Table 2.10: Share with higher education and vocational education (primary and secondary) by labour market status, 2005–07 (%)

	Economically active		Unemployed		Employed		Excess supply higher education	Excess supply VET (primary and secondary)
	Higher education	VET (primary and secondary)	Higher education	VET (primary and secondary)	Higher education	VET (primary and secondary)		
2005	26.9	23.4	39.2	24.2	25.0	23.3	14.2	0.9
2006	27.3	22.6	39.9	23.3	25.3	22.5	14.6	0.8
2007	30.0	21.7	42.4	20.7	27.6	21.9	14.8	-1.2

Source: MED Department for Statistics, unpublished data, at request of ETF, June 2008. Calculation: ETF.

Table 2.11: Georgia – distribution of educational attainment across employment and unemployment, 2005–07 (%)

	2005			2006			2007		
	Employed	Unemployed	Excess supply	Employed	Unemployed	Excess supply	Employed	Unemployed	Excess supply
Primary	3.8	0.3	-3.4	3.5	0.5	-3.0	2.6	0.2	-2.4
Basic	7.6	4.4	-3.2	7.3	4.7	-2.6	7.7	4.9	-2.8
Secondary	40.0	31.8	-8.2	41.4	31.6	-9.8	40.0	31.8	-8.2
VET primary	9.5	8.4	-1.1	8.9	7.1	-1.7	6.3	3.9	-2.5
VET secondary	13.8	15.8	2.0	13.6	16.2	2.5	15.6	16.9	1.3
Higher education	25.0	39.2	14.2	25.3	39.9	14.6	27.6	42.4	14.8
Unidentified	0.3		-0.3	0.2		-0.2	0.2		-0.2

Source: MED Department for Statistics, unpublished data, at request of ETF, June 2008. Calculation: ETF.

Table 2.12: Azerbaijan – distribution of educational attainment across employment and unemployment, 2003–06 (%)

	2003			2006		
	Employed	Unemployed	Excess supply	Employed	Unemployed	Excess supply
Higher education (complete and incomplete)	20.2	9.3	-10.9	18.3	14.4	-3.9
Vocational (secondary and primary)	20.1	12.9	-7.2	15.4	13.3	-2.1
Secondary education	58.6	77.5	18.9	64.5	71.9	7.4
No primary, primary	1.1	0.6	-0.5	1.7	0.6	-1.1

Source: Labour force surveys (2003, 2006). Calculation: ETF.

Azerbaijan has an excess supply of workers with secondary general education, a conclusion that is confirmed by the fact that only a limited share of graduates from secondary school are able to enter higher education, while alternative post-secondary learning is very underdeveloped. So a large layer of youth with secondary general education (academic orientation) is disconnected from further education and training (known pathways and offer) and not well prepared for employment.

Deficit supply of workers with higher education was substantially higher in 2003 than in 2006, and a similar trend was observed in relation to supply of workers with vocational education. As a result of this deficit of workers with professional higher and vocational/technical qualifications, we observe that the excess supply of labour with only secondary general education declined steeply, by over 50% in the period 2003 to 2006.

In comparison with Azerbaijan, Georgia shows a very different profile (Table 2.11), in which excess supply of labour with higher education is not only the most significant but is also growing. Workers with secondary VET qualifications were also in excess supply, although on a minor scale. The figures suggest that workers with complete secondary education are the best positioned in the current labour market – deficit supply in this category is consistent over the three years analysed in Table 2.11.

2.2.3 Wages

According to the World Bank analysis (2008, pp. 81–82), the wage differentiation by level of education is clearly favourable for holders of higher education.

So the educational premium in earnings is pronounced in the private sector, where those with higher education earn on average 78% more than those with below secondary education. In the public sector this premium is only 22%. The group with vocational and higher education earn on average 50% more in the private sector. The premium of vocational education over below secondary general education is 20% in the private sector, however, it is -18% in the public sector. The estimated premium in the private sector for each additional year of education is approximately 9%, a figure comparable with many other transition countries.

2.2.4 Poverty

This section is based on the analysis of the World Bank's 2008 poverty assessment, unpublished when this report was drafted. In Georgia the poverty headcount rate in 2007 was 23.6% (total poverty, based on a poverty line at GEL 71.6), and 9.3% for a poverty line of GEL 47.1 (extreme poverty).

The poverty rate significantly declines as the level of education by a household head reaches the level of vocational education and particularly of higher education. So, the poverty rate associated with different levels of education of the household head varies, as indicated in Table 2.13.

The poverty headcount rate is the lowest among households where the head of household holds higher education: 12.1%. This rate is much lower than the over 20% of the group with VET, and the approximately 30% among those households with a head with secondary education or below.

Note that having higher education is not sufficient to escape poverty: approximately 13% of the poor (total poverty) and 11% of those in extreme poverty have this level of education. However these figures are lower than the proportion of the population with higher education (25.2%), which shows the relatively positive situation of this category as far as poverty is concerned. The opposite may be said of the population with secondary general education: they represent 39% of the total population, but almost half of the poor (total poverty) and more than half of those in extreme poverty.

Table 2.13: Poverty, by education level of head of household, 2007 (%)

Education level of head of household	Poverty head-count rate	Distribution of poor	Distribution of population
Total poverty			
Incomplete secondary/below	31.8	20.0	14.9
Secondary	29.0	48.1	39.3
VET (primary, secondary)	21.7	18.1	19.7
Incomplete higher	21.9	0.9	1.0
Higher	12.1	12.9	25.2
Total	23.6	100.0	100.1
Extreme poverty			
Incomplete secondary/below	12.9	20.5	14.9
Secondary	12.0	50.6	39.3
VET (primary, secondary)	8.3	17.4	19.7
Incomplete higher	2.9	0.3	1.0
Higher	4.1	11.2	25.2
Total	9.3	100.0	100.0

Source: World Bank (2008, p. 43).

2.2.5 Index of Teaching Quality

Dr Zaman's proposal is based on the following premises.

- An efficient education system ensures sufficiently high returns from a better educated population.
- The efficiency of education can be used as a proxy for the return rate. Efficiency is directly correlated with quality. Besides infrastructure elements, quality depends on quality of teaching, which is linked to the quality of teachers. The relative salaries of teachers are essential to retain good teachers in the education sector. Low salaries motivate good professionals to move from education to other more rewarding occupations and sectors of activity.
- The Index of Teaching Quality is the ratio between the average wage in the education sector and the average wage in the economy.

In Georgia the average wage in education (as an economic activity) is among the lowest, as Table 2.14 shows. However this average is not limited to teachers' wages, it includes all levels of staff/functions. Nevertheless, even after significant wage increases, the average monthly wage for secondary teachers is between GEL 195 and GEL 283 (2008). VET teacher wages vary from GEL 115 to GEL 500, depending on the quality of the infrastructure and equipment of the VET centre¹⁹.

Table 2.14: Wages in education, ratio to average gross monthly wage, 2003–07

Type of economic activity	Average monthly wage (GEL)					Ratio to average wage (%)				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
Average economy	125.9	156.8	204.2	277	368.1					
Agriculture, forestry	47.6	68	128.9	148.1	184.9	37.8	43.4	63.1	53.5	50.2
Public administration	132	192.4	342.4	448	585.4	104.8	122.7	167.7	161.7	159.0
Education	68.5	88.7	92.5	122.1	153	54.4	56.6	45.3	44.1	41.6

Source: MED Department for Statistics (2008e, p. 51).

¹⁹ Teachers in 10 VET public centres rehabilitated by the public budget in 2006–07 benefit from higher monthly salaries (approximately GEL 500). The justification given by the MES is linked to the need to ensure motivation and better teachers able to work with new technologies and equipment.

Table 2.14 shows the ratio of monthly wages in education to average national monthly wages. For comparison we provide similar data for two other sectors: agriculture and public administration. The ratio between the average wage in the education sector and the average wage in the economy is the lowest of all sectors, even when compared with agriculture. Note that the wage ratio for education tends to fall continually, to reach a very low level of less than 42% of the national average wage (all sectors) in 2007. This trend indicates that wages in the education sector are becoming less competitive than wages in other sectors of economic activity.

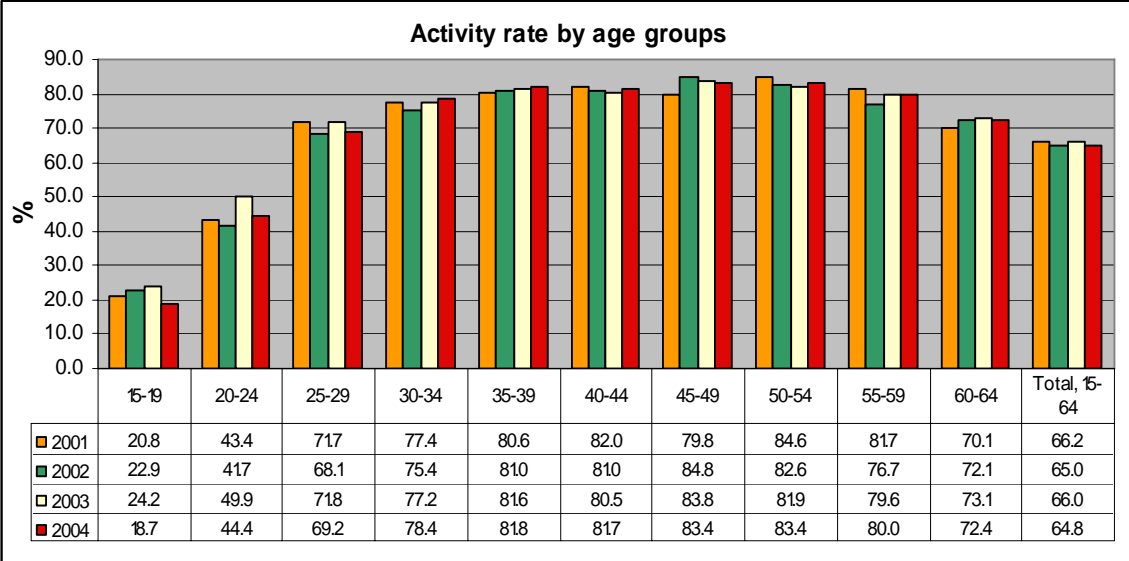
However we will limit the calculation to *teachers' wages*. If we calculate the ratio between the highest teachers' wages (GEL 283) and the average in the economy for 2007, we obtain a better indicator: 77%. The same ratio for the lowest teachers' wage level (GEL 195) is 50%. This indicates that the proposed Index of Teaching Quality is situated between 0.5 and 0.77, which is largely below the minimum figure (which should be greater than 1) that would show the existence of teaching quality.²⁰

2.3 Transition from school to work

We begin with a brief recapitulation of the labour market statutes of youth. The level of unemployment by age group confirms that younger people are much more vulnerable to unemployment (see Figures 1.16 and 1.17).

The activity rate of younger age groups (15–19 and 20–24) is significantly lower than the country total activity rate. However the subsequent age group (25–29) shows activity rates slightly higher than the country total. Figures 2.7 and 2.8 show activity rates by age group in 2001–04 and 2005–07²¹.

Figure 2.7: Activity rate by age group, 2001–04 (%)

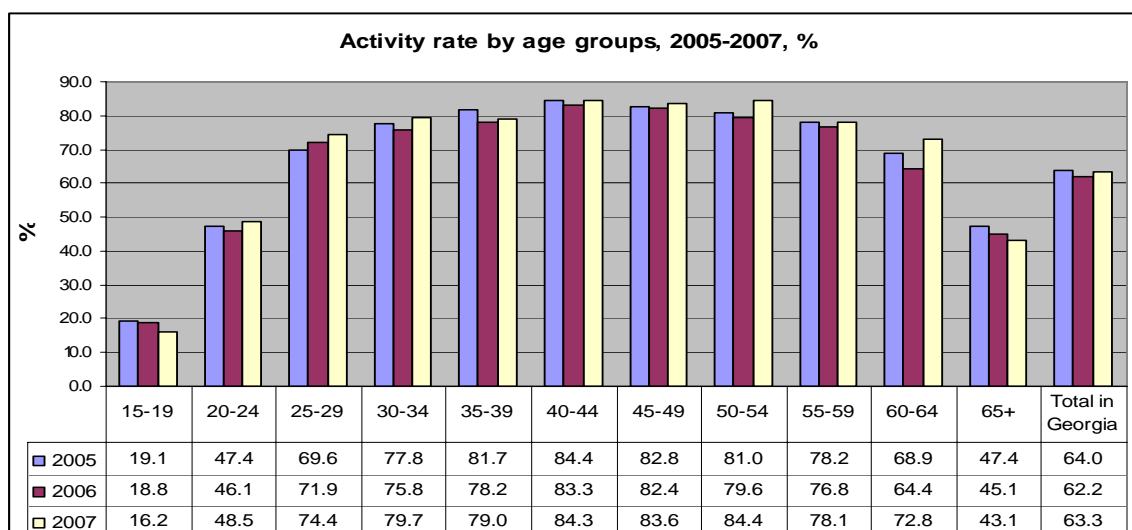


Source: MED Department for Statistics, unpublished data. Graph: ETF.

²⁰ According to the method proposed by Dr C. Zaman for this project.

²¹ The combination of activity rates across the whole period 2001–07 into a single graph was difficult due to different age grouping in the two time sets (2001–04, 2005–07).

Figure 2.8: Activity rate by age group, 2005–07 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

Comparing Figures 2.7 and 2.8, we observe a stable growing trend in labour market participation of the 20–24 age group (43.4% in 2001, 48.5% in 2007).

Assessment of transition to working life

This section is based on a 2006 report that provides an analysis of household budget survey data from 2002 (Rosati et al., 2006). The study examines the routes that young people take from education to the work force, using two methodologies:

- a synthetic indicator to measure the school-to-work transition: estimated probability for computation of the average age of school leaving and job entry;
- the OECD approach, making use of cohort indicators to identify school-leaving age²² and job-entry age.

Both methods are designed to measure the timing and duration of the school-to-work transition and should give similar results for Georgia. Neither method permits conclusions regarding the efficiency or success of the transition in Georgia. A better understanding of efficiency would require integrating analysis of optimal school-leaving age with that of young people's employment search and labour force participation.

The starting point of transition for both methodologies is taken as the first age at which schooling is no longer compulsory. This is the age at which young people can choose between continuing their education (vocational pathways or academic towards tertiary education), or seeking a chance in the labour market.

The synthetic indicator methodology reveals the following results.

- There are two aspects of the school-to-work transition: (i) the school-leaving age (after compulsory education); and (ii) the period of settling into work after leaving school. Both are relatively long in Georgia.
- Results of the analysis show that the duration of school-to-work transition is 10.6 years on average in Georgia.
- Transition for girls is significantly longer than for boys: 13.5 years against 8.6 years.
- The post-compulsory education period is 4.6 years on average – 4.9 years for boys and 4.5 years for girls. Ethnic features also count: this period is longest for Georgians (5.2 years), and shorter for Azeris (3.1 years), while for Armenians it is 4 years.

²² School-leaving age is defined as the first age at which 50% of the cohort is not in school. Job-entry age is defined as the age at which 50% of the cohort is employed, but not studying.

- The period of settling into work is 6.2 years on average. The gender differentiation is very large: 3.7 years for boys and 9 years for girls. Differentiation linked with ethnic groups is also wide: shorter for Georgians (5.5 years) and much longer for Azeris (7 years), and Armenians (10 years).

The average school-leaving age in Georgia was 19 (2002), more or less comparable with other countries: Austria 18.8; Czech Republic 20.4; Sweden 18.7; Hungary 18.1; United Kingdom 18.8; United States 18.5.

The length of the second aspect of the transition – settling into work – is of greater concern in terms of efficiency. Young people take on average more than six years to settle into work, which seems well beyond what may be considered ‘waiting’ unemployment while people are seek better jobs. This long duration out of employment after study can lead to loss of productive potential, job prospects and skills.

The OECD cohort methodology reaches similar results.

- The post-compulsory schooling period is four years, as the age at which a youth cohort ceases to be comprised of primarily students is 20 years.
- The period of settling into work is long: 14.5 years for girls (30.5 years is the age at which half of the female cohort is employed and not in school), and 7.5 years for boys (cohort: 23.5 years).
- Income distribution: youth from healthier quintiles of the population invest more time in post-compulsory education (school-leaving age), but much less time settling into work.
- Compared with OECD countries, Georgian youth has a much longer period of settling into work. As reference years for the OECD and Georgian data differ, these comparisons are merely indicative.

Table 2.15: Duration and composition of the transition from school to work, selected OECD countries (years)

Country	Duration of post-compulsory education phase	Duration of settling into work phase
United States	1.5	3.5
United Kingdom	2.6	3.5
Switzerland	4.3	1.7
Sweden	2.7	4.9
Spain	4.3	5.3
Canada	4.4	2.4
Ireland	4.9	1.3
Norway	3	5.6
Belgium	5.9	1.8
Georgia	3	8

Source: Rosati et al. (2006, p. 30).

2.4 Employment by education level in sectors of economic activity

The MED Department for Statistics kindly shared with the ETF the following data that show the distribution of human capital (using formal education attainment as proxy for human capital) among the various sectors of economic activity.

Table 2.16: Employment by education level in sectors of economic activity, 2007 (%)

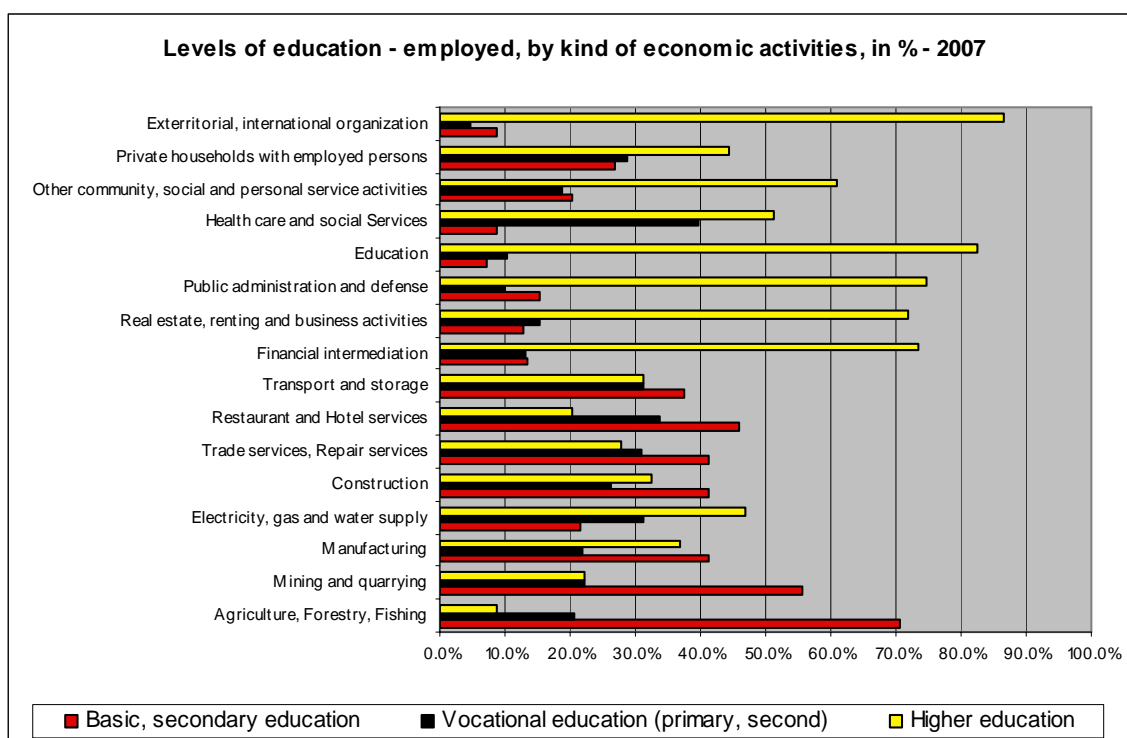
2007	Basic, secondary education	Vocational education (primary, secondary)	Higher education
Agriculture, forestry, fishing	70.6	20.6	8.9
Mining and quarrying	55.7	22.1	22.2
Manufacturing	41.3	22.0	36.7
Electricity, gas and water supply	21.7	31.3	47.0
Construction	41.2	26.3	32.4
Trade services, repair services	41.1	31.0	27.9
Restaurant and hotel services	46.0	33.7	20.2
Transport and storage	37.6	31.2	31.2
Financial intermediation	13.5	13.0	73.5
Real estate, renting and business activities	12.9	15.3	71.8
Public administration	15.2	10.1	74.7
Education	7.10	10.35	82.55
Healthcare and social services	8.9	39.7	51.3
Other community, social and personal service activities	20.4	18.6	61.0
Private households with employed persons	26.8	28.8	44.4
Extraterritorial, international organisation	8.7	4.7	86.6

Source: MED Department for Statistics, unpublished data. Calculation: ETF.

Figure 2.9 interprets Table 2.16 with a clear visualisation of the stock of human capital in each sector of economic activity. We use educational attainment level as proxy for human capital. The employed with higher education predominate in such sectors as healthcare, education, public administration, real estate, financial intermediation, and in the specific group of extraterritorial and international organisations. The employed with secondary education have a significant participation in the sectors of agriculture, mining and quarrying, construction, hotels and restaurants and finally in transport, storage and communications. The employed with vocational education (primary and secondary) tend to reach large numbers in the same sectors as indicated for secondary education (particularly in hotels and restaurants, construction, trade and repair, electricity gas and water supply); but have a particularly large share in the health sector (nurses). Agriculture employs the smallest share of those with higher education, and the largest with secondary education.

Does this allocation of human capital mean anything for sector productivity? We attempt to answer this question in Chapter 3.

Figure 2.9: Employee level of education by sector of economic activity, 2007 (%)



Source: MED Department for Statistics, unpublished data. Graph: ETF.

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3. Restructuring labour markets and changing employment patterns

Reforms have been a key element of recent Georgian history, in particular in the last five years. Macroeconomic reforms, business environment reforms, taxation reforms, financial system reforms, employment policy reforms and deregulation in all areas have turned around much of the country's social and economic structures and habits. Based on analysis of quantitative information as well as on recognised expert analysis, this chapter provides an overview of the trends in the Georgian economy and labour market, centred on the changes in the relative positions of the key kinds of economic activity from the perspectives of added value and growth, productivity, wages and employment. The report overviews the macroeconomic situation and provides updated information on the implications of the twin crises (armed conflict of August 2008 and global economic downturn) on the economy and public finance, highlighting that decline in 2009 has been deeper than initially expected and will determine a slow recovery in 2010. Much of the data on the behaviour of economic sectors and businesses in the crisis context were not available at the time of writing, therefore the crisis framework is not equally highlighted throughout.

3.1 Macroeconomic situation and economic restructuring

Between 2004 and 2008, Georgia implemented macroeconomic reforms that have begun to yield satisfactory results in terms of economic growth, improvements in the overall business and investment environment, growth of foreign capital inflows and some progress in poverty reduction. The level of foreign investment has greatly expanded as the business environment has become more attractive and large projects are implemented. Fiscal policy, budget deficit and transparency issues – including corruption among tax and customs officials and smuggling across unsecured borders and in conflict zones – are a particular focus of attention for the authorities elected after 2003.

While Georgia is a Poverty Reduction and Growth Facility (PRGF)-eligible country, its per capita income has risen rapidly, reaching over USD 2 300 in 2007; and it has recently become an International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD) blend country.²³ The last Article IV consultation with the IMF was concluded in March 2006.

Georgia is pursuing a liberal economic policy. As the government is committed to reducing the role of the state in every respect, in all sectors, particularly health and education, efforts are under way to increasingly involve the private sector in service delivery to improve efficiency.

In 2008, following the political changes of November 2007 and the electoral cycle, the government placed more emphasis on social spending, particularly on pensions, salaries and social programmes. Yet defence spending also has grown substantially and is projected to account for nearly 20% of total public expenditure in 2008.

Georgia is seeking to position itself as an attractive international business location. In recognition of its achievements, the World Bank has pointed to Georgia as the world's leading economic reformer. The country's ranking in the bank's *Doing Business* survey has improved from 137th place in 2004 to 37th place in 2006.²⁴ In 2008 the country's ranking rose to 21st place and in 2009 to 15th place. The transition indicators for 2006 issued by the European Bank for Reconstruction and Development (EBRD)²⁵ show that Georgia is now roughly in line with the EBRD average. The Heritage Foundation's *2006 Index of Economic*

²³ The 'blend' category is used to classify countries that are eligible for IDA resources on the basis of per capita income but also have limited creditworthiness to borrow from the IBRD. Generally, given the access to both sources of funds, blend countries are expected to limit IDA funding to social sector projects (and use IBRD resources for projects in the 'harder' sectors).

²⁴ www.doingbusiness.org/EconomyRankings/

²⁵ www.ebrd.com/pubs/econo/6813.htm

Freedom reclassified the Georgian economy as 'mainly free', a change from its 'mainly non-free' position on the 2005 index.²⁶

The World Bank's *Georgia country profile 2008* Corruption Survey (World Bank, 2008) is also positive about Georgia's anti-corruption progress: the survey estimated that only 4.1% of firms in Georgia are expected to make informal payments, while the same indicator is much higher in other countries of the Eastern Europe and Central Asia region (approximately 33%)²⁷.

3.2 Macroeconomic trends before the 2008 conflict

In the period 2004–08 Georgia implemented macroeconomic reforms that allowed the country to: (i) register consistently high economic growth rates (12.5% in 2007); (ii) become a high performer in terms of foreign direct investment (FDI); (iii) significantly increase budget revenues (particularly the share of tax revenues); and (iv) reduce corruption. However a large and growing trade deficit (28% of GDP in 2007) and high inflation rates (peak in March 2008 with 12.25%) have accompanied these economic developments.

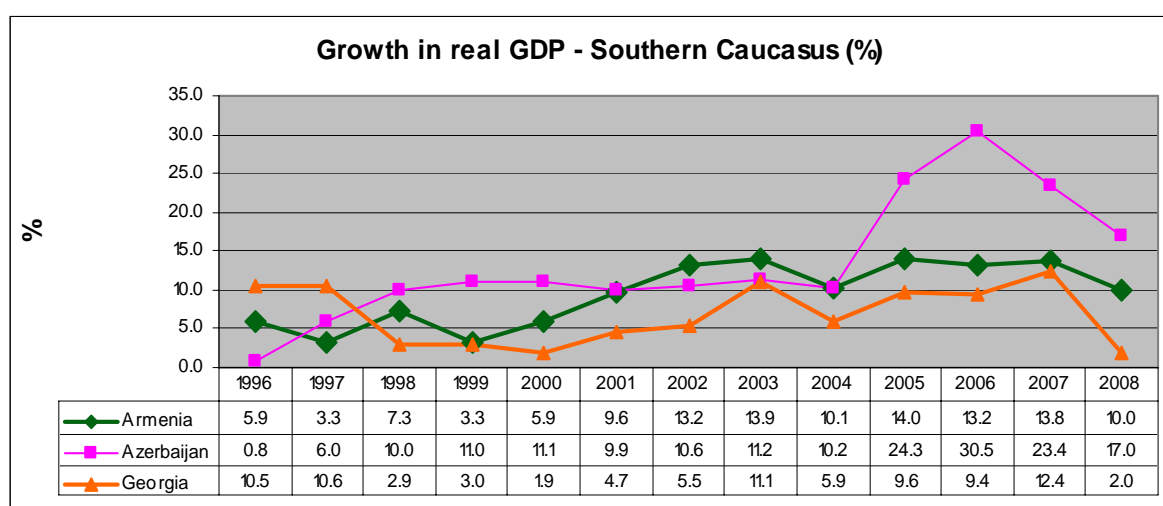
The major trends in the Georgian economy in the period 2004–08 (before the conflict of August 2008) were as follows.

Gross domestic product (GDP) growth rates

Economic growth, driven by foreign inflows, reached double digits amid rising inflation and a widening current account deficit.

- High annual GDP growth has been sustained by an increase in internal demand (including for investment commodities), and the growth of foreign direct investment.
- In 2006 real GDP growth reached 9.7% and in 2007 it reached 12.5%. In the first quarter of 2008 nominal GDP reached almost USD 2.7 billion, which was 35% higher year-on-year than for the same period in 2007. However in the second semester of 2008 this trend was disrupted, although the official figures on growth rate in 2008 are yet to be published. The EBRD estimated at 2% the growth rate in real GDP in 2008 (Figure 3.1). Available official estimates of the growth rates of GDP at market prices in 2008 are 9.1% in the first quarter (Q I), 8.7% in Q II, and 4% in Q III (Department for Statistics, 2008, p. 13.) GDP growth in 2009 is projected at –1%.

Figure 3.1: Real GDP growth rates in the Southern Caucasus states, 1996–2008 (%)



Source: EBRD (2008, Table A 2.1, Growth in real GDP). Graph: ETF.

²⁶ www.heritage.org/Index/Download.aspx

²⁷ www.enterprisesurveys.org/documents/EnterpriseSurveys/Reports/Georgia-2008.pdf

Note that GDP growth in Georgia continues to recover, in contrast to neighbouring Armenia and Azerbaijan, whose levels of real GDP in 2007 largely exceeded those of 1989. The index of GDP in Georgia in 2007 is only 60 (1989 = 100). In comparison, in 2007 Armenia reached a level of 143 and Azerbaijan a level of 160. Georgia shows an unstable GDP growth trend in the decade, after experiencing a longer and deeper transition decline than other Commonwealth of Independent States (CIS) countries, reflecting the turmoil in the country's socio-political conditions and the environment, as well as the effects of the declining quality of governance. Figure 3.1 shows high GDP growth rates in the region. However, the Georgian economy remains vulnerable to shocks.

Inflation

In a context of growing government spending, strong capital inflows and positive domestic demand, Georgia needs to maintain its focus on combating inflation. The authorities have not been able to stop the rise of inflation, which peaked at 12.25% in March 2008 before slowing to 9.75% in July (IMF, 2008, p. 6). In July 2006 inflation reached a peak of 14.5%, well above the target of 6% set by the central bank; inflation fell to 8.9% by the end of 2006 as a consequence of the central bank deliberately allowing the GEL to appreciate in nominal terms. In 2007 (for a nine-month period) inflation was approximately 12%.

Budget revenues

Budget revenues have increased significantly since 2004, particularly the share of tax revenues, thanks to reforms in taxation and tax administration, the high growth of VAT and profit tax, and social and income tax collections. The growth of total revenues against GDP persisted (15% in the period 2000–04, against 30.7% in 2006 and over 32% in 2007). Tax revenues almost doubled, from a 14% share from 2000 to 2004, to approximately 25% in 2007. VAT and profit tax revenues have grown faster than revenues from social tax. In 2007 capital revenues grew significantly (more than 30% in the third quarter).

Table 3.1: Total consolidated budget revenues, 2000–07

	Total revenues (GEL millions)	Total tax revenues (GEL millions)	As % of GDP	
			Total revenues	Total tax revenues
2000	905.2	854.3	15.0	14.1
2001	1033.9	954.7	15.5	14.3
2002	1135.3	1054.7	15.2	14.1
2003	1272.7	1186.6	14.9	13.9
2004	2102.0	1827.6	21.4	18.6
2005	3152.7	2411.5	27.2	20.8
2006	4235.6	3149.4	30.7	22.9
2007	5915.6	4391.1		

Source: GEPLAC (February 2008).

Table 3.2: Total consolidated budget expenditures, 2000–07

	Total expenditure (GEL millions)	% of GDP	
		Total expenditure	Education
2000	1126.5	18.6	2.2
2001	1237.9	18.5	2.1
2002	1409.5	18.9	2.2
2003	1522.1	17.8	2.1
2004	2412.2	24.6	2.9
2005	3280.8	28.3	2.5
2006	4464.1	32.4	3.0
2007	6083.1		

Source: GEPLAC (February 2008).

Tables 3.1 and 3.2 show a rise in budget revenues, including tax revenues, and in budget expenditures after 2004. Budget expenditure for education also grew, but it remains far below the OECD average, for example. At the same time, budget expenditure for defence grew substantially, reaching 8% of GDP in 2006 and 12.9% in the third quarter of 2007, compared with 4.4% of GDP in 2004. According to the Georgian-European Policy and Legal Advice Centre (GEPLAC), a downward trend in spending on social security continued into the third quarter of 2007.

Fiscal policy

Following the loose fiscal policy in 2007 the budget deficit reached 4.7% of GDP. In response, a new fiscal policy was established to ensure that a balanced budget is the norm in the future. Any budget surplus would be saved in special funds for future development projects. In April 2008 the government issued a first USD 500 million Eurobond.

Foreign direct investment

Inflows of FDI have increased sharply in recent years (growing 9% on average for the period 2002–2006), and were expected to reach 17% of GDP in 2007 (IMF, 2008, p. 6)²⁸. FDI inflows were driven by pipeline construction between 2002 and 2005, but by 2006 the share of investments in banking, manufacturing and tourism had expanded to represent more than half of all FDI. Accumulated FDI per capita in Georgia for the period from 1989 to 2006 was more than twice the average for all CIS countries (IMF, 2007, p. 7).

According to government estimates, capital inflows were expected to reach an unprecedented USD 2.0 billion to USD 2.5 billion in 2007, almost double the 2006 level, and to reach USD 1.5 billion in the first half of 2008. While this is a major factor in support of strong, broad-based growth, it requires a tight fiscal stance in order to avoid higher inflation and overheating of the economy.

A positive balance of the financial account was based on high annual growth rates (49.6%) of FDI in 2007 (GEPLAC, February 2008). According to the same source, USD 413 million in FDI was received in the third quarter of 2007, of which one quarter came from the Netherlands. Other significant investment inflows came from the Virgin Islands, Cyprus and Ukraine, as well as the Russian Federation, mainly in the sectors of energy, banking, construction and tourism.

External sector

Performance of the external sector was mixed, with a strong increase (80%) in the trade deficit in 2006 (trade balance of goods and services = USD –1 845.5 million) (GEPLAC, February 2008) compared with 2005, as a result of both an accelerated rate of importation of investment goods (for construction in the Southern Caucasus of the gas pipeline with Azerbaijan) and gas imports, and slower growth in exports of traditional Georgian products such as wine and mineral water to the country's largest market, the Russian Federation (the consequence of a trade embargo launched in March 2006). Wine, for example, was Georgia's second most important export in 2005, representing 9.2% of total exports; but by 2006 this share had fallen to 4.2%. In the first three-quarters of 2007 the trade deficit continued to grow.

Georgia exports mainly scrap metal, wine, ferro-alloys, nuts, aircraft, copper, ammonium nitrate, gold, mineral water, cement and sugar. The most important imports are petroleum products and natural gas, motor cars, medicines, turbines for power generation, aircraft, wheat and electrical power. After years of decline in the domestic industrial infrastructure, most consumer goods have to be imported from abroad.

Current account deficit

The deficit of the current account balance expanded significantly from 2005, growing by 76% in 2007 (compared with 2006) and reaching an unprecedented 19.7% of GDP. The first and second quarters of 2008 respectively registered current account deficits in the order of 29% and 26% of GDP. In the short term, two factors are expected to have positive repercussions on the current account deficit: exports of

²⁸ Comparative figures on net FDI in % of GDP (2007): Armenia, less than 2%; Ukraine, approximately 6%; Estonia, approximately 5%.

services associated with the Baku-Tbilisi-Ceyhan oil pipeline, and an increase in FDI, which financed the current account to the amount of almost 20%. Private capital inflows fully financed the deficit, and gross international reserves increased by USD 104 million to USD 1.5 billion (2.5 months of imports) by the end of July 2008.

In 2007 workers' remittances transferred via banks increased by 83% compared with 2006 (64% originating from the Russian Federation).

However the dependency of the Georgian balance of payments on financial flows from foreign investment and, to a lesser extent, from migrants' remittances has exposed it to severe risks after the fall of investor confidence caused by the disruptive military conflict of August 2008 with Russia. Without the surplus in the financial account balance to finance the large current account deficit, the balance of payments faces a severe problem.

Bank assets

Bank assets grew from 30.7% of GDP to 43.5% by the end of 2007. As rapid credit expansion continues to drive economic growth, systemic development of the financial sector is of crucial importance for macroeconomic stability. The gradual monetisation of the economy is a positive sign of enhanced confidence on the part of businesses and the public.

External debt

As a result of debt relief agreements with bilateral creditors, Georgia succeeded in improving its external debt position. The ratio of external debt to GDP decreased steadily from 49% in 2003 to 25.7% in 2006 (MED Department for Statistics, 2008 III, p. 134).

But since the private sector, mainly the leading banks, has had access to international capital markets in recent years, the economy's total external debt is growing and in 2007 was estimated at nearly 50% of GDP.

3.3 Macroeconomic situation after 2008 and start of global crisis

3.3.1 Measures to counter effects of the 2008 conflict

The events of late summer 2008 contributed to a change in the key macroeconomic indicators of Georgia, where trends had been positive, as indicated above. The effects of the war might have exacerbated some of the vulnerabilities of the economy, such as high deficit of the trade balance financed by FDI, non-productive use of remittances from migration, and a vulnerable employment framework leading to low income security of the labour force.

The damage to civilian infrastructure is tentatively estimated at approximately USD 1 billion. Displaced persons; disruptions in transport, electricity and gas supplies; and problems affecting private sector activities are all effects of the shock that need to be addressed.

Investor confidence was affected, particularly serious for an economy that depends heavily on foreign inflows. Gross international reserves fell by 23% (USD 330 million) in August, but this trend slowed in early September. Bank deposits decreased by about 14% (GEL 400 million), demand for foreign exchange increased, and interbank lending fell. The country risk rose sharply.

With the double impact of the August 2008 armed conflict and the global crisis, real economic growth suffered a dramatic decline from 12.5% in 2007 to an estimated 2% in 2008 (revised down to -4% in the last IMF review of August 2009)²⁹, after a sharp contraction in the second half of the year. Inflation slowed to 5.5% at the end of 2008 as global food and energy prices receded and demand weakened. The external current account deficit is estimated to have reached 22.5% of GDP in 2008 but narrowed substantially in the second half of the year. Private capital inflows, which had been financing the current account deficit,

²⁹ www.imf.org/external/pubs/cat/longres.cfm?sk=23213.0

dropped from USD 1.7 billion during the first half of the year to an estimated USD 450 million during the second half. Gross official reserves fell immediately after the conflict but recovered later, aided by donor support, borrowing from the Fund under the Stand-By Arrangement (SBA) approved in September 2008³⁰, and transfers from the sovereign wealth funds to government accounts in the central bank.

In 2008, before the August conflict, the authorities had taken a number of measures in an attempt to entrench sound macroeconomic policies, despite political opposition. Some of the measures will contribute effectively to macroeconomic management in the face of the temporary shock. These include preparation of a formal inflation-targeting framework, strengthening of central bank accountability and creation of a financial supervision agency as an independent legal entity. As for the legal commitment to permanent fiscal surpluses, the IMF considers that it may be too rigid in the circumstances.

According to the IMF (September 2008), the economy has a chance to recover. The SBA aims to mitigate the impact of the shock on the balance of payments and help restore investor confidence. The key problem is identified by the IMF as the size of the current account deficit and reliance on large FDI inflows to finance it, and the links between foreign inflows and domestic financial intermediation, leading to the creation of a large external financing gap. In response, the SBA would replenish gross reserves and address the existing pressures in the capital account.

The prospects in terms of foreign inflows sharply declined in the second half of 2008 (down to USD 313 million, from USD 1.5 billion in the first semester). The fall in inflows was expected to lead to a cumulative gap in the balance of payments of about USD 1.2 billion in 2008–2009, although the size of the gap is highly uncertain at present. IMF projections expect the financing gap in the balance of payments to be approximately USD 550 million in 2008 and USD 650 million in 2009.

The IMF will finance the gap in 2008 with USD 350 million, and other sources (United States and World Bank) will provide USD 200 million. Details on how the 2009 financing gap will be closed will be provided at the time of the first programme review. The spending of the USD 370 million in foreign assets of the sovereign wealth funds would help to close the financing gap.

The Georgian authorities have met all end-September performance criteria under the SBA. Georgia received only the first tranche of USD 250 million after signature of the SBA, but decided not to draw the next tranche available after the first review. The second review of performance under the SBA concluded in March 2009 allows for the immediate disbursement of an amount equivalent to SDR 126.2 million (about USD 186.6 million).

The fiscal deficit widened markedly in 2008 but the composition of spending improved from high defence and election outlays in the first half of the year to infrastructure and social spending in the second half. Monetary policy, which focused on resisting inflationary pressures until the conflict, had to deal with the impact of falling demand for local currency on bank liquidity. The central bank intervened heavily in the foreign exchange market to support the lari, and banks stopped new lending despite central bank liquidity injections, reduced reserve requirements and policy rate cuts.

The tightening of credit conditions and weakening of the economy exposed vulnerabilities in the banking sector. Liquidity and solvency ratios deteriorated. The level of non-performing loans increased sharply and the need for loan-loss provisioning, together with higher funding costs and lost interest income, have affected profitability.

The government introduced important structural reforms in the first half of 2008, including a gradual reduction of income and dividend taxes, and the introduction of rules to guide fiscal and monetary policies in the medium term while ensuring public sector discipline and price stability.

3.3.2 Economic outlook in 2009 and beyond

In 2009 the economic environment has continued to deteriorate. Table 3.3 is a summary of selected key macroeconomic indicators, based on the IMF (August 2009) report. In this most recent report, projections

³⁰ The government and the IMF signed an 18-month Stand-By Arrangement totalling SDR 477.1 million (about US\$705.3 million) in October 2009.

for real GDP growth rate were revised downwards compared with projections contained in the IMF country report No. 08/328 of September 2008.³¹ In fact, the latter projected a more optimistic outlook, with a GDP growth rate of 4% in 2009 (instead of the current projection of -4%).

Table 3.3: Selected macroeconomic indicators, showing effects of 2008 conflict – IMF and government data, 2006–13

	2006 Actual	2007	2008 Prel.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.
Real GDP growth (%) *	9.4	12.3	2.1	-4	2.0	4.0	5.0	5.0
Overall balance, consolidated government operations (% of GDP)	-3.0	-4.7	-6.3	-9.4	-7.3	-4.8	-4.0	-2.9
Consumer price index, period average (%)	9.2	9.2	10.0	1.8	3.2	4.0	5.0	5.0
GDP per capita (USD)	1800.0	2324.0	2924.0	2497.0	2457.0	2570.0	2780.0	3007.0
Balance of payments, financing gap (USD millions)	0	0	-550.0	-650.0	-200.0	0	0	
GDP per capita (PPP USD)*	4038.0	4694.0	4851.0	4931.0	-	-	-	
Current account balance (USD millions)	-1235.0	-2009.0	-2915.0	-1768.0	-1782.0	-1813.0	-1 837	-1838.0
Current account balance (% of GDP)	-15.9	-19.6	-22.7	-16.1	-16.6	-16.0	-14.9	-13.8
Trade balance (USD millions)	-2019.0	-2896.0	-3833.0	-2733.0	-2888.0	-2961.0	-3027.0	3081.0
Trade deficit (% of GDP)	26.0	28.3	29.8	24.9	26.8	26.2	24.6	23.2
FDI (% of GDP)	13.9	17.1	12.2	8.3	9.7	10.8	11.2	11.2
Total external debt (USD millions)	2328.0	3613.0	5345.0	6016.0	6868.0	7359.0	7518.0	7496.0
Total external debt (% of GDP)	30.0	35.3	41.5	54.8	63.8	65.1	61.2	56.4
Unemployment rate (%)	13.6	13.3	16.5					

*Data for 2006–09 verified with source (2).

Sources: (1) IMF (2009). (2) MED, *Georgian economic overview* (February 2009).

Similarly, the projections of the overall balance of consolidated government operations (as percentage of GDP) in 2009 was -3.8% in the IMF report (September 2008), and is revised down to -9.4% of GDP (IMF, 2009, p. 33) (and respectively -1.6% and -7.3% for 2010 in the two mentioned IMF reports). Consumer price index projections for 2009 show significant discrepancy in the two reports mentioned, pointing to substantial effects of the global crisis: the projected index (period average) was 7.6% in the earlier report and only 1.8% in the most recent report. GDP per capita also suffered a significant downward revision: the figure projected for 2009 was over USD 3 100 in the IMF report of September, and changed to less than USD 2 500 in the IMF report of August 2009. According to the latter projections, it will only be by 2013 that GDP per capita (in USD) recovers and slightly exceeds the level reached in 2008. Remarkable revision of projections of external debt in the two reports is additional confirmation of deeper than expected decline: the September 2008 report projected a figure of USD 6 229 million (39.5% of GDP), while the August 2009 report projects almost USD 7 400 million (and a very high 65.1% of GDP).

In the August 2009 IMF report, nominal GDP (USD millions) is projected to decline significantly, compared with the figures of the IMF report of September 2008. The earlier projection for 2009 was USD 13 973 million, revised down to USD 10 981 million. For 2010 the figures are respectively USD 15 772 million and USD 10 761 million in the two mentioned IMF reports.

³¹ www.imf.org/external/pubs/ft/scr/2008/cr08328.pdf

Table 3.4: Inflation rate – historical, 2002–08 (%)

	2002	2003	2004	2005	2006	2007 Estimate	2008 Projection
Inflation	5.7	4.9	5.7	8.4	9.2	9.3	9.0

Source: EBRD (2007, Table A.2.3: Inflation).

The IMF report of August 2009 states that the balance of macroeconomic challenges has shifted from foreign exchange market pressures to the worsening of the economy and the external accounts. While much of this decline is caused by the crisis affecting trading partners, the domestic political uncertainties affect confidence, and the deteriorating quality of bank loans contribute to adverse financial-macroeconomic interactions. Contraction of output shows signs of stabilisation, but recovery in 2010 might be slow (IMF, 2009, pp. 24–25). Pressures in the foreign exchange market have slowed down, with imports declining, and exports slightly resurging. FDI continued to decline, and in March 2009 reached a record low, after having recovered in December 2008 after the conflict of August 2008. Remittances were halved in the first quarter of 2009, but showed a clear recovery afterwards.

Fiscal sector developments in 2009 are marked by further decline of tax revenues, and a less pronounced contraction in expenditures. Owing to accumulation of deficits, Georgia's public debt increased rapidly in 2008 and is projected to reach in 2010 and 2011 a figure of over 65% (IMF, 2009, p. 29).

Under the pressure of the crisis in early 2009 the government planned to contain the economic slowdown through donor-financed fiscal stimulus and reorientation of expenditures. The authorities have reduced the targeted 2009 fiscal deficit in line with a downward revision in expected official external financing, and have switched expenditure from imported defence goods toward essential productivity-enhancing infrastructure investment and better-targeted social spending.

Defence spending was substantially reduced (from almost GEL 200 million in April 2008, to approximately 60 million in April 2009), while social spending was sustained at a level comparable with the figure of April 2008 (around GEL 100 million). If social spending was about equivalent to 50% of defence spending in April 2008, it is substantially higher than defence spending in March 2009 (IMF, 2009, p. 29).

In 2010 and beyond Georgia should be able to capitalise on a recovery of the global economy, as the country has a number of key advantages: it is a natural transit point of world trade in energy and goods, offers a favourable environment for business and foreign investment and has demonstrated the capacity to introduce policy measures.

Despite strict public expenditure control, spending reductions in the fiscal year 2009 were outpaced by the fall in tax revenues by a wide margin. Expenditure was 11% lower (in nominal terms) in the first semester 2009 comparatively to similar period in 2008, owing to cuts in defence spending. However tax revenues fell by 17%, due partly to the reduction of personal income tax rates (cut from 25% to 20%), and reductions of taxes on interest and dividend income paid to non-residents (IMF, 2009, p. 6).

The labour market in 2008 was also affected. In 2008 the unemployment rate grew from 13.3% to 16.5%. The total number of unemployed grew by approximately 55 000, while the number of employed fell by more than 100 000. This drop in employment in only one year largely exceeds the accumulated fall in numbers employed in the previous five years.

3.4 Economic sectors

Growth has been broad-based, and manufacturing, trade services, construction, real estate and financial intermediation have been the leading drivers. Economic sectors have increasingly differentiated their impact on economic growth, as shown in Table 3.5. Figure 3.2 provides a clearer visualisation of the dynamics in GDP growth by sector.

Table 3.5: Real GDP growth by sector (%) – index of gross GDP at constant market prices, 2004–08

Sector	2004	2005	2006	2007	2008
Agriculture	-7.9	12.0	-11.7	8.8	-2.1
Mining and quarrying	-19.9	-7.8	18.7	19.9	17.0
Manufacturing	11.6	14.1	22.3	11.5	-1.0
Electricity, gas, water supply	-4.0	5.1	13.4	6.8	-2.7
Processing products by households	-1.6	12.4	3	28.1	-4.6
Construction	35.9	14.1	8.5	14.6	-11.0
Trade and repair services	8.2	9.4	19.7	9.6	10.4
Restaurant and hotel services	3.2	17.1	10.5	11.4	5.0
Transport	3.7	3.9	16.8	11.9	-10.1
Communications	17.0	28.7	13.4	8.7	14.5
Financial intermediation	12.8	52.8	36.9	15.3	3.3
Real estate	28.1	10.6	17.4	23.1	1.5
Input rent of self-occupied dwellings	0.6	0.9	0.2	5.4	3.1
Public administration	9.7	-6.3	-2.4	15.9	10.3
Education	1.8	13.8	12	9.5	13.7
Healthcare	4.2	7.6	15.4	10.4	5.9
Other community, social and personal services activities	6.5	18.3	7.1	24.0	-0.2
Private households with employed persons	20.5	-18.8	8.5	7.5	5.4
Real GDP growth	5.9	9.6	9.4	12.3	2.1
GDP deflator	8.1	7.9	8.5	9.7	9.9

Source: MED Department for Statistics (2009, II).

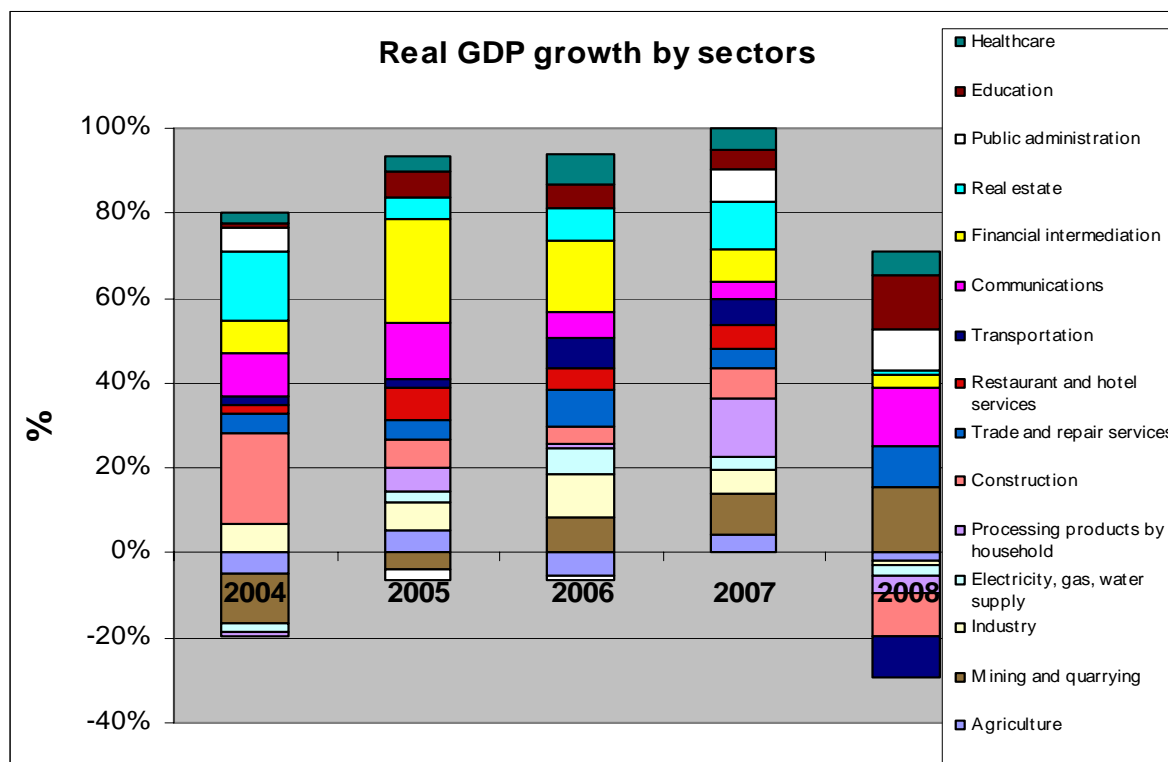
Annual economic growth in the third quarter of 2007 was largely influenced by the industry, construction and transport and communications sectors. Financial intermediation is a fast-growing sector whose dynamic was associated with increased banking sector activity, largely determined by sharp increases in FDI and portfolio investments and deposits and consequently increases of bank credits to the economy. In 2007 mining and quarrying reached a peak in growth, and public administration emerged with a growth rate. Agriculture has been stagnant for years. Compared with the same period in 2006, the real growth in certain sectors – hotels and restaurants, construction and financial intermediation – exceeds 20%, a figure significantly higher than overall GDP growth.

The economic crisis affects sector performance, but with differing impacts, as shown by the figures for 2008 in Table 3.5. Note the negative growth rates in all kinds of economic activity linked with production of goods, except mining where growth was as high as in the precedent two years. Construction, which has been a leading sector for economic growth, in 2008 shrank by an impressive -11%, and is the sector most severely affected.

In the crisis context, the services sphere better resisted the shock, but growth rates were low in all kinds of economic activity in 2008, except in communications, followed by trade and repair services and the various areas linked with public services that maintained higher growth. Financial intermediation, which had grown in double figures over the last four years, in 2008 sustained only minimal growth. One sector shows behaviour positively correlated with the production sector: transport. Having grown in parallel with the production sector in the growth years, it suddenly fell to -10% in 2008.

Among the sectors with worse performance in growth rate terms are some of the larger employers in the country: manufacturing, construction and transport. Agricultural decline has been a constant in the last decade and as the sector employs many more self-employed than wage earners in small family farming, the implications are not the same for rural households as for urban households whose income depends on wages.

Figure 3.2: Real GDP growth by sector, 2004–08 (%)



Source: MED Department for Statistics (2009, II). Graph: ETF.

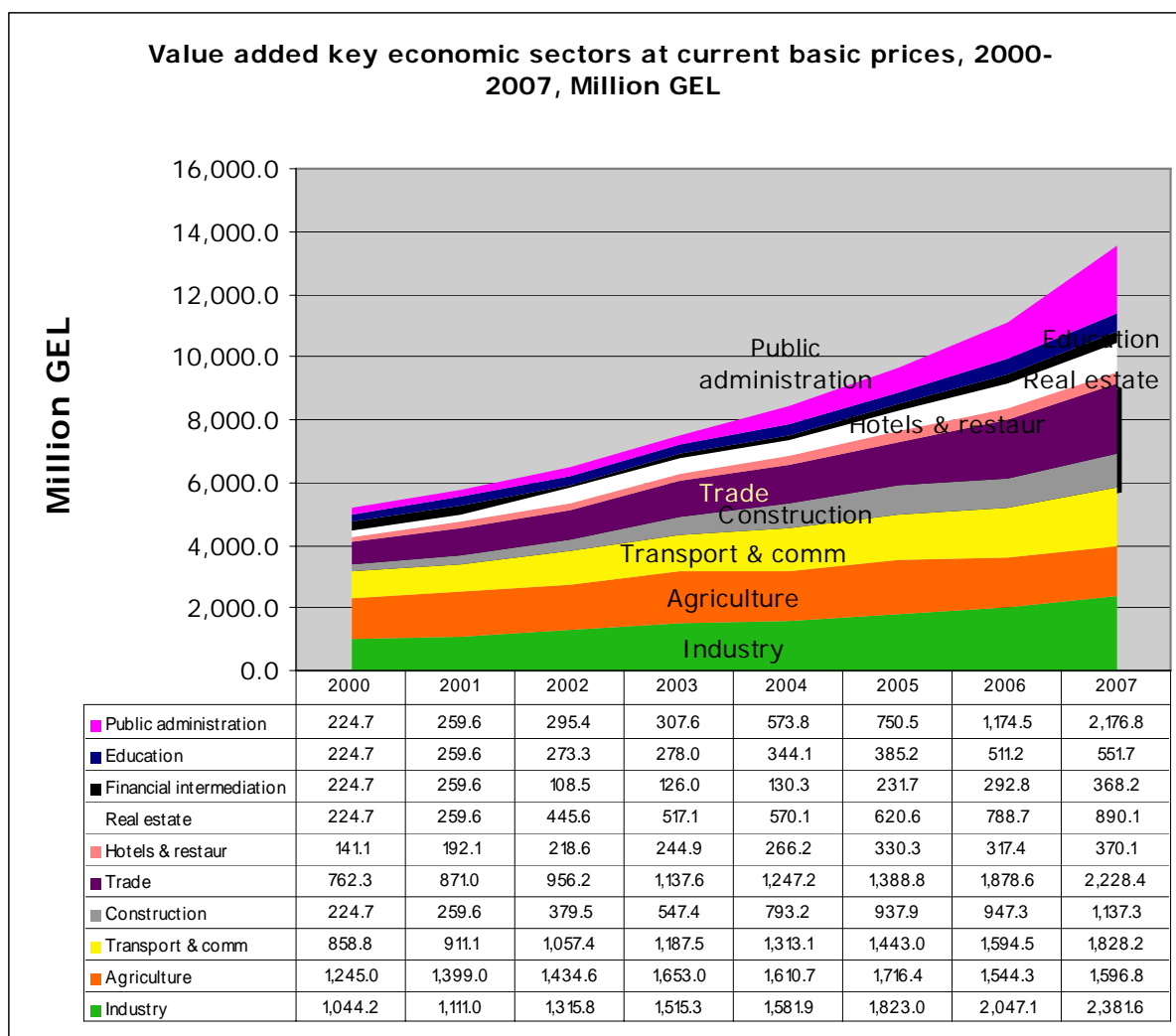
Agriculture is the lowest-performing sector, even though it absorbs a large proportion of the labour force. In 2006 the real change in agricultural output was negative (-11.7%). In 2007 and 2008 the sector recovered, showing annual growth of 8.8% and 9.2%, respectively. The share of agriculture in GDP has diminished steadily from over 20% in 2000 to 11.2% in 2006.

Figure 3.3 shows the changes in Georgia’s economic structure as measured by added value in key economic sectors. There was notable growth of added value in the sectors of construction, trade, industry, and transport and communications, against a low performance in agriculture. The question is how to translate this change into reallocation of labour from less productive agriculture to more productive activities.

There has been a rise in labour productivity (real added value per employee), with a clear-cut differentiation between growing and declining sectors. The key high productivity sectors are not labour-intensive. Sectors with higher and increasing productivity are led by financial intermediation, transport and communications, construction, hotels and restaurants, and real estate. On the other hand, a clear decline in productivity can be seen in healthcare, education and the large agriculture sector, which employs a large proportion of the country’s self-employed workers.

Although the informal economy has considerable weight, in 2006 there were signs of a reduction in the informal part of the economy, reflecting better and more transparent conditions for business creation and business operations. Survey data show that corruption and bribes decreased and became one of the less important factors among the problems facing business development. Another relevant sign is the falling numbers of self-employed and the substantial increase in wage earners during 2006 and 2007 (see Chapter 1).

Figure 3.3: Changes in Georgia's economic structure: added value in key economic sectors at current basic prices, 2000–07 (GEL millions)



Source: GEPLAC (October 2008). Graph: ETF.

3.5 Business sector

The MED Department for Statistics publishes *Entrepreneurship in Georgia*,³² which provides data relating to the business sector. From 2006 this publication includes data only on limited liability companies, joint liability companies, limited partnerships and joint-stock companies, cooperatives and individual enterprises (no hired labour). This practically covers the formal economy, with the exception public administration and the specific category of financial activity, and non-commercial legal entities under private and public law³³.

³² The 2008 issue is available at www.statistics.ge/publication.php?plang=1&pform=-507.

³³ From 2006 the following categories are not taken into consideration: J (financial activity), L (public administration), P (private households employing domestic staff and undifferentiated activities of households for own use), and Q (extra-territorial activities), non-commercial legal entities under private and public law.

Table 3.6: Business sector – main indicators, 2003–08

	2003	2004	2005	2006	2007	2008, Q I	2008, Q II	2008, Q III
Turnover (GEL millions)	5 523.0	7 248.4	1 997.3	13 090.3	17 544.4	4 443.9	5 014.7	4 877.8
Output (GEL millions)	3 492.6	4 374.8	5 838.3	7 412.6	9 464.2	2 180.5	2 594.8	2 453.7
Value added (GEL millions)	1 773.3	2 238.6	2 796.8	3 479.4	4 541.8	–	–	–
Number of employees	297 795.0	322 779.0	388 946.0	360 987.0	361 209.0	322 570.0	331 389.0	329 712.0
Average wages and salaries per employee (GEL)	139.4	161.1	204.5	285.8	381.6	488.0	541.8	556.4

Source: MED Department for Statistics.

Employment in small and medium-sized enterprises (SMEs) is less than 40% of total employment in the business sector. In the fourth quarter of 2008 the number employed in SMEs declined by 5.2% in comparison with the same period in 2007, and was almost 131 000. This confirms the relatively small size of the SME sector in terms of employment.

Another characteristic relates to the regional disparity of the SME sector. In terms of turnover and production value there is a clear concentration in Tbilisi (above 50% of country values). The Tbilisi business sector also predominates in employment, with 45% of the total SME sector.

3.6 Shadow economy

The data that lead to the first estimates of economic production (output) by sector are collected from the results of the business survey, as established by international practice. However this survey typically underestimates the true level of activity.

The sectors that conceal part of their output are usually those where small and micro enterprises, self-employment, and firms with low-value fixed assets predominate. A UNDP report (2007) selected three sectors for the application of an improved survey and methodology to estimate the total output and share of the non-observed economy in total output: (i) construction; (ii) maintenance and repair of motor vehicles, repair of personal and household goods; and (iii) restaurants and bars.

The results of the new analysis showed a very high level of informality in the two last sectors, while construction displays a lower than expected share of concealed output. The business survey thus captures only 6% of the true level of activity in repair and maintenance (goods, cars). In restaurants and bars this indicator is also low (13%), meaning that businesses only declare these shares of output. On the other hand, the improved methodology showed that the share of concealed output in construction is around a third of total branch output.

This differing pattern is associated with the size of corporations, the kind of fixed assets, and the weight of large companies in these activities.

The same UNDP report analysed the evolution of the non-observed economy in Georgia in the period 2000–06, and it shows a marked decrease over time:

- the share of non-observed economy in total economy declined by 10 percentage points from over 30%;
- a sharper decrease is observed in the concealed output share of total output in the corporate sector (from 55% to below 40%).

Using non-improved estimates from the Department for Statistics, the UNDP report offers a comparison of shares of the non-observed economy by type of economic activity (years 2000 and 2006). These confirm the above conclusion on the decline of concealed output, except in the miscellaneous group of other service activities. A larger decrease in concealed output occurred in manufacturing (from 46% to 22%), construction (from 60% to 32%), transport and storage, energy and water supply, and healthcare and social services. As expected and required, financial intermediation shows one of the lowest shares of concealed output. The lowest non-observed output occurs in 2006 in the sector of energy and water supply.

3.7 Employment by economic sector

Distribution of total employment by economic sector shows a clear concentration in the less-productive agricultural sector. Other sectors with significant shares of employment are trade and repair services, education, manufacturing and construction (Table 3.7).

Table 3.7: Number of employed by type of economic activity, 2002–07 (%)

	2002	2003	2004	2005	2006	2007
Agriculture, forestry, fishing	53.8	54.9	54.0	54.3	55.3	53.4
Mining and quarrying	0.3	0.2	0.2	0.3	0.2	0.3
Manufacturing	4.6	4.9	5.1	5.1	4.7	4.9
Electricity, gas and water supply	1.4	1.1	1.2	1.3	1.1	1.1
Construction	1.9	2.2	2.4	2.5	3.1	4.2
Trade services, repair services	11.7	10.9	11.0	10.8	9.6	9.9
Restaurant and hotel services	0.8	0.9	1.1	0.9	1.0	1.1
Transport and storage	4.3	4.2	4.2	4.0	4.5	4.2
Financial intermediation	0.4	0.5	0.7	0.8	0.8	1.0
Real estate, renting and business activities	1.1	1.8	1.6	1.5	1.5	2.0
Public administration and defence	5.9	5.0	4.9	4.7	4.5	3.8
Education	7.1	7.5	7.5	7.5	7.6	7.3
Healthcare and social services	3.4	2.7	3.1	3.3	3.0	3.5
Other community, social and personal service activities	2.8	2.4	2.4	2.2	2.4	2.6
Private households with employed persons	0.4	0.4	0.5	0.5	0.7	0.7
Extraterritorial, international organisation	0.0	0.2	0.2	0.2	0.1	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: MED Department for Statistics (2008e).

Table 3.8 indicates how employment has been changing annually by sector of economic activity. Employment in the construction sector more than doubled in 2007 compared to 2002, and increased by a third since 2006. Financial intermediation also visibly expanded: by 125% in 2007, relative to 2002. Employment also grew in the sectors of hotels and restaurants, real estate, private households and extraterritorial and international organisations.

The majority of sectors have seen declining or fluctuating employment in the period.

- Agriculture lost almost 8% of jobs (approximately 78 000), particularly in 2006 to 2007, with a loss of almost 56 000 jobs).
- Manufacturing: lost 2600 jobs between 2002 and 2007, but recovered in 2006 to 2007 by 1,600.
- Trade and repair registered a decrease of over 46 500 jobs in 2002–07 (-21.6%)
- Public administration reduced employment, by a total of 44 200, in two cycles: first in 2002-2004 by approx, 22 000 jobs; and after 2004 in the follow-up of the reform of civil service, by another 22 000. This represents a 41% reduction in employment.
- Electricity gas and water supply underwent privatisation and reforms, and employment in the sector dropped by over 30% in 2002–07, particularly in 2006 and 2007.

Total employment declined by 2.5% in 2006–07, and by 7.3% in 2002–07.

Table 3.8: Employed by type of economic activity, 2002–07 (thousands)

	2002	2003	2004	2005	2006	2007	Change 2007–2006 (thousands)	Change 2007–2002 (thousands)	% change 2007–2006	% change 2007–2002
Agriculture, forestry, fishing	989.0	995.8	962.5	947.9	966.4	910.5	-55.9	-78.4	-5.8	-7.9
Mining and quarrying	5.2	3.0	4.0	5.8	3.4	4.7	1.3	-0.4	39.2	-8.2
Manufacturing	85.3	89.0	90.9	89.8	81.5	82.7	1.3	-2.6	1.6	-3.1
Electricity, gas and water supply	26.6	19.9	20.7	23.4	18.4	18.2	-0.2	-8.4	-1.2	-31.5
Construction	34.1	40.2	42.2	43.1	54.8	71.2	16.3	37.1	29.8	108.8
Trade services, repair services	215.4	198.7	196.9	188.2	168.1	168.8	0.8	-46.5	0.4	-21.6
Restaurant and hotel services	15.1	16.7	18.8	16.3	16.9	18.0	1.1	2.9	6.4	19.1
Transport, storage, communication	78.3	77.0	74.4	69.3	77.8	71.7	-6.1	-6.6	-7.8	-8.4
Financial intermediation	7.7	9.9	12.9	13.3	14.3	17.3	3.0	9.6	21.2	125.4
Real estate, renting and business activities	20.4	32.4	28.5	25.9	26.9	34.7	7.8	14.2	29.0	69.7
Public administration and defence	108.5	91.5	86.8	81.8	78.5	64.3	-14.2	-44.2	-18.1	-40.8
Education	129.7	135.8	134.2	130.9	132.2	124.2	-8.0	-5.5	-6.0	-4.2
Healthcare and social services	63.4	49.2	54.8	58.0	52.2	59.9	7.7	-3.5	14.8	-5.5
Other community, social and personal service activities	52.0	44.1	42.8	38.2	41.9	43.9	2.0	-8.1	4.9	-15.6
Private households with employed persons	8.2	8.0	8.5	9.2	11.7	11.1	-0.6	2.9	-5.2	35.0
Extraterritorial, international organisation	0.3	3.7	4.5	3.3	2.3	2.9	0.6	2.6	27.8	747.3
Total	1839.2	1814.9	1783.3	1744.6	1747.3	1704.3	-43.0	-134.9	-2.5	-7.3

Source: MED Department for Statistics, unpublished data (2008). Calculation: ETF.

To estimate the labour reallocation among economic sectors, we based our calculations on Table 3.8. The results are displayed in Table 3.9.

Table 3.9: Labour reallocation among economic sectors, 2002–07 (thousands)

		Change 2007–2006	Change 2007–2002
Job creation	Sum of all positive figures	42.0	69.3
Job destruction	Sum of all negative figures	-85.0	-204.2
Job turnover	Sum of positive and negative figures in absolute terms	126.9	273.5
Employment growth	Difference between job creation and job destruction	-43.0	-134.9

Source: MED Department for Statistics, unpublished data (2008). Calculation: ETF.

3.8 Productivity

Net employment growth was negative: -135 000 jobs in the period 2002–07. In this period job creation amounted to over 69 000 jobs, against 204 000 destroyed. The construction sector has lead job creation and is responsible for more than half of all jobs created in the period; real estate – for 21% and financial intermediation – for 14% of jobs created. Interestingly these three sectors have registered growing productivity, and wages. The ratio sector wages to national average wage is higher than 1 for these three sectors.

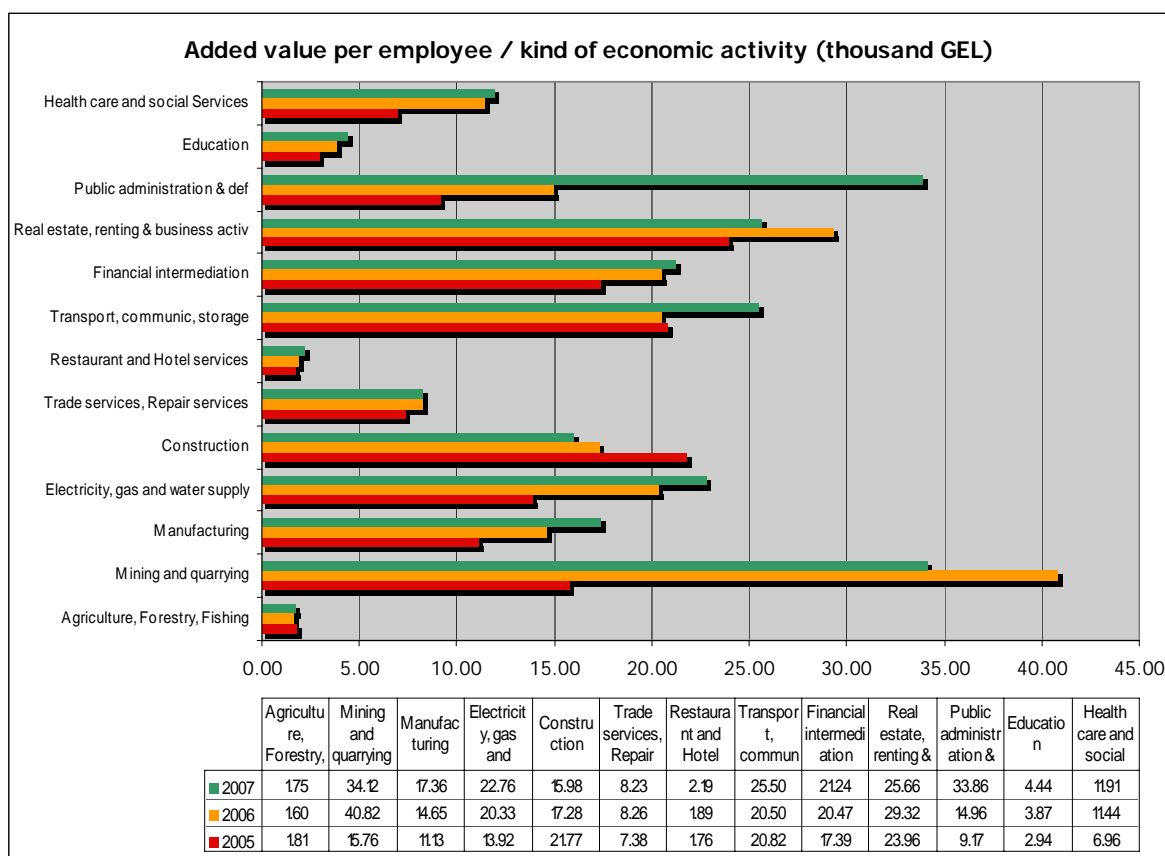
Job destruction in the period 2002–07 was led by agriculture, which lost 38% of all jobs destroyed. Follow the sectors of trade and repair (23%), public administration (22%), electricity gas and water supply (4%). Education is responsible for 3% of all jobs destroyed in 2002–07. Two of these sectors (public administration and electricity gas and water supply) have been associated with growing productivity and wages. These sectors have competitive wages, with ratios to national average significantly higher than 1. But education and trade have showed slower gains in productivity and wages, and both have a ratio of sector wage to national average wage below 1.

Associating productivity growth by sector (see the education levels mix of the employed by sector of economic activity (Figure 2.9 above), we find various patterns.

- Sectors such as construction, electricity gas and water supply, transport and communication and manufacturing and mining and quarrying have registered significant productivity growth from 2005 to 2007, and their employees have diversified education levels. This mix is composed of VET (20% to 30% of employed by sector), secondary education (40% to 55%) and higher education (20% to 45%). These sectors have a balanced ('mixed') skills mix. Mining and transport and communication lead in productivity among all economic sectors in Georgia.
- Sectors such as public administration, real estate and financial administration, which also have been performing well in productivity terms, have an employment education mix totally dominated by higher education (75% to 82% of the employed).

Figure 3.4 is explicit on the dynamics of productivity by economic sector, calculated as added value per employee by sector. Mining and quarrying lead productivity, followed by fast-growing productivity in public administration (2007), real estate, transport and communications, financial intermediation, electricity gas and water supply, construction and finally manufacturing. In 2007 the highest growth in productivity was registered in public administration, transport and communications, manufacturing and energy. The lowest productivity and wages were maintained in agriculture, followed by hotels and restaurants and education.

Figure 3.4: Productivity by sector of economic activity (added value per employee), 2005–07 (GEL thousands)



Source: MED Department for Statistics (2008e). Calculation: ETF.

GEPLAC experts express caution on available data regarding exports, unit labour costs, and productivity.

3.9 Wages

Average inflation-adjusted (or real) wages expressed in Georgian lari have sharply increased since 2002 (expressed in US dollars, the increase is even higher). This rapid rise in wages accounts – in part at least – for the decline in formal sector employment in the period up to 2006. Workers with jobs (insiders) benefit at the expense of workers who would like to be employed but who cannot find jobs (outsiders) (McPherson and Ignatowski, 2007).

Table 3.10 gives a detailed view of gross monthly wages per economic sector from 2003 to the first quarter of 2009. The ratio sector wage to national average wage indicates the large sector differentiation, which is partly connected with sector productivity displayed in Figure 3.4.

Table 3.10: Gross average monthly wages and salaries by type of economic activity, 2003–09 (GEL)

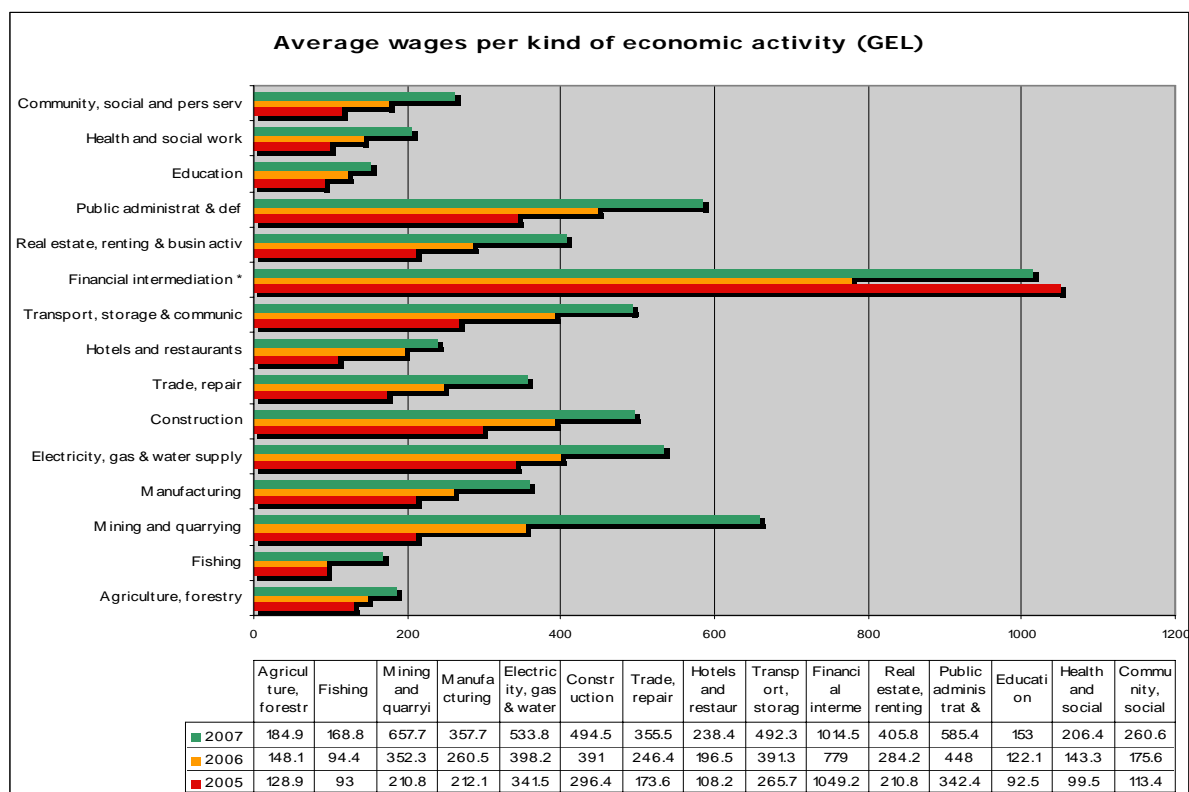
Economic activity	2003	2004	2005	2006	2007	Q IV, 2008	Q I, 2009	Change in last quarter (%)
Average economy	125.9	156.8	204.2	277.0	368.1	585.3	531.3	-9.2
Agriculture, forestry	47.6	68.0	128.9	148.1	184.9	444.2	399.2	-10.2
Fishing	46.2	60.7	93.0	94.4	168.8	208.9	238.0	13.9
Mining and quarrying	218.7	179.5	210.8	352.3	657.7	715.2	655.7	-8.3
Manufacturing	152.5	183.8	212.1	260.5	357.7	558.9	483.3	-13.5
Electricity, gas and water supply	250.2	259.2	341.5	398.2	533.8	793.4	693.8	-12.5
Construction	206.2	264.5	296.4	391	494.5	718.2	588.9	-18
Trade, repair	85.5	107.9	173.6	246.4	355.5	576.0	523.9	-9.0
Hotels and restaurants	56.6	70.3	108.2	196.5	238.4	434.5	45.1	-20.6
Transport, storage and communication	191.1	229.1	265.7	391.3	492.3	728.9	77.1	-7.1
Financial intermediation*	530.5	739.3	1049.2	779	1014.5	1337.8	1323.6	-1.0
Real estate, renting and business activities	110.3	125.5	210.8	284.2	405.8	671.7	561.9	-16.4
Public administration and defence	132.0	192.4	342.4	448.0	585.4	907.2	857.5	-5.5
Education	68.5	88.7	92.5	122.1	153.0	259.1	54.1	-1.9
Health and social work	76.8	80.3	99.5	143.3	206.4	378.2	304.2	-19.6
Community, social and personal services	72.2	–	113.4	175.6	260.6	417.5	378.5	-9.3

Source: MED Department for Statistics (2008e, update for 2008). Calculation: ETF.

* Similar note as previously

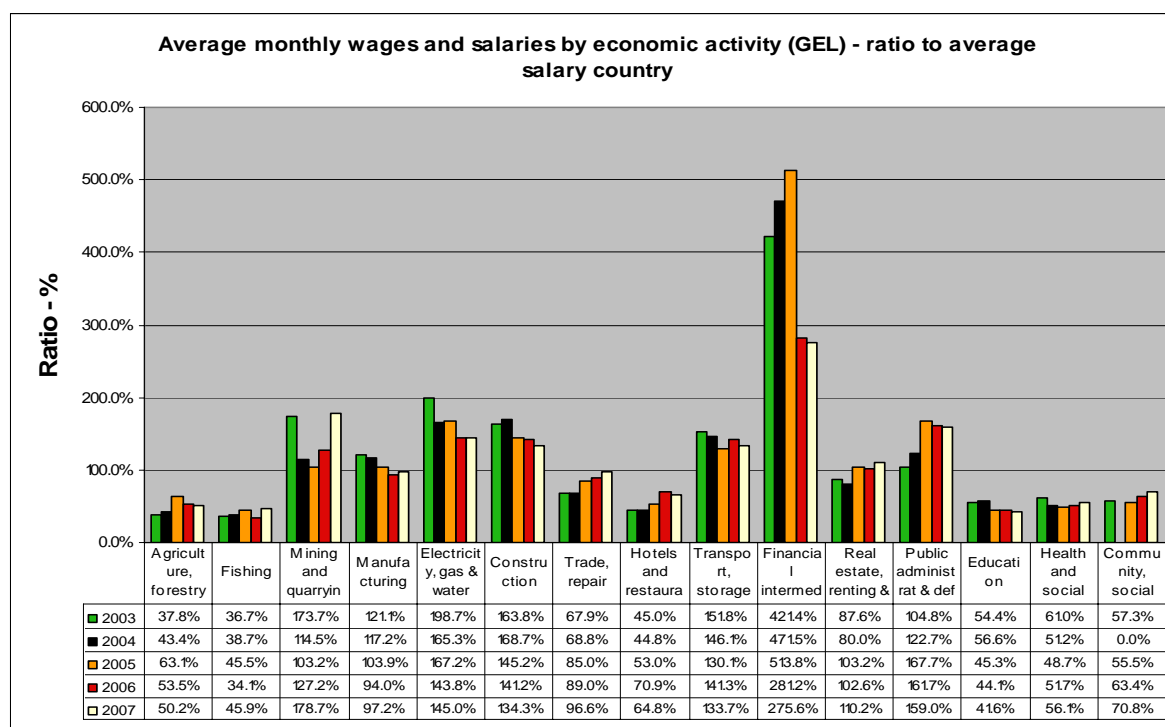
Figure 3.5 offers a view of wages by sector in the period 2005–07, which can usefully be compared with Figure 3.4.

Figure 3.5: Wages per sector of economic activity, 2005–07 (monthly gross wages, GEL)



Source: MED Department for Statistics (2008e). Calculation: ETF.

Figure 3.6: Ratio of sector monthly wages to average countrywide, 2003–07 (%)



Source: MED Department for Statistics (2008e). Calculation: ETF.

The economic transition has generated significant changes in the structure of employment. Employment in agriculture has expanded at the expense of other sectors, while agricultural productivity has contracted steadily as a consequence of the low level of investment in the sector. This reliance on agriculture represents a response to the precarious labour market resulting from the transition, widespread underemployment and a lack of jobs in the formal economy.

The following are some of our key conclusions.

- Total employment is showing a decrease (7.3% between 2002 and 2007). Although the economy showed strong recovery in 2004–07, and despite large investment flows that are expected to contribute to job creation, the labour force has failed to reflect the positive upturn in the economy.
- Agriculture is not only the largest employer but also the residual employer in Georgia, as demonstrated by the low average income levels. Agriculture employs more than half of the working population, a figure that has remained steady over time. A positive trend is that the beneficiaries of increases in agricultural incomes in 2005 and 2007 have tended to be the poorest Georgians.
- Construction is the sector that shows both high growth in employment and average wages that are higher than the national average (by more than 30% in 2007). Compared with 2002, the number of employees in the registered commercial enterprises of the construction sector doubled. And in 2007 they represented approximately 10% of total employed in the commercial business sector (MED Department of Statistics, 2008 I)³⁴.
- The sectors employing most workers are generally those offering the lowest average monthly earnings, education, healthcare and social work. With respect to these sectors, McPherson and Ignatowski (2007) indicate that an important challenge for policy development is skills upgrading and reorganisation of work towards higher productivity and quality of outcomes. As these sectors absorb mainly skilled employees, revamping their skills offers an opportunity to increase the productivity of a large proportion of professional workers.

³⁴ In the *Quarterly bulletin*, the term 'business sector' excludes the sectors of financial intermediation and public administration and concerns only commercial (for-profit) enterprises, and mainly formal employment.

- The education sector is near the bottom in a ranking of average monthly earnings, behind agriculture and health. Growth in earnings in this sector lagged far behind that observed in public administration (4.5% compared with 78%) for the period 2004–05. Average salaries in the education sector are only about 45% of the national average in 2006, despite an increase of over 30% compared with 2005. This low level of average earnings is barely above the government's minimum subsistence wage for an adult male worker and so this problem clearly needs to be addressed, given the strategic importance of quality in ongoing education reform.
- Average earnings in the financial intermediation sector increased steeply (by almost 100%) in the period 2003–05. This sector also registered an important increase in employment. Employment in the public administration sector in 2004–05 declined as average earnings grew significantly. These trends show that despite major distortions, the labour market has been adjusting to changes in incentives and institutional arrangements (McPherson and Ignatowski, 2007). Financial intermediation, for example, is skills-intensive and, as it has benefited from recent economic reforms, it has been successful in attracting labour. Similarly, employment in the public administration sector has adapted to fewer regulations and to a simplified administration imposed by structural reforms.
- Unattractive wage levels in sectors such as education and health send skilled labour a signal to shift towards higher wage sectors, and this in turn is causing a major restructuring of the labour market. Like other transition economies, Georgia is experiencing rapid growth in either wages or in employment, but only a few sectors, such as construction, associate both features (McPherson and Ignatowski, 2007).

3.10 Investment

Since 2006 Georgia has benefited from significant FDI, allocated to a few sectors, as indicated in Table 3.11 and Figure 3.7.

Table 3.11: FDI by sector, 2007 and first three quarters of 2008 (USD thousands)

Sectors	2007 Q I	2007 Q II	2007 Q III	2007 Q IV	2007	Share of total 2007 (%)	2008 Q I	2008 Q II	2008 Q III	Total 2008 three Q	Share of three Q 2008 (%)
Total	421.370	401.452	489.112	702.908	2 014.842		430.193	525.204	150.023	1 105.420	
of which:											
Agriculture	46	4.518	10.643	320	15.528	0.8	665	10.568	2.024	13.257	1.2
Industry	84.768	62.352	121.596	129.525	398.241	19.8	87.433	52.535	10.900	150.868	13.6
Energy sector	5.705	115.352	44.296	197.228	362.581	18.0	33.559	125.962	5.770	165.291	15.0
Construction	71.045	31.872	54.238	14.736	171.892	8.5	16.089	11.734	24.176	51.998	4.7
Transport and communication	173.839	120.475	59.076	63.305	416.695	20.7	100.551	170.087	42.175	312.813	28.3
Real estate	1.648	1.551	4.044	23.301	30.544	1.5	75.647	48.350	25.759	149.757	13.5
Other services	62.242	44.284	90.282	185.998	382.807	19.0	52.293	91.826	38.805	182.924	16.5
Banking system	13.449	16.142	87.226	20.097	136.915	6.8	60.569	13.138	-129.000	73.578	6.7
Not stated	8.627	4.905	17.712	68.396	99.640	49.0	3.387	1.004	543.000	4.933	0.4

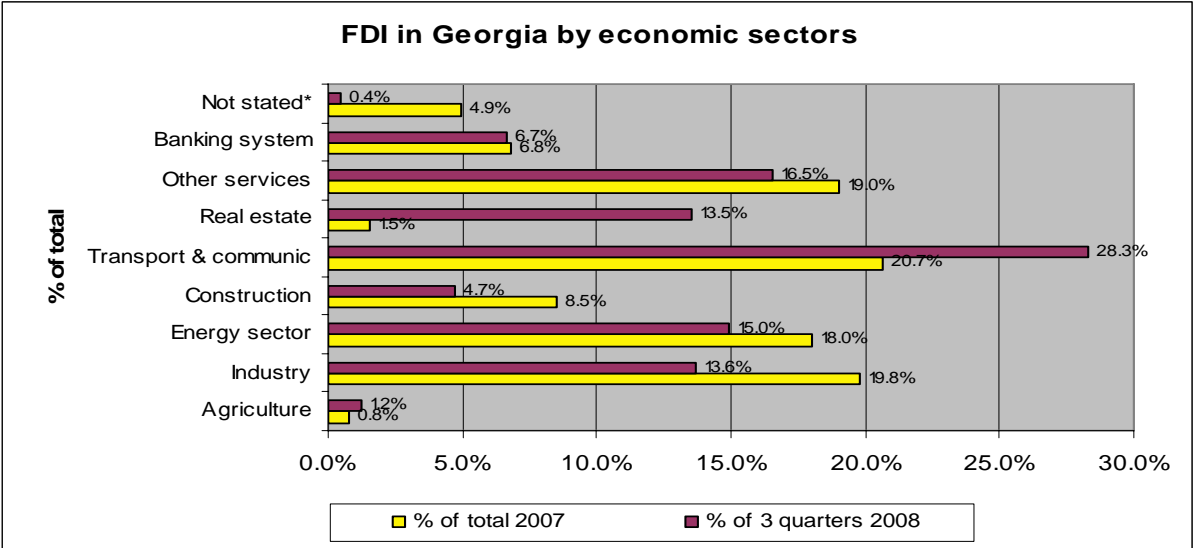
Source: MED Department for Statistics. www.statistics.ge/main.php?pform=62&plang=1

Table 3.11 shows that the expected decline in FDI for the third quarter of 2008 did happen, as a consequence of falling investor confidence in the aftermath of the military conflict of August. The total FDI for three-quarters of 2008 contracted by 69% in comparison with a similar period in 2007, as FDI in the third quarter did not exceed a third of the total invested in the third quarter of 2007.

The allocation of FDI by sector is important for the understanding of sector development dynamics. The sector with the highest share of total FDI is transport and communications (in 2007 and 2008), whereby its share of FDI in 2008 largely exceeded the figure for 2007. The transport and communications sector had the third-best productivity in 2007. Other sectors with significant shares of FDI: other services, energy and industry. Construction attracted a smaller share of FDI in 2008, after having received a good 8.5% share in 2007. The real estate sector benefited from a sharp growth of FDI in 2008. The banking sector maintained a steady share of FDI below 7% in both years. All these sectors are among the best performers in terms of productivity.

Agriculture remains the sector with lowest FDI: 1% of total, seeming to accumulate the lowest performance in several aspects: productivity, wages and investment.

Figure 3.7: Shares of FDI by sector, 2007 and first three quarters of 2008 (%)



Source: MED Department for Statistics. Graph: ETF.

As investments in industry and agriculture were only a small part of FDI, its impact on employment and growth is insignificant.

In terms of export orientation, FDI that uses domestic resources for export production should be attracted. Pipeline investment is one such case: about one-third of FDI being used for the construction of pipelines by foreign firms in recent years. The export of pipeline services has grown sharply and amounted to 2% of GDP in 2007. But a large part of FDI had been going to banking and construction, and was driven by privatisation, so its contribution to exports is low.

3.11 Industry

Georgia is usually seen as a country of tourism and restaurants, and the potential for industrial development tends to be overlooked. However the growth of industrial added value has been important in recent years, in particular the manufacturing sub-sector (Table 3.12). Note that Georgian industry was the sector more affected by the collapse of the economy in the early 1990s. So, despite recent growth, the share of the industry in GDP is still relatively low (Figure 3.8).

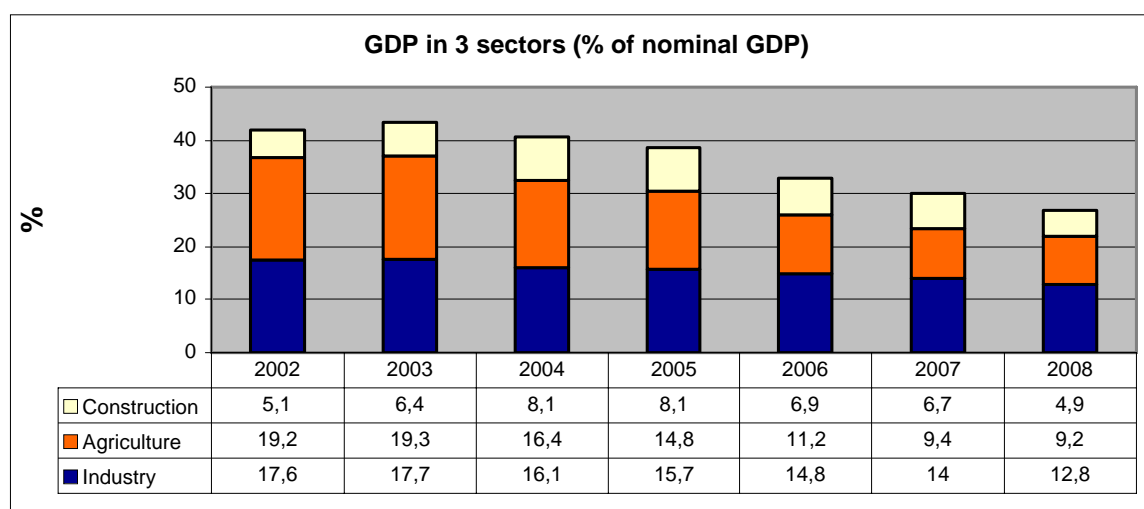
Table 3.12: Real value added in industry at basic prices, 2000–07

	Value added in industry at current basic prices (GEL millions)	Index of industry (1996 = 100)	Growth (% changes over previous year)	Share of mining (%)	Share of manufacturing (%)	Share of energy production and distribution (%)	Other (%)
2000	1 044.2	108.2	3.2	3.9	49.5	25.2	21.4
2001	1 111.0	105.0	-2.5	3.4	46.4	23.1	27.1
2002	1 315.8	114.0	8.4	3.8	47.5	23.7	25.0
2003	1 515.3	122.9	7.7	5.0	49.2	21.4	24.4
2004	1 581.9	127.1	4.0	4.9	50.8	19.2	25.1
2005	1 823.0	140.9	11.5	5.0	54.8	17.9	22.3
2006	2 047.1	165.3	16.0	6.8	58.3	18.3	16.6
2007	2 381.6	186.7	12.9	6.8	60.3	17.4	15.5

Source: GEPLAC (October 2008).

According to GEPLAC experts, without a rebirth of industry Georgia will have difficulty retaining its most skilled citizens. As the country is still faced with high underemployment, there is no competition on the labour side between industry and other sectors of the economy. In today's economy the traditional opposition between a primary sector (agriculture), a secondary sector (industry) and a third sector (services) is conceptually irrelevant. Industry plays a leading role in attracting and retaining highly skilled people, as it usually captures most research and development expenditure and generates a strong demand for high-tech services such as ICT.

Figure 3.8: GDP in three sectors (% of nominal GDP), 2002–08



Source: GEPLAC (October 2008).

Georgia has already lost part of its stock of highly skilled people, and only sound economic development and supportive policies may prompt the recovery of these human resources.

According to GEPLAC experts, the country enjoys comparative advantages for the new global pattern of industry. First, an excellent geographical location between Europe and fast-growing Asia; second, the current wave of investment in transport infrastructures, for Georgia and neighbouring countries may benefit Georgian industry; thirdly, Georgia has skilled labour and the possibility of attracting skilled migrants back; and finally, it has an exceptional natural and historical endowment that could prove attractive to investors. An important feature of recent years as a result of the reforms is the significantly improved rating of the business environment.

But a number of issues still need to be addressed by policies to foster further development of the economy. First, the improvement of geo-political questions important for investors. Second, solving issues of customs efficiency and the neutrality of tax police. Third, supporting bank policies more oriented to productive investment, rather than chiefly to household consumption and small traders. Finally, FDI more oriented to industry and agriculture production.

Georgian industry maintains a number of features inherited from the Soviet past: (i) the geographical pattern – with large shares of output and employment concentrated in the homes of Soviet industry (Tbilisi, Kutaisi and Rustavi), while the share of regions positioned in the East-West dimension of the new Georgian economic strategy remains negligible (GEPLAC, 2008); wages in the regions of Western Georgia are substantially lower than in Tbilisi, despite their comparative advantage of proximity to Turkey and Europe; (ii) predominance of food processing and heavy industry in terms of employment and output (Table 3.13); and (iii) despite the acceleration of privatisation, the share of state-owned companies in employment was still large in Q I 2006.

Table 3.13: Share of selected economic activities in total industrial output, 2003–07 (%)

	2003	2004	2005	2006	2007
Mining and quarrying	8.3	7.8	7.0	8.5	7.9
Metal ores	4.8	5.0	4.3	5.8	4.3
Manufacturing	61.3	63.7	70.5	69.6	71.8
Food and beverages	28.3	32.5	36.3	31.2	29.2
Publishing printing	2.2	2.4	2.4	2.5	2.3
Chemicals and chemical products	3.4	5.9	5.8	6.9	5.8
Rubber and plastic products	1.1	1.4	1.4	1.9	2.5
Other non-metallic mineral products	5.2	5.1	6.0	7.7	10.4
Basic metals	7.9	7.5	9.3	9.2	10.5
Other transport equipment	8.2	3.4	2.4	2.5	3.0
Electricity gas and water supply	28.3	26.3	20.8	18.8	17.1

Source: MED Department for Statistics (2008e, pp. 170–71).

One of the features of Georgian industry is the high proportion of large enterprises in total output. Small and medium-sized enterprises are not yet widely developed to play a key role as subcontractors. Large enterprises have benefited more than the SMEs, in all recent improvements in total turnover and industrial employment. The share of foreign firms remains low in employment (14%), although it is already much more substantial in output.

The early approach to privatisation led to the concentration of many industrial assets/enterprises in the hands of their former Soviet directors. While many were unable to adapt to the new management strategies and let these assets deteriorate without investment, some could make intelligent use of the former assets with modern standards and targeted investment at the margin, in strategic assets. This partly explains why Georgian industry has registered positive growth rates despite relatively low levels of investment in equipment.

Privatised but poorly restructured companies would benefit from the input of younger skilled managers. The government could support such recruitment programmes to industry. To better link industry with world markets, Georgian products and enterprises need to acquire international certification and comply with standards. For many firms such quality and certification processes remain out of reach. However compliance to international standards is required to take full advantage of the extended Generalised System of Preferences (GSP+) and World Trade Organization (WTO) agreements.

3.12 External sector

Table 3.14: Main components of external economic relations, 2000–08 (USD millions)

	Trade balance of goods and services	Current account balance	Current account balance (GDP %)	Net FDI	Total foreign debt (GDP %)
2000	-533.7	-161.2	-5.3	131.7	50.9
2001	-472.3	-211.4	-6.6	109.9	50.0
2002	-444.1	-215.7	-6.3	156.1	51.5
2003	-576.8	-383.3	-9.6	330.9	45.9
2004	-845.6	-353.2	-6.9	482.8	34.2
2005	-1 130.7	-709.7	-11.1	542.2	27.1
2006	-1 861.3	-1 137.7	-15.1	1 185.9	21.3
2007	-2 734.5	-2 005.8	-19.7	1 675.7	17.6
2008	-4 560.4				
2008, Q II		-899.0	-26.0	522.2	17.1

Source: GEPLAC (October 2008).

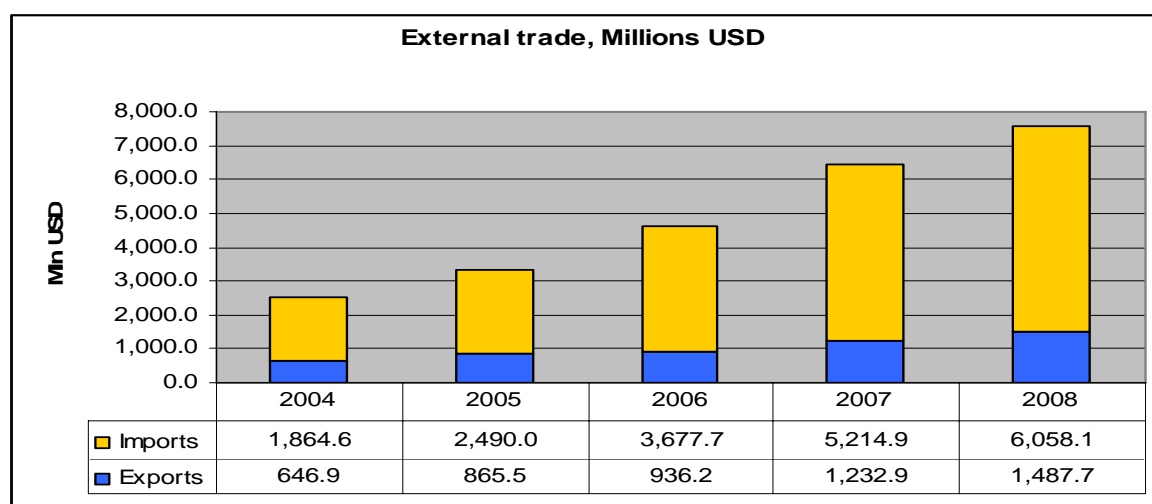
FDI grew very rapidly in 2006 and 2007. Total FDI in 2007 more than doubled in comparison with 2005.

Over 56% of total FDI originated from the EU. The main EU partners were the Netherlands (15% of total FDI), followed by the Czech Republic, Denmark, Cyprus and the United Kingdom. However the EU share of FDI declined in the two first quarters of 2008 to 25.6% and 41.9% respectively.

The positive note up to the military conflict of August 2008 was low foreign debt, reduced from 50% of GDP in 2000 to 17.6% in 2007.

External trade turnover more than doubled in the period from 2004 to 2008, but the balance of trade has grown increasingly negative.

Figure 3.9: External trade, 2004–08 (USD millions)



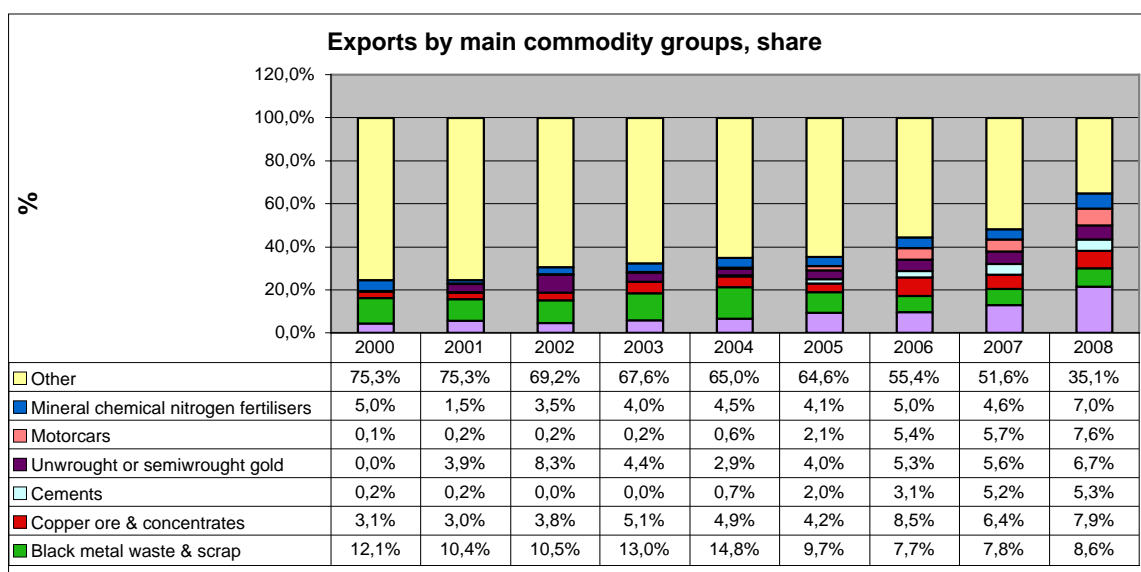
Source: MED Department for Statistics (2008, IV).

Exports grew at an annual rate of 25% in the period 2004–08. With a brief decrease in 2006, due to the Russian embargo on wines and mineral water, exports resumed again in 2007.

Some diversification of export products took place, as Figure 3.10 shows. Ferro-alloys, scrap metals, unwrought or semi-wrought gold, cements, mineral fertilisers and motor cars³⁵ have increased their share in total exports.

³⁵ The motor car category covers re-exports of cars to neighbouring countries.

Figure 3.10: Share of exports by main commodity group, 2000–08 (%)



Source: MED Department for Statistics (2008, IV).

The structural change in exports has been moderate, and they are still dominated by metals, scrap waste and minerals. The Russian embargo displaced wine from the *top ten* products in 2007. There are only a few manufactured goods in the country's current export basket (Table 3.15), with the exception of cement, the production of which was expanded thanks to FDI.

Table 3.15: Moderate structural change in exports – *top ten* export products, 2002 and 2007 (USD thousands)

2002		2007	
Products	Value	Products	Value
Other aircraft	41 084	Ferro-alloys	159 630
Ferrous waste and scrap	36 482	Ferrous waste and scrap	96 872
Wine	33 202	Copper ores	79 213
Gold unwrought	28 581	Motor cars	70 176
Waters	17 291	Gold unwrought	69 392
Ferro-alloys	15 502	Other nuts	65 122
Sugar	13 563	Cement	64 002
Copper ores	13 157	Ethyl alcohol, spirits	57 423
Mineral fertilisers	12 037	Mineral fertilisers	57 022
Aircraft parts	11 477	Copper waste and scrap	37 052

Source: GEPLAC (October 2008).

In 2007 the *top ten* export basket contains only five new products, compared with 2002. A sign of reviving entrepreneurship would be the rise of new products, hence more diversified exports. Services would also contribute to the diversification of exports, but the balance of trade in services was only mildly positive over the period considered. The two larger export items in services are transport and tourism.

Georgia wishes to strengthen its position as a transit country for goods and energy. Batumi has the potential to become a centre for processing and transporting fuel from Azerbaijan and Kazakhstan.

The main export destinations are strongly associated with neighbours of the Black Sea region: Turkey, Azerbaijan, Ukraine, Armenia and Bulgaria.

- **Turkey: 17.55% of total (2007)**
- **Azerbaijan: 13.71%**
- **Ukraine: 8.96%**
- Canada: 8.80%
- **Armenia: 8.34%**
- **Bulgaria: 7.22%**
- United States: 6.82%

Exports by country groups (2007):

- CIS countries: 36.22%
- EU countries: 22.38%
- **BSECO countries: 59.13%**
- OECD countries: 50.25%

Main import partners include Turkey, Ukraine and Azerbaijan in the three first places, confirming the close ties with Black Sea neighbours. BSECO countries represent 49.2% of total imports, CIS countries 33%, and EU countries 27.5%.

Table 3.16: Imports, 2000–08

Year	Total imports (USD millions)	Share of selected products (%)		
		Oil and oil products	Motor vehicles	Pharmaceuticals
2000	709.4	10.1	2.2	6.5
2001	753.2	11.6	1.7	7.1
2002	795.5	11.2	2.8	7.8
2003	1141.2	9.2	4.1	5.5
2004	1847.9	10.1	6.3	4.2
2005	2490.9	13.5	7.2	3.7
2006	3677.7	12.0	8.0	3.1
2007	5214.9	10.7	7.1	2.8
2008	6058.1	12.6	7.6	3.1

Source: MED Department for Statistics (2008, IV).

Other important products imported include petroleum gases and other gaseous hydrocarbons, transmission apparatus (radio, TV, telephony), wheat, computers, wheat flour, manganese ores and concentrates.

GEPLAC experts question the effectiveness of GSP+ on exports. The low export enhancing effect of the GSP+ (in data of various sources), can be interpreted in different ways. Although GSP+ was expected to trigger a short-term effect, the inertia of exporters might be greater than expected and adjustment needs more time. Georgia has insufficient export base to expand its sale in the demanding European market. Finally, non-tariff barriers prevent the expansion of exports despite the granted tariff reduction.

The EU granted Georgia GSP+ until the end of 2008, which allowed almost tariff-free Georgian exports to the EU. For the future the EU proposes a so-called 'deep and comprehensive free trade agreement' (FTA). 'Comprehensive' means wide sector coverage – trade not limited to specific goods and services. 'Deep' implies that the agreement should go beyond tariff reduction to include non-tariff barriers (NTBs) and regulatory approximation in trade-related issues. NTBs relate mostly to product standards and regulations, and the size of these NTBs for exports into the EU is sometimes estimated as high as an equivalent tariff of 20% for textiles, and 40% for food. NTBs tend to be higher for agricultural goods than for industrial products. So, reducing NTB means harmonising norms and regulations and for Georgia – simply adoption of EU standards.

NTBs cannot be overcome by the isolated efforts of one firm, joint action is required. The state needs to enact or amend legislation and train staff. But the largest costs will be borne by the exporters who need to adjust their products to EU norms. An estimate considers that investment costs of 2%–5% of total sales of the economy are needed to comply with technical requirements. However the foregone sales (profits) due to NTBs are higher than the estimated compliance costs.

GEPLAC experts analysed the export potential of Georgia, noting that the authorities subscribe to the idea of export-oriented policy (GEPLAC, October 2008). The low import tariffs and the liberal domestic policy in recent years are in line with such an approach. The plan that export growth should outstrip GDP growth in coming years is another indication of that policy. The share of exports in GDP should climb to 40%. At present the degree of openness (trade/GDP) of the Georgian economy is not very high.

Currently Georgia's export potential is seen to lie in labour-intensive and rather simple products which do not show distinct advantages from mass production and so it will mainly be concerned with the accession of these products to the EU market. The opening of the EU market to agricultural products and labour-intensive manufactured goods would be the main interest for the country.

Curtailling imports is not an option to solve the growing trade deficit, so the promotion of exports ranks high on the political agenda towards more balanced trade. Export-oriented FDI is very important for this purpose.

The financing of the Georgian trade deficit is only minimally based on debt creation, as two main sources have financed it: current transfers and FDI.

Table 3.17: Trade balance and financing, 2002–08 (USD millions)

	2002	2003	2004	2005	2006	2007	Q I 2008
Trade balance	-444.0	-577.0	-846.0	-1 131.0	-1 861.0	-2 734.0	-818.0
Factor income	12.0	13.0	78.0	62.0	164.0	39.0	-81.0
Current transfers *	217.0	180.0	414.0	359.0	524.0	689.0	172.0
Migrant transfers	-5.0	-5.0	-1.0	2.0	16.0	45.0	3.0
FDI	156.0	331.0	483.0	542.0	1 077.0	1 654.0	386.0
Other capital flows	64.0	57.0	-129.0	165.0	81.0	307.0	335.0

*Workers remittances are an item of 'current transfers'.

Source: GEPLAC (October 2008).

3.13 Poverty

In Georgia GDP per capita grew significantly in the period 2004–08.

Table 3.18: GDP per capita, 2003–09 (USD)

	2003	2004	2005	2006	2007	2008	2009
Nominal GDP per capita	919.0	1 188.0	1 484.0	1 764.0	2 315.0	2 913.0	2 939.0
GDP per capita (PPP)	2 996.0	3 242.0	3 644.0	4 038.0	4 694.0	4 951.0	4 931.0

Source: MED, *Georgian Economy Overview* (February 2009).

Poverty decreased in Georgia in 2007, strongly influenced by social transfers.

Table 3.19: Income, per adult equivalent (PAE), real 2007 prices (GEL)

Per adult equivalent (GEL)	Mean income PAE, real 2007 prices		Absolute change	% change
	2003	2007		
Urban	115.1	128.3	13.2	11.5
Rural	36.8	66.7	29.9	81.3
Lowest quintile	0.6	6.9	6.3	1050.0
2	15	29.2	14.2	94.7
3	45.6	57.0	11.4	25.0
4	88.8	100.3	11.5	13.0
Highest quintile	225.8	303.7	77.9	34.5

Source: World Bank (2008)

The growth of PAE was much higher among the poorest quintiles of the population and lowest in the middle quintiles (third and fourth quintile: 25% and 13% respectively). The wealthier quintile also registered a significant increase in income (34%).

The poverty rate in Georgia was 23.6% in 2007, and extreme poverty was 9.3%. For both poverty lines, rural poverty is larger and deeper (Table 3.20).

Table 3.20: Poverty rate, 2007 (%)

	Poverty headcount rate	Poverty gap
	2007	2007
Poverty line – GEL 71.6 (total poverty)		
Urban	18.3	5.3
Rural	29.7	9.2
Total	23.6	7.2
Poverty line – GEL 47.1 (extreme poverty)		
Urban	6.7	1.8
Rural	12.4	3.2
Total	9.3	2.4

Source: World Bank (2008)

The regional incidence of poverty is diverse, with three regions having a poverty rate above 40% (Table 3.21). Shida Kartli, Kakheti and Mtskheta-Mtianeti are the regions with the highest poverty rates, and the Shida Kartli region has the largest number of poor people (18.9%).

Tbilisi, the capital, has the lowest poverty rate (half the national rate), but is home to one of the largest groups of poor people in the country (15.6%).

Table 3.21: Poverty by region, 2007 (%)

Total poverty	Poverty headcount rate	Distribution of poor	Distribution of population
	2007	2007	2007
Kakheti	46.3	15.7	8.0
Tbilisi	12.9	15.6	28.5
Shida Kartli	59.4	18.9	7.5
Kvermo Kartli	17.3	7.6	10.4
Samtskhe-Javakheti	18.1	3.3	4.3
Adjara	27.4	9.5	8.2
Guria	33.2	5.3	3.8
Samegrelo	14.4	5.7	9.3
Imereti	19.1	14.1	17.5
Mtskheta-Mtianeti	40.6	4.2	2.5
Total	23.6	100.0	100.0

Source: World Bank (2008)

The association of poverty and labour market status of the household head is shown in Table 3.22. Wage employment, followed by non-agricultural own business, are associated with the lowest poverty rate (in both poverty lines), while being unemployed is associated with the highest poverty rates (in both poverty lines). But being employed is not a sufficient safeguard from poverty – see ‘other employment’. Self-employment in agriculture also means significant vulnerability to poverty. The largest number of poor are among the unemployed (63% of poor), followed by those self-employed in agriculture (almost a fifth of all poor).

Table 3.22: Poverty by labour market status of household head, 2007 (%)

Labour market status	Poverty headcount rate	Distribution of poor	Distribution of population
Total poverty			
Wage employment	12.7	10.5	19.6
Self-employment (agricultural)	23.0	19.6	20.1
Own business (non-agricultural)	15.4	5.7	8.7
Other employment	24.2	0.9	0.8
Unemployed	29.5	63.3	50.7
Total	23.6	100.0	100.0
Extreme poverty			
Wage employment	4.3	8.9	19.6
Self-employment (agricultural)	9.1	19.7	20.1
Own business (non-agricultural)	4.4	4.1	8.7
Other employment	6.6	0.6	0.8
Unemployed	12.3	66.7	50.7
Total	9.3	100.0	100.0

Source: World Bank (2008).

3.14 Labour force demand, 2007–08

Two surveys carried out by the IOM in 2007 in 14 regions and in 2008 in Tbilisi to identify demand for labour by firms in selected economic sectors, show a positive trend in growth prospects (turnover and jobs) for the last three years and beyond (IOM, 2007; IOM, 2008). The sectors surveyed in the regions were construction, tourism, service, port cargo and logistics, and the processing industry. In Tbilisi, the selected sectors included transport, communication, healthcare, the pharmaceutical sector and the financial (including credit) and insurance sectors.

In the regions, 52% of the firms had expanded since 2005 and 50% had increased the number of their employees. Similar figures were registered in Tbilisi; although there the number of companies that had expanded jobs was lower (42%). In Tbilisi 44% of the surveyed enterprises had introduced new technologies and techniques, while this figure was lower in the regions (35%).

Recruitment channels used in the regions vary from those in Tbilisi, but the predominant channels are informal contacts and recommendations. This is partly explained by the absence of public employment services. Other channels include private recruitment agencies, particularly online-based services.

The surveys identified a long list of professional profiles that are in demand (both recently recruited and prospectively recruited) and cover all levels of education. For example, in the regions, in the processing industry (in which over 60% of the firms plan to increase their labour force), metalworkers, electrical welders, electricians, engineers and technologists (representing the highest figure), dressmakers, sales staff and clerks are in demand. In construction (where 57% of firms are expanding), the highest demand is for plasterers, bricklayers, painters, electric welders, electricians, plumbers, broad profile workers, concrete layers, fitters, asphalt layers, civil engineers and office managers. In tourism (where 56% of firms plan expansion of jobs), the profiles most in demand are those of cooks and waiters, followed by receptionists, cleaning supervisors and cleaning staff, and managers. The sector of ports, cargo and logistics (in which 44% of firms plan to hire more staff) requires ship's engineers, accountants, dock workers and crane operators.

The survey in Tbilisi also provides relevant information on growth and employment prospects and indicates the profiles in demand. It showed that firms in the surveyed sectors also intend to increase their labour force in the next two or three years. The strongest trend is evident in the financial and insurance sectors. In those sectors, more than 40% of the surveyed firms plan to significantly increase personnel. In the transport sector, 53% of firms plan to increase jobs and 58% of those in the communications sector plan to do the same, but only about 10% plan significant increases. In the healthcare sector 32% of the surveyed firms intend to increase staff, and 43% of shops plan staff increases. Practically none of the surveyed firms plans to reduce staff. This offers a positive picture of job creation prospects.

The survey in Tbilisi provides useful information about the professional profiles that will be in demand, based on firms' perceptions and plans. The sectors and profiles are as follows:

- communications sector – engineers, network technicians, operators, electricians, cabling technicians, information and communication technology (ICT) specialists, financial managers, sales staff, lawyers;
- healthcare sector – physicians and therapists, surgeons, obstetricians, nurses, assistants, emergency care staff, doctors in various specialist medical fields, pharmacists, drivers, distributors;
- transport sector – drivers, rail freight operators, driver-distributors, air traffic operators, lawyers, financial managers, logistics operators, rail transport operators and engineers;
- financial sector – bank business specialists, credit administrators, credit operators, cashiers and operators, economists, ICT specialists;
- insurance sector – insurance and reinsurance operators, insurance specialists, financial managers, sales staff.

Interestingly, the survey showed that corruption is not considered a barrier to business (it ranked lowest in the replies). This represents a significant positive change as compared with the situation in 2003–04. The NPA and the MES are clearly direct beneficiaries of this survey and can use the findings in decision-making.

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4. Labour migration

This chapter looks at the articulation of labour migration with the human capital stock of Georgia, and the use of remittances in the economy. Migration is another important characteristic of the labour market. In recent years there has been some inflow of labour migrants, both permanent and transitory, particularly from South Asia. But outflow has affected both the structure of the labour force and demographic trends.

As in other countries, migration statistics are not complete and updated. The study of migration is confronted by methodological and data problems. Official statistics are incomplete, sample surveys face difficulties of various order (sources used are listed at the end of the chapter).

The emigration peak was reached in the period 1992–96, when the balance of international migration oscillated between -142 000 and -123 000 people per year. In 2006 the balance was -20 000, after a positive balance in 2004 of +76 000. The number of Georgian citizens having left for foreign countries as job-seekers ranges between 205 000 and 300 000, but a more recent estimate points to 450 000 as the upper limit of the aggregate indicator of migrant workers from Georgia. Estimates point to one worker migrant per every fourth Georgian household. Two-thirds work in Russian and other CIS, the remainder accounts for other countries in Europe and America. A large number of Georgian emigrants have also taken citizenship of the receiving country and the literature speaks of a 'new Georgian diaspora'. This diaspora, together with that of Soviet times, is numerous in Russia and provides regular assistance to relatives in Georgia. These types of regular financial assistance cannot be categorised as those of migrant workers.

Temporary moves abroad, also called 'incomplete migration' seem to have become more frequent, varied and flexible than traditional migration forms. Less chance of settling permanently abroad has contributed to this increase of return migration, which has become central to the ongoing migration process.

4.1 Snapshot of migration and remittances

Migration and remittances in Georgia

This paragraph is based on the indicated source³⁶.

- Emigration (2005)
 - Stock of emigrants: 1 025 000
 - Stock of emigrants as percentage of population: 23%
 - Top 10 destination countries: Russia, Ukraine, Greece, Armenia, Israel, Germany, United States, Cyprus, Turkey and Latvia
- Skilled emigration (2000)
 - Emigration rate of tertiary educated: 2.6%
- Immigration (2005)
 - Stock of immigrants: 191 000
 - Stock of immigrants as percentage of population: 4.3%
 - Female as percentage of immigrants: 37.4%
 - Refugees as percentage of immigrants: 1.1%
 - Top 10 source countries: Russia, Armenia, Azerbaijan, Ukraine, Turkey, Germany, Pakistan, United States, Greece and Bulgaria
- Remittances

³⁶ Migration and remittances in Georgia, Development Prospects Group. Available at: www.worldbank.org/prospects/migrationandremittances

Table 4.1: Structure of total labour migrants' remittances to and from Georgia, 2000–06 (USD millions)

	2000	2001	2002	2003	2004	2005	2006
Inward remittance flows	274.0	181.0	231.0	235.0	303.0	346.0	485.0
Workers compensation	95.0	87.0	75.0	64.0	64.0	94.0	153.0
Compensation of employees	179.0	94.0	152.0	168.0	236.0	247.0	315.0
Migrants transfer	–	–	4.0	3.0	3.0	5.0	17.0
Outward remittance flows	39.0	26.0	26.0	30.0	25.0	29.0	24.0
Workers compensation	19.0	13.0	2.0	6.0	7.0	8.0	4.0
Compensation of employees	15.0	7.0	15.0	16.0	15.0	18.0	19.0
Migrants transfer	5.0	5.0	9.0	8.0	3.0	3.0	1.0

Table 4.1 is based on officially recorded remittances, but the true size, including unrecorded flows via formal and informal channels is believed to be larger.

4.2 Migrants profile

The profile of migrants according to a study by Badurashvili (2003)³⁷ shows a predominance of highly skilled and productive persons, and a high proportion of women (Table 4.2).

Table 4.2: Profile of labour migrants, 2003 (%)

	Total	CIS	Other countries
Gender			
Male	50.7	70.3	40.6
Female	49.3	29.7	59.4
Age			
Under 20	0.2	0.0	0.2
20–29	25.4	11.8	32.4
30–39	34.5	40.1	31.6
40–49	24.4	33.0	20.0
50–59	11.4	11.3	11.4
60–69	3.9	3.3	4.1
70+	0.3	0.5	0.2
Marital status			
Married	60.8	70.8	55.7
Never married	27.1	19.8	30.9
Education			
Secondary general or below	14.8	17.5	13.4
Secondary professional	24.2	26.4	23.1
Higher incomplete	6.3	4.2	7.3
Higher complete	54.7	51.9	56.2
Economic status			
High	9.3	6.1	10.9
Middle	67.4	66.0	68.1
Low	23.3	27.8	20.9

Source: Badurashvili (2003).

The same study provides data on the fields of employment of Georgian migrants. As expected, there is practically no correspondence between the skills level and the jobs taken (Table 4.3).

³⁷ <http://paa2004.princeton.edu/download.asp?submissionId=41960>

Table 4.3: Profile of labour migrants, share by field of employment, 2003 (%)

Fields of employment	Total	CIS	Other countries	Men	Women
Agricultural works	6.6	1.4	9.2	6.6	6.5
Construction works	19.6	28.3	15.1	37.7	1.0
Babysitter or housekeeper	25.0	1.9	37.0	0.9	49.8
Auxiliary staff in service sector	16.2	11.8	18.5	12.0	20.5
Trade or small business	18.9	44.8	5.6	25.9	11.7
Factory work	4.5	2.8	5.4	6.0	2.9
Other work	8.2	8.5	8.0	10.1	6.2
No work	1.0	0.5	1.2	0.6	1.3

Source: *Badurashvili (2003)*.

Thus half of migrant women worked in domestic and personal care services. Men worked mainly in construction as well as in commercial activities. Interestingly, babysitting and domestic services is a predominant area of work for Georgian migrants in countries outside the CIS, whereas trade predominates within the CIS.

For a comparison with more recent information on migrants' profiles, we provide a brief analysis of some data collected in 2006–08 by IOM information offices in Georgia and based on a survey of potential migrants. Three tables from the data are combined in Table 4.4.

Table 4.4: Profile of potential labour migrants, statistical overview: July 2006 to April 2008

Total number of respondents: 2 039					
A. Gender and age					
Age	Total in age group	Female	%	Male	%
Less than 20	45	28	2.52	17	1.83
20–25	467	279	25.14	188	20.24
25–30	398	209	18.83	189	20.34
30–35	274	141	12.70	133	14.32
35–40	244	136	12.25	108	11.63
40–45	246	127	11.44	119	12.81
45–50	251	136	12.25	115	12.38
50 and over	114	54	4.86	60	6.46
Total	2 039	1 110		929	
B. Gender and completed education					
	Total in category	Female	%	Male	%
Advanced higher education	36	16	1.45	20	2.16
Higher education (BA, Master's degree)	1 022	573	51.86	449	48.44
Student higher education	118	80	7.24	38	4.10
VET qualification	624	314	28.42	310	33.44
Student VET	74	42	3.80	32	3.45
Secondary school completed	118	62	5.61	56	6.04
Secondary school not completed	40	18	1.63	22	2.37
Total	2 032	1 105		927	
C. Gender and current employment status					
	Total in category	Female	%	Male	%
Unemployed, seeking a job	1 045	638	58.48	407	44.05
Employed part-time, on-off/seasonal remuneration	470	212	19.43	258	27.92
Employed full time, remunerated	432	207	18.97	225	24.35
Employed, not remunerated	52	24	2.20	28	3.03
Unemployed, not seeking a job	16	10	0.92	6	0.65
Total	2 015	1 091		924	

Source: *IOM mission to Georgia, tables received in June 2008 through IOM representative in Tbilisi (unpublished)*.

The data in Table 4.4 indicate that younger people aged 20–30 represent almost half of potential migrants, even though the group aged 40–50 is also large (25%). The desire for better employment in foreign labour markets can be deduced from the fact that over half of potential migrants are currently employed (part-time and full time). A substantial proportion, amounting to 44% of the group, are job seekers who are currently unemployed.

The surveyed group shows very high educational achievement: half of the group has higher education, and over a third have professional secondary education. This concentration of holders of higher education in the group of potential migrants is much higher than the share of this category among the economically active population (30%).

Surprisingly, women constitute a majority among potential migrants. This can be linked with the higher educational achievement of women migrants, and their desire for safety and adequate information, which is why they are more likely to use official IOM services.

This limited survey allows a number of other relevant conclusions, particularly on the employment characteristics of the potential migrants and their expectations from migration.

- The two largest professional categories (not necessarily practising currently) are teachers (18%) and doctors or nurses (11%). Other representative groups include scientists, economists, engineers, architects and lawyers. Blue-collar categories represent a very small share of potential migrants, and they include mechanics, manual workers, technicians, farmers and drivers.
- Despite this pattern, almost a quarter of these potential migrants have no job preference abroad and are ready to accept any work; almost a third would accept jobs in the category of domestic help and/or caregiver; and 11% would accept jobs in restaurants and hotels. Gender differentiation is evident; women make up the large majority of those who choose domestic help and/or caregiver jobs, while the majority of men accept any type of job.
- The preferred countries of destination are much diversified. The United States is considered to be the most attractive (by 20%), followed by Greece, Italy, Turkey, Germany and Canada. The most frequent second choice shows uncertainty, and it corresponds to the 'not specified, any country' option.

4.3 Remittances

The most recent World Bank migration study, covering 28 European and Central Asian countries including Georgia, showed that 41% of migrant workers on average transfer money through informal channels. The IOM study (2003) offers an indication that 50% of migrants sent money via banking institutions, 17% by mail and 33% by physical persons.

The share of non-bank remittances was much higher at the end of 1990s. According to expert estimates at the time, the total volume of the flow of remittances ranged between USD 600 million and USD 720 million. Comparison of these figures with the official remittances indicator in 2000 suggests that the share of unofficial remittances varied from 54% to 62%. The largest share of unofficial remittances used to come from countries where Georgian citizens travelled intensively: Russia and Greece. More than half of the remittances from these countries were transferred through acquaintances and drivers. On the other hand, 84% of remittances from the United States came via banks and other types of electronic transfer.

A combination of various factors, such as stricter visa regimes in the 2000s and the aggravation of relations with Russian with associated travel difficulties for Georgians, contributed to a decrease in unofficial remittances. Thus the share of unofficial remittances showed a downward trend accentuated in 2004–2006. In the first quarter of 2007, the amount of money transferred from Russia via banks and electronic transfers increased by 50% compared with the same period in the previous year.

The EBRD survey on public opinion on remittances (EBRD, 2007) carried out in Georgia in January 2007 concluded with the following estimates.

- The average remittance to Georgia is USD 165.

- Georgia received approximately USD 418 million in 2006.
- Distribution of remittances per country of origin (country where works the family member of interviewed) was as follows (in USD millions): Russia 140; Western Europe 50; Greece 45; United States 24; Eastern Europe 24; Armenia/Azerbaijan 15; Turkey/Israel 6 (total USD 304 million).

The same EBRD survey offers a number of other interesting estimates on the profile of the remittance recipients.

- Gender: 55% are female, a proportion slightly higher than female share of the population (54% of adult population).
- Age groups: 29% of age group 35–49, 24% of age group 18–24, 16% of age group 65+. In the first two categories the share of recipients exceeds the share of the group in the population.
- Educational level of recipients: 37% have higher education, a figure that exceeds by 5 points the share of this education level in the population. Recipients with less than complete secondary education are only 5%, which is 4 points below the share of this education level in the population.
- A quarter of recipients live in Tbilisi, 17% in Imereti. Recipients have higher urban concentration than the population (53% against 51%).

GEPLAC estimates that the aggregate annual volume of remittances reaches USD 770 800 million (Table 4.5). This amount is based on: (i) total number of labour migrants regularly sending money home is 360 000 (450 000 is the estimated aggregate of migrant workers from Georgia, whereby 20%–26% of them do not send remittances); and (ii) average monthly amount of migrant remittances is USD 180, as shown by empirical studies. Other estimates indicate higher volumes of migrant remittances to Georgia: USD 1 billion annually.

Table 4.5: Aggregate labour migrants' remittances to Georgia and their scale, 2000 and 2006

	2000	2006
Aggregate volume of remittances, expert estimate (USD millions)	720	800
Ratio between aggregate volume of remittances and GDP (%)	23.5	10.2
Ratio between aggregate volume of remittances and export volume (%)	223.1	80.6
Ratio between aggregate volume of remittances and the volume of FDI (%)	548.8	67.2

Source: Kakulia (2007).

Although the ratio of remittances to GDP has decreased in 2006, it remains substantial. But international comparison shows that this ratio is not among the highest: in countries such as Albania, Moldova and Bosnia and Herzegovina this ratio ranges between 15% and 30% of GDP, even considering *official* remittances alone.

4.4 Social and economic effect of remittances in Georgia

4.4.1 Foreign exchange effect

Migrants' remittances were the main source of foreign exchange in the early 2000s. But in 2006 the ratio of remittances to export volume and to FDI dramatically decreased, showing first of all a clear improvement in the business climate that led to such a growth in exports and FDI in the years since 2004. Therefore remittances lost that primordial role as a source of foreign exchange, although they continue to generate significant flows.

Empirical evidence shows that countries with high remittance activity tend to have a large current account deficit (approximately 20% of GDP), while countries with low remittance flow have moderate current account deficits. But migrants' remittances tend to be more predictable and stable than FDI as a source of foreign exchange, essential to finance the balance of trade deficit. The FDI boom can be temporary, particularly in

small economies. For a sustainable balance of payments Georgia needs to develop its export products based on FDI, but until then migrants' remittances need to be used to maximum benefit for the country.

GEPLAC analysts reject the opinion that migrants' remittances have directly caused appreciation of the national currency, a theory shared within the body of literature for other remittance recipient economies. This hypothesis has been partially proven by the experience of Albania and Moldova, but in Georgia the factors that in 2006–07 caused the appreciation of the lari in real terms have been the progressive legalisation of the economy; the strengthening of fiscal administration and linked growth of revenues, and more importantly the FDI boom. So the role of remittances in Georgia was limited to financing imports and alleviating the burden of the current account deficit, thereby contributing to the establishment of a rather long-lasting trend of excess supply to the domestic foreign currency market. The stability of the flow of remittances against the background of investment activity and the deep structural changes in the economy, therefore, have become contributory factors in the appreciation of the lari rather than causing it (Kakulia, 2007).

4.4.2 Multiplier effect

Remittances influence the recipient's economic activity through the growth of consumer demand, savings and investments, and entrepreneurial activity. Remittances have a direct influence on consumer demand in Georgia.

The EBRD survey (2007) found that approximately 1 million Georgians benefit from remittances.

Recipients spent some 85% of the money they receive on basic consumer goods, such as food, housing, clothing, utilities and medicine. This survey shows that two-thirds of recipients belong to poorer income groups and almost two-fifths have higher education. Approximately 89% do not possess a bank account, 2% have a business, 5% have some property, and 1% has a savings account. This picture implies a low ability to invest and engage in economic activity on the part of recipients.

GEPLAC supports the conclusion that remittances to Georgia are only marginally used for investments and entrepreneurship. An EBRD (2007) survey of micro and small enterprises in Georgia showed that 93% of the respondents (micro and small entrepreneurs) who used their remittances in their entrepreneurial activity to some extent mainly used this money for starting-up a business. But these were probably savings accumulated abroad and brought home, not remittances of micro-size with low savings potential. Migrants accumulate these amounts for specific purposes such as the purchase of immovable or other property, education fees, refurbishing apartments, or savings accounts. The EBRD survey showed that only 20 of the 149 small entrepreneurs interviewed were remittance recipients and only 6 of them used this source of income for business. The study showed that even those households that are involved in business use remittances to cover consumption costs.

Other surveys have shown that only 20% of returned migrants have succeeded in starting up a profitable business, 40% had no option but to spend the savings from work in migration on primary needs as they failed to find jobs on returning home. The same group of migrants would probably spend their savings on the purchase of cars, flats and other property.

GEPLAC argues that the household expenditure pattern of current remittances – regular transfers by residents working abroad – differs from the behaviour of returned migrants. Such regular remittances are almost all spent on consumer goods – the amounts are relatively small, so less likely to be used on property. The average monthly amount sent home by Georgian migrants is approximately: (i) from Russia: USD 179.5; (ii) from Greece USD 204.2; (iii) from the United States USD 397.3; (iv) from Belgium USD 232.9; and (v) from Turkey USD 149.8.

Remittances from migrant workers have an impact on economic growth through consumer goods. As the share of imported goods, industrial and food products, is very high in the consumption structure – they contribute to the growth of imports.

Remittances also contribute to the improvement of the economic condition of households, as a high proportion of recipients belong to income groups that are relatively poor (but not the poorest).

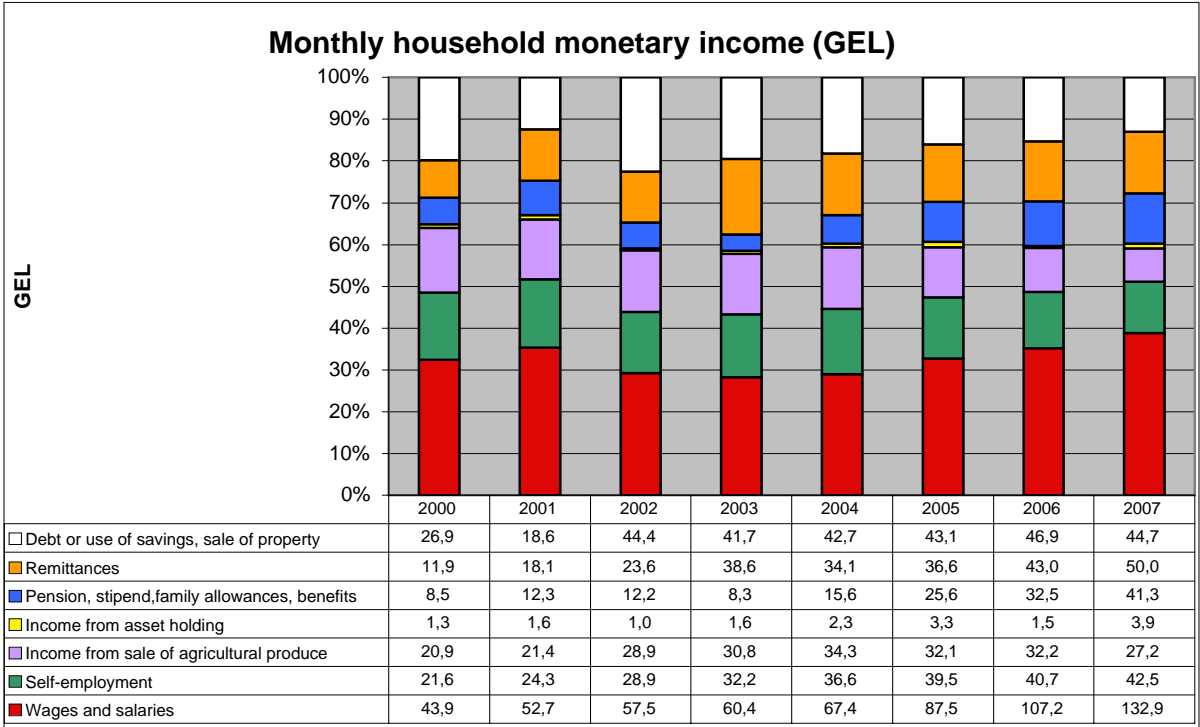
The EBRD survey (2007) found the following on the economic status of recipients (measured by monthly household income).

- 41% of recipients are in the group GEL 100–250, which is by 10 percentage points higher than the share of this group in the population.
- 25% of recipients refer to the group less than GEL 100 (the share of this group in the population is 37%).
- Wealthier groups are: GEL 250–400 (18% of recipients, 10% of the population); GEL 400–600 (9% of recipients, 7% of population); and more than GEL 600 (4% of both recipients and population).

These surveys show that the financial condition of recipient families has improved significantly thanks to remittances. GEPLAC sustains that remittances contribute to alleviate poverty, not to eliminate it, and not to the establishment of a middle class in the country.

Analysing the structure of household income, we find that remittances have become one of the most important sources, as Figure 4.1 shows. In 2007 remittances became the second most important source of income; whereas from 2000 to 2005 they were only the fourth to fifth source.

Figure 4.1: Monthly household monetary income, 2000–07 (GEL)



Source: MED Department for Statistics.

GEPLAC points to some unequal distribution of remittances, given the highly urban profile of recipients and senders. Tbilisi receives a quarter of all remittances, and migrants from Tbilisi are better educated and better informed. A migrant from Tbilisi sends relatively more money home than migrants from other regions: 1.5 times more than a migrant from Tkibuli, 1.3 times more than a migrant from Zugdidi and Senaki, and 3.3 times more than a migrant from Akhalkalaki (Armenian minority).

Depreciation of remittances, in conjunction with the appreciation of national currency and inflationary pressure, threatens the recipient households, particularly the poorest recipient households. Whereas in 2003 the average monthly remittance in the national currency amounted to GEL 348, it decreased to GEL 289 in 2006 and to GEL 270 in 2007. Additionally, with annual inflation rates of approximately 7%, the real value of remittances is being significantly undermined.

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5. Employment policy framework and recommendations

Considering the substantial challenges relating to social development and sustainable and equitable economic growth, the government has adopted a range of policies that are discussed in this chapter. The scope of this report is not to evaluate these policies for effectiveness, but to highlight their key features and, where possible, discuss some of the known implications.

The focus is on those policy areas that have potential impact on employment: support to business development, social protection, employment and labour market and education. A section on education and training policy is included here rather than in Chapter 2 because education and training have a direct link with employability and the effectiveness of employment policy.

Recommendations are presented in line with the structure of the report, reflecting the ongoing debate among experts and social partners in the country.

5.1 'Georgia without poverty' programme³⁸

In 2008, following the political events of November 2007 and the electoral cycle, the Government of Georgia placed more emphasis on social spending, particularly on pensions, salaries and social programmes. In January 2008 the new government presented its programme for 2008–12 – 'Georgia without poverty', whose two main goals are: (i) well-being of the population; and (ii) ensuring national security and complete territorial and civil reintegration. While the most recent poverty assessment showed substantial progress in reduction of poverty, the prospects of national security and total territorial reintegration are much less positive.

The programme established policy directions in a number of action areas, including macroeconomic growth, lower taxes, creation of jobs, focusing the budget on social programmes, extending health insurance for the poor, rehabilitating the road network, increasing hydropower generation, increasing agricultural exports, and strengthening higher education. While this strategy predates the significant changes to the economic environment following the August 2008 conflict and the global economic crisis, many of the policy directions remain valid although the pace at which they are expected to be achieved will need to be adjusted.

5.2 Programmes to support business development and job creation – 'Cheap Credit'

Since 2008 the government, through the Ministry of Economic Development, supports access of business projects to financing under favourable lending conditions. The 'Cheap Credit' programme is targeted at (a) export stimulation and (b) regional tourism, agriculture and crafts projects. Maximum financing for projects under (a) was GEL 100 000 for 10 years, whereas projects under (b) can receive a maximum of GEL 20 000. Interest rates are at maximum 10% and 12% respectively. In 2008 a total of 125 projects were financed, as summarised in Table 5.1.

As the programme is new it is not yet possible to assess its effects on jobs created or maintained directly and indirectly as a result of the implementation of the financed projects. However, in its 2009 report on the programme, the MED estimates the size of beneficiaries: 'The number of direct and indirect beneficiaries of the 'Cheap Credit' programme exceeds 30 000'.³⁹

Adjara gathered the highest number of financed projects (69, or 55% of total), probably linked with the numerous tourism-related projects (small and numerous). Kakheti and Shida Kartli received 14 loans each,

³⁸ www.government.gov.ge/index.php?lang_id=ENG&sec_id=41

³⁹ MED, State Programme 'Cheap Credit', unpublished presentation (2009, shared with ETF by MED expert).

Imereti and Guria six each. However the distribution by size of loan shows a substantial concentration in Tbilisi, whose total is more than double the total loans received by projects in Adjara.

The sub-programme export stimulation received over 50% of total financing, followed by agriculture (9.25%), tourism (3.18%) and crafts (0.65%). Table 5.1 is not fully explicit on this distribution by sub-programmes (a) and (b), as most of the activities reported seem to have a clear link to agriculture (production, processing).

Most financing is concentrated on two groups: diverse projects (including greenhouses, construction materials and purchase of flour), and drink production. The average loan size per company is also larger in these groups. Smaller average loan size (by company) is represented in tourism and crafts projects.

Table 5.1: ‘Cheap Credit’ – summary of loans in 2008, by type of activity

Type of activity	Number of companies	Total loans (GEL millions)	Average loan per company (GEL millions)	In euros (EUR 1 = GEL 2.2)
Processing of fruits and vegetables	10	5.2	520 000.0	236 363.6
Harvesting and processing tea	7	2.0	285 714.3	129 870.1
Delivery of grapes and drink production	9	13.0	1444 444.4	656 565.7
Milk and meat collecting stations	4	3.9	975 000.0	443 181.8
Processing of hazelnuts and grain (wheat, sunflower)	5	1.5	300 000.0	136 363.6
Wood processing	8	5.6	700 000.0	318 181.8
Poultry farms	4	0.7	175 000.0	79 545.5
Production of shoes and special textiles	2	1.6	800 000.0	363 636.4
Tourism	56	3.2	57 142.9	25 974.0
Crafts	4	0.3	75 000.0	34 090.9
Diverse projects (greenhouses, production construction materials, purchase of flour)	16	26.9	1681 250.0	764 204.5
TOTAL	125	63.9	511 200.0	232 363.6

Source: MED, State Programme ‘Cheap Credit’ (2009).

The programme was not restarted in 2009, as a result of the economic crisis (probably a risky period for new projects), as well as restricted public finance.

Monitoring of the programme is carried out jointly by the MES and the Georgian Municipal Development Fund, a legal entity in public law. The MED is in charge of the evaluation of the project and organising working meetings in the enterprises.

Publication of some of the results of this monitoring and evaluation work could enhance the effectiveness of the programme, by building in accountability mechanisms and letting the promoters see results.

As suggested elsewhere in this report, it would be worth building links and seeking synergy between this programme and other socio-economic development projects and programmes supported by the donor community. The other obvious interface to be promoted is linked to skills development and the VET sector policy.

5.3 Social assistance

Georgia’s system of social transfers reaches slightly less than 60% of the population. Pensions and targeted social assistance (TSA, launched in 2006) are the main types of social transfer. Pensions reach most of the population; 53.4% of individuals living in households receive them. Pensions are followed by TSA (6.7%) and other social assistance programmes (4.2%).

Relative to pensions, TSA covers a much smaller number of individuals, only 30.4% of the extreme poor and 19% of the poor population. Therefore it falls short of reaching its objective of assisting all those living

in extreme poverty. It is, however, very well targeted, and the World Bank 2008 poverty assessment considers Georgia's TSA among the best-performing of similar programmes in other countries.

TSA is expected to gradually replace all categories of benefit. When the programme was launched, households receiving benefits were given an option to register with the database. Since the launch of the TSA, about half the households receiving benefits have chosen to transfer to the new system. Administrative data indicate that, currently, about 31 000 Georgian households receive some category of social assistance.

Among the monetary income components, social transfers registered the largest increase during 2003–07. Social transfers account for about one-third of disposable income for households in the bottom quintile of distribution, and they reduce both poverty and inequality substantially.

According to the World Bank (2008), without social transfers the poverty rate would stand at approximately 35%, the poverty gap would more than double – from 7.2% to 16.9% – and the severity of poverty would increase almost fivefold – from 3.1% to 15%. The impact on extreme poverty would be even more dramatic (the incidence of extremely poor population would more than double) from 9.3% to 20.3%. Social transfers also strongly contribute to lessening the high inequality in the country: the Gini coefficient of the per adult equivalent consumption increases from 36.3 to 40.9 when social transfers are removed from household consumption.

Social transfers account for 4.1% of GDP in 2007, and 13.2% of total budget expenditure. But relative to other countries in transition, and in particular to European countries, Georgia does not spend much on social protection. On average, in 2005, EU-15, EU-25 and EU-27 countries spent about 20% of their GDP on social protection programmes. In the regional context, Georgia's spending on social protection is similar to that of Armenia, which in 2007 spent 4.8% of GDP on such programmes.

5.4 Employment and labour market policy

The government has opted for a social-economic development project thought to be very liberal and based on deregulation. Employment and labour market policies have undergone substantial reforms since 2004, aiming at investor-friendly deregulation. However, despite the improved ranking of Georgia in various international comparative reports, disapproval of the current labour market legislative-regulatory and institutional framework has been growing.

The employment policy framework has been built up since 1991 with the law on employment, which introduced the definition of 'unemployment', regulations on registration of the unemployed, professional training, unemployment benefits, and assistance in job seeking. The legislation was accompanied by the Labour Code, which defines employers' obligations in cases of firing and enterprise restructuring and liquidation. A state employment service was created, and a state unified employment fund that financed the various measures.

In 2001 reform of the employment policy led to the adoption of a new employment law, while the employment service was split from the employment fund, and financing of all state programmes for assistance for the unemployed, employed and social protection was handed over to the Ministry of Labour, Health and Social Affairs (MLHSA, set up in 1999 after the merger of three different ministries). Measures and funding to support the development of small businesses were a major innovation of this reform policy.

Thus, before 2005, employment policy was implemented by the Georgian Employment Service, an institution with some degree of autonomy responsible to the MLHSA. Within the ministry, the Labour and Employment Policy Departments were responsible for the State Employment Services. At regional and local level there have been substantial cutbacks in the number of staff.

However the effectiveness and efficiency of the system and policy were very low, due among other factors, to poor institutional interaction, under-resourced regional employment services and relevance to employer demand.

According to an evaluation conducted by the Swedish International Development Cooperation Agency (Wynn et al., 2004), employment policy effectiveness was very low as a result of lack of resources, insufficient links with employers, outdated methods for managing and sharing data on job seekers and available vacancies, progressive staff number reductions, limitation and irrelevance of services offered to the unemployed and job seekers, and a generally weak focus on employment policy by the state.

In 2005 the Georgian Agency for Social Assistance and Employment was set up, but it has typically focused more on social assistance than employment. In 2007 it was renamed and now exclusively implements the government's social assistance programme (TSA).

The former employment policy department under the MLHSA was broken up by the end of 2005 and currently there is only one member of staff permanently working on labour issues. Reportedly this minimal resource is maintained with the limited obligation to follow up on ILO conventions and related files. By dint of the overall liberal policy in Georgia, the MLHSA has lost the mandate, focus and capacity to deal with 'labour'. The MED has extended the possibilities of influencing employment policy by leading and managing programmes aimed at business development and job creation, even managing the second large programme of on-the-job training (see Section 5.4.2). The MLHSA, rather than the MED, signed the new social partnership agreement of December 2008 on behalf of the government. Implementation of this new agreement has been hampered by the new political crisis that arose in March 2009.

In 2006 the employment law was repealed, as was the normative basis for training the unemployed.

The new Labour Code of 2006 introduced greater flexibility in labour relations and has eased firing mechanisms. As a result, in the World Bank *Doing Business* report for 2009, Georgia appears as a top performer in the 'Employment workers' indicator (rank: 5). The country ranked 7th in two consecutive years (2007 and 2008) on the *Rigidity of Employment Index*, and 4th in the *Firing Costs Index* (2007–08). This new very flexible Labour Code was expected to lead to strong job creation, and its impact was the subject of a study planned in 2008 by the national authorities, which was never started.

According to reports from various sources and entities, including social partner organisations, the firing procedure has been greatly expedited and often happens without prior notice. The recent firing of bank employees, for example, is described as follows: an employee arrives in the morning and when the electronic pass does not function the reason is simple – that person is no longer employed (easier in organisations where there is no trade union).

The security aspect of the employment policy lies in the system of social transfers (see below). Georgians do not benefit from systematic active labour market measures to enhance their employability, with the exception of opportunities offered by the VET system or training organised by private providers and donor projects. However coverage and access to training is limited, relative to demand. Support for job seekers is reduced to private recruitment agencies, such as www.jobs.ge, or the newly established Job Counselling and Referral Centre (JCRC), which is fully funded by donors (Czech Republic, Poland, IOM) but has limited coverage.

From the data provided by the JCRC on their services, in an 18-month period (from June 2007 to mid January 2009), 878 people were received for consultation on employment issues and other services such as the preparation of CVs (832), tests on professional orientation (43), consultation on business start-up (82), financial assistance for business start-up (59), and financial assistance for retraining (61). The JCRC sends CVs to agencies and employers, and as result, in the indicated period 183 candidates were sent for interview with prospective employers, 115 were hired on a contractual basis (wage employment). The JRCR also helps users wishing to become self-employed.

The users of JRCR services in that period have a diverse social profile, but a third were average job seekers, and only 20% were internally displaced persons, and less than 4% were returned migrants. These figures represent the activity in only one centre (Tbilisi), which works with limited possibilities due to the lack of a public employment support network. The figures may give an indication of the turnover of similar centres, should they be established in critical locations backed by a coherent public policy.

The minimum wage policy is considered to be ineffective because it has failed to influence employment, increase productivity and enhance the well-being of the working population. Two minimum monthly wages, not mentioned in the Labour Code, have been in force since February 2005, GEL 115 for public sector employees and GEL 20 for non-public sector employees. This difference represents a double standard that contradicts the principles of social justice. For comparison, the minimum subsistence wage for an able-bodied male is GEL 120 per month. The relative value of the minimum wage has gradually decreased; in 2000 it represented 27.7% of the average wage, but by 2005 it represented 9.8%.

Since early 2006 all unemployment benefits have been cancelled and replaced by a unified social support programme for poor families that has reached a large number of beneficiary families (almost 100 000 families in 2007, according to the OECD). The previous unemployment benefit scheme had functioned poorly; its coverage was insignificant and the amount of benefits could only be considered as symbolic. In 2002 only 1 900 of 39 300 registered unemployed workers received benefits, amounting to an average of GEL 13.2 per person per month. In 2005, a total of 1 200 unemployed received an average payment of GEL 16.4 per month.

To summarise, the main problems of the Labour Code and other legislation that have generated criticism from social partners and international organisations lie in the areas specified below:

- confirmation of employment in written form;
- working hours for younger workers;
- labour remuneration, in particular minimum wage;
- duration of leave for workers engaged in dangerous or unhealthy occupations;
- collective bargaining;
- safe working conditions;
- prior notification from employer in case of firing;
- assistance to the unemployed, employed and social protection: since 2006 Georgia has had no state employment service and related measures and programmes;
- labour administration: since 2005 the labour inspection has been abolished, and no other structure exercises supervision over compliance with labour legislation.

5.4.1 Social partnership in the development of labour and employment policy

The two social partner organisations that represent Georgia in the ILO and dialogue with the government are the Georgian Trade Unions Confederation⁴⁰ and the Georgian Employers Association.⁴¹ Both organisations have regional offices to offer services. The GTUC has five, in Tbilisi, Rustavi, Adjara, Kutaisi and Gori.

In December 2008 a new Tripartite Agreement with the social partners was signed by the MLHSA on behalf of the government (Annex 1). This agreement may be considered a window of hope to relaunch effective and open debate on the numerous critical labour and employment issues. The ILO played a major role in bringing the partners together and promoting dialogue, which had been in abeyance for some years.

The agreement foresees intensive work, through at least biweekly meetings with consultation of additional experts for each social partner. The activities will be organised within an ad hoc commission, as far as possible financed with state support (technical secretariat), and its decisions will be binding for the partners.

The new political crisis that began in early spring 2009 has not been conducive to the development of activities under the agreement. As a result, certain legislative proposals were not allowed enough parliamentary time – for example the new proposal introduced by the GTUC regarding unemployment insurance and benefits.

⁴⁰ www.gtuc.ge/cms/index.php?lang=en

⁴¹ www.employer.ge/desktopdefault.aspx?lang=en

The specific decisions reached in the framework of the dialogue make recommendations for the government and address the following:

- healthcare activities for employed in both the formal and informal sector, skills training, retraining of the unemployed;
- protection of interests of workers and employers;
- safe work conditions and standards in various critical sectors;
- unemployment insurance system;
- reform of pension system;
- development of tripartite dialogue at regional and sector levels.

The agreement foresees an evaluation of progress every six months.

One of the legislative initiatives already introduced by the GTUC in March 2009 to Parliament relates to unemployment insurance and benefits. This proposal, which collected over 50 000 signatures,⁴² across the country, is for legislation introducing unemployment insurance for six months and not inferior to GEL 55 (minimum pension in Georgia). The draft law is supplemented by clarifications and background information. The first parliamentary hearing was scheduled for early April 2009, but given the political crisis it was not held.

Amendments to the Labour Code are another central issue in negotiation. Substantial progress has been made in recent dialogue, with growing consensus on the necessary amendments.

Of the four key themes in discussion under the new agreement – freedom of association, collective bargaining, labour standards, labour administration), priority will be given to the first two, while the others will be debated at a future date.

As the issue of weak or irrelevant employment and labour institutions has not been given top priority, public employment services remain one of the most visible gaps in social policy. However in 2009 the government position in respect to relaunching employment services remains explicitly against any further state intervention, as the market is expected to be the main factor regulating supply and demand, and other related matters.

However, the institutional gap – lack of public employment services – creates serious difficulties not only for Georgian job seekers and employers, but also for the implementation of a number of international agreements. For example, the new EU-Georgia Mobility Partnership Agreement (see Section 5.4.3) will struggle to cope with this institutional gap in employment policy, by anchoring the activities in surrogate institutions that can have positive sustainability perspectives. One of the key difficulties is the lack of a focal point for employment policy or programmes, such as public employment services. International trade agreements with the EU may face difficulties in future, as the government fails to fulfil certain aspects of signed international labour agreements. Even the national VET development policy is under stress, as functioning and accessible services for job matching are non-existent throughout the country. Most of the efforts in such a complex task as first job seeking for VET centre graduates are borne by the centres and the individuals alone, without professional institutional support.

5.4.2 Active labour market programmes

Active labour market programmes – the effectiveness of which has been questioned – have been continually underfunded and poorly monitored. In the aftermath of the Rose Revolution (2003), the state supported training and public works programmes. However, training and retraining programmes were inconsistent, and as a result they were replaced in 2006 by a new programme of on-the-job training (under a state programme for professional preparation at work) and bridging job placements in receiving enterprises.

⁴² 30 000 signatures is the minimum required to introduce a legislative proposal.

Two major government programmes to train job seekers at work were implemented. The first programme was launched by the MLHSA in 2006 for a total amount of GEL 20 million, targeting 40 000 job seekers.⁴³ The second programme began in late 2007, with a budget of GEL 60 million, for more than 110 000 job seekers (with the MED in charge). Both programmes were organised as follows.

- Job seekers register and receive a training job in an enterprise interested in the programme.
- Under the first programme each beneficiary job seeker receives a scholarship of GEL 450 for three months of on-the-job training; under the second programme each beneficiary receives a scholarship of GEL 600. The receiving enterprises incur no costs.

A trainee is expected to be offered a job after the three-month programme. Some of the critical remarks on the effectiveness of these programmes are summed up below.

- The relevance of the programmes cannot be confirmed because of a lack of monitoring mechanisms. There are no tools to clearly identify the proportion of beneficiaries who actually worked and were trained, and the proportion of those who were offered a job at the end of each programme. Also, the programmes included a large number of people, making successful monitoring difficult.
- The programmes did not include any form of mentoring, and therefore the quality of on-the-job training was not verified.
- The large budgets allocated to these programmes could have been used to rehabilitate the network of training centres and their programmes and incentives, or other better-targeted active labour market programmes.

The two programmes are considered as a type of social assistance. Some VET centres received beneficiaries of the second programme (a total of approximately 3 000 registered, but many dropped out). According to MES staff, many participants were not motivated to learn and because of this a significant effort was required of the VET centres involved, some of which were compelled to postpone the actual start-up of their normal training programmes by one to two months. However, our interviews with directors of two of these VET centres revealed substantial interest in continuing these new training services for adult learners, an aspect that has not yet been widely developed by public VET providers.

5.4.3 Migration management – Mobility Partnership with EU

Georgia and the European Community have been negotiating the Mobility Partnership without coming to any firm conclusion. The partnership is aimed at better management of legal migration, including circular and temporary migration, in particular for development purposes, establishing cooperation on migration and development, preventing and combating illegal immigration to Europe and trafficking of human beings. The partnership will also promote an effective readmission and return policy, and endeavour to develop further dialogue and cooperation on migration issues along the following lines: (i) mobility, legal migration, integration and asylum; (ii) migration and development; and (iii) border management, identity and travel documents, fighting illegal migration and trafficking of human beings.

The Member States involved will propose relevant activities, and implementation will be supported by the states together with EU agencies such as Frontex and the ETF.

One of the foreseeable difficulties in Georgia is the absence of public employment services, which have been the main focal point for implementation of similar agreements in countries such as Moldova.

⁴³ According to staff of MLHSA, actual figures were: GEL 24 million for 50 000 beneficiaries.

5.5 Education and training reforms

In 2004 Georgia determinedly engaged in reform of the education system, aiming at raising credibility and quality of outcomes, efficiency and international comparability of qualifications.

The dramatic reduction in GDP and in budget revenues in the 1990s caused a sustained decline in education expenditure. After some two decades of independence, education funding in Georgia is still far below international standards.

Sector budget

Public expenditure on education as share of GDP remains lower than the OECD and EU-19 average, and stood below 3% in the period 2004–08. But it is approximately comparable to the situation in neighbouring Caucasus countries.

Table 5.2: Public expenditure on education, by main sub-sector, 2003–09

	2003	2004	2005	2006	2007	2008	2009
Budget of Ministry of Education (GEL thousands)	14 966.7	67 676.7	80 941.1	358 165.1	410 828.8	458 177.5	537 967.7
Expenditure on general education (GEL thousands)	958.4	14 157.4	21 827.6	281 319.4	314 533.0	340 580.1	397 635.1
% of total	6.4	20.9	27.0	78.5	76.6	74.3	73.9
Expenditure on VET (GEL thousands)	2 778.1	7 152.5	3 699.7	7 779.1	12 960.0	10 058.0	9 800.0
% of total	18.6	10.6	4.6	2.2	3.2	2.2	1.8
Expenditure on higher education (GEL thousands)	5 036.5	26 151.1	22 061.0	33 840.8	43 746.6	51 891.6	66 030.9
% of total	33.7	38.6	27.3	9.4	10.6	11.3	12.3

**Most (up to 79%) of MES financing is absorbed by the most important segment of education: basic and secondary education. Before 2006 this segment was funded through budgets of territorial units (regions). So, from 2006 the MES budget shows a huge increase linked, among other factors, with this change.*
Source: MES (2009).

The reform and modernisation of the education sector in Georgia received a boost with the newly elected government at the end of 2003.

The appraisal report of the Fast Track Initiative (FTI) (2007) highlights some problems and issues in education performance.

- Access to and completion of primary education is still problematic for some children; the completion rate is under discussion,⁴⁴ but Millennium Development Goal two (achieve universal primary education) is not certain to be achieved. As regards the primary education completion rate, Georgia ranks among the least efficient countries in the region.
- There are relatively low enrolment rates in secondary education, while the capacity of vocational and other alternative pathways is not sufficient to absorb part of the youth cohort leaving school after basic education. Enrolment in upper-secondary education increased in 2006/2007, as a consequence of the reform of VET programmes⁴⁵ and the immediate decline in the number of available training places in the rationalised network of VET centres. In these conditions, after basic education many children continued into secondary general education.

Our analysis starts with Table 5.3, which shows declining enrolment at all three main levels of education, except pre-school.

⁴⁴ The MES EMIS refers to 90.98%; the IMF survey (2006) estimates the completion rate at 86%.

⁴⁵ Occupational education (formerly 'primary VET') is now completely separate from general education.

Table 5.3: Enrolment in education, 2001–08 (thousands)

	2001	2003	2005	2006	2007	2008
Enrolment in pre-school education	73.2	74.3	76.4	77.9	–	–
Enrolment in general education schools	699.2	671.9	634.7	636	614.7	643
Enrolment in professional secondary schools*	30.0	25.8	28.4	28.8	17.0	2.4
Enrolment in higher education institutions	147.4	153.3	144.3	140.8	112.1	93.6

*These are official data from the Department for Statistics, which collects data from the MES. The figure for 2007 on enrolment in professional secondary schools requires clarification.

Source: www.statistics.ge/main.php?pform=50&plang=1

The decline in enrolment in higher education is closely associated with the results of the accreditation process for higher education institutions, resulting in slightly over 60 accredited institutions out of a total of 224 in 2004. This was one of the internal triggers for VET reform. In fact, the capacity of the accredited higher education institutions is limited, and the former ease of entry to higher education no longer exists, leaving large numbers of graduates from compulsory and complete secondary education looking for an alternative further education path. As indicated throughout this report, too large a share of secondary graduates are deprived of alternative affordable and recognised learning pathways leading to adequate skills and qualifications for employment. This large group of young people who have only academic knowledge from secondary school remains at risk in the labour market, unless education sector policy can expand the offer of appropriate learning opportunities.

5.5.1 Overview of education reforms

The government is fully aware that human capital resources are essential to political and economic development and it is therefore committed to sustaining education reform. Despite the educational legacy, the scope and pace of Georgian education reform since 2003 have been unique in the region, particularly in the period up to the end of 2007. Quality of education is viewed as a key objective of the next phase (2009) of education sector development, which will be assisted by international partners such as the World Bank and the EU.

The reforms undertaken to date in the education system have been driven by the urgency to eliminate rampant corruption and to stop the degradation of outcomes. The following issues have been tackled.

- Parliament has passed new legislation on higher education (2003), general education (2004) and vocational education (2007).
- The financing and governance of education institutions has been reformed by introducing the per capita financing principle (with money following the student) in general and higher education, and is also planned for VET.
- Unified entrance examinations have been introduced across a range of subjects, administered by the new National Examination Centre, for the first time in 2005 and 2006.
- A National Education Accreditation Centre was set up in 2006 to carry out institutional accreditation of higher education institutions (the number of which has already been reduced from 227 in 2004 to 43 in 2007 and 52 in 2008). Institutional general school accreditation and programme accreditation for both higher academic and professional programmes are also planned.
- A three-cycle degree system and a European credit transfer system (ECTS) in line with the principles of the Bologna Process⁴⁶ have both been introduced.

⁴⁶ The Bologna Process aims to set up a European Higher Education Area based on cooperation between ministries, higher education institutions, students and staff from 46 countries, with the participation of international organisations. www.tempus.ge/en/bolognaprocess.html

- Active learning is being encouraged through the introduction of new curricula by a National Curriculum and Assessment Centre (NCAC), set up in April 2006.
- Standards and qualification requirements for teachers are being developed to implement teacher training and retraining accreditation and to introduce a system of teacher certification through the recently established Teacher Professional Development Centre.
- The Deer Leap Foundation programme for the computerisation of schools is providing internet access, educational software and services and technical support, upgrading the ICT skills of teachers and students, integrating ICTs in the curriculum through computer-aided instruction in a wide range of subjects, and computerising the Education Management Information System at the school, local and national levels.
- A National Science Foundation has been established, in addition to other initiatives such as pilot programmes for inclusive learning, early childhood programmes and special programmes for ethnic and linguistic minorities.

The pace with which education reforms have been undertaken since 2003 owes much to the groundwork laid in 2001 by the Education System Realignment and Strengthening Programme, since renamed the Iliia Chavchavadze Project, which was financed by a World Bank loan of USD 26 million.

5.5.2 Rationale for VET reform

The VET system in Georgia has been a low-priority area in education policy, and for this reason the sector performance declined steadily over the years in all respects.

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

The VET reform has not yet been evaluated to show why the system maintains low capacity and has not become the attractive pathway that the MES envisaged in 2005. By 2009 the MES had recognised these issues and was seeking viable solutions. At present the capacity of this new VET system is smaller than before the reform started, as borne out by the low take-up. The other great problem created by the reform options is the disruption of the continuity of education pathways for students of VET centres admitted after basic education. This 'dead-end' problem has been criticised by various stakeholders groups for its negative influence on the attractiveness of VET centres for youth after basic education. The short duration of the new programmes has also been questioned because of its effect on the quality and credibility of learning outcomes and qualifications. Training an adult with experience and education is not the same as training young people after their basic and general education. VET is part of the education continuum and the structure and content of VET programmes, in particular those for youth, need to offer basic and social skills, and relevant general knowledge, beyond technical skills. Otherwise it does not fulfil its functions for individual and social development and makes little contribution to the smooth flow of education pathways.

Enrolment in VET declined in 2007⁴⁷ compared with previous years, as the reformed programmes started. The separation of VET centre courses from secondary education deprives younger students of the possibility of acquiring a double qualification (secondary and professional); therefore many parents who would otherwise send their children to VET centres now prefer to send them to secondary school. The admission capacity in public VET has been limited by the non-completion of the reform, giving rise to uncertainties about their future among centre staff and management.

⁴⁷ In 2007/08 approximately 6 200 students were admitted; in 2008/2009 approximately 5 050.

But VET has absorbed a minor share of the MES budget, not exceeding 3% in 2007 and falling to 2.2% in 2008, following the decision to drastically reduce the previous programme of rehabilitation of public VET infrastructures (Table 5.2). The ministry's intention is to transfer to private investors most of the capital investment burden, through privatisation of part of the current 39 public VET centres. Analysing the various budget lines that concern VET, we confirm that the level of public expenditure programmed in the MES medium-term expenditure framework for 2009 for VET, which is fully dedicated to recurrent expenditure (non-capital), is approximately 65% higher than the level budgeted in 2007 for the same kind of expenditure. In 2010 to 2014 recurrent expenditure for VET is programmed to grow by more than 50%⁴⁸.

Overview of reform in VET subsector

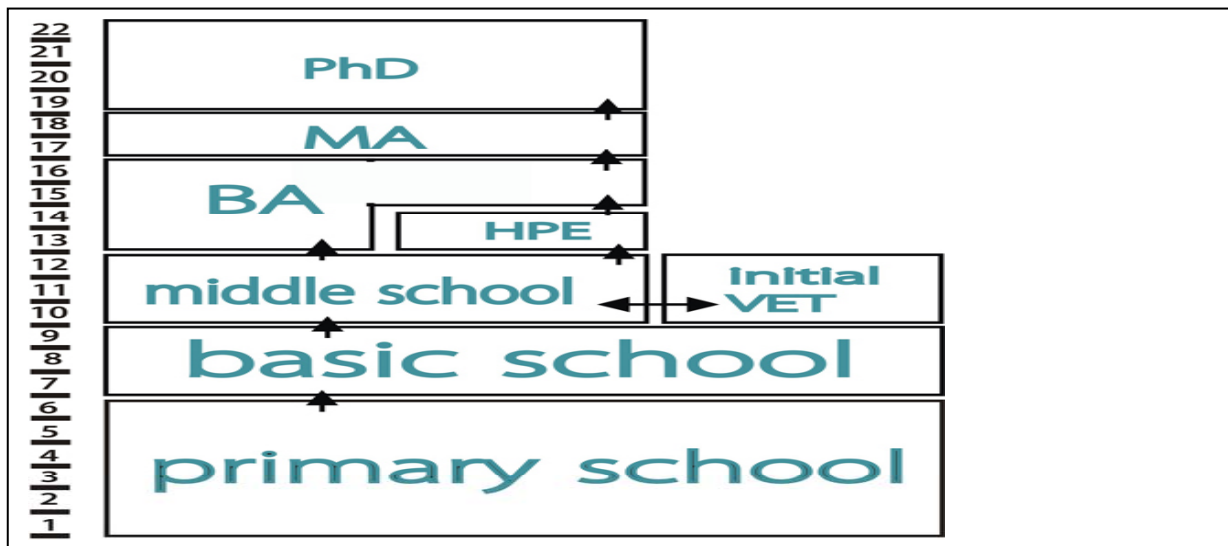
The Ministry of Education and Science administers the VET system, with the assistance of the key state agencies dealing with curriculum, accreditation and teachers development. The youth VET sector reform launched in 2005 has already undergone three phases: up to 2007 the MES invested in VET infrastructure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

The option to focus on the privatisation of VET provision in 2008 raised numerous debates and uncertainties among key stakeholders. As this policy option was revised in 2009, privatisation of VET centres is no longer the cornerstone of VET reform, although the government accepts bids from private investors for those buildings that are not used in training. Rehabilitated and active VET centres will remain in the public network. The new draft VET strategy, in its version of September 2009, sets clear targets regarding investment in VET infrastructure and strengthening of a group of 25 VET centres that will also act as resource centres.

The diagram of education in Georgia based on the new legislation shows the levels of vocational education: occupational and higher professional (Figure 5.1). Occupational VET awards a specialist certificate, while higher professional education awards a diploma of specialist in vocational education. Higher professional education is based on the credit system, which is a transparent basis for further studies towards a Bachelor's degree by accumulation of the missing credits. A credit system for occupational VET has been prepared but has not yet been introduced in practice.

⁴⁸ Detailed MTEF MES for 2008–11, revised version unavailable, information provided by MES in February 2009.

Figure 5.1: Georgian education system



PhD: doctorate; MA: Master's degree; BA: Bachelor's degree; HPE: higher professional education; VET: vocational education and training
 Source: MES.

Besides the adoption of the new legal and policy framework, and the reorganisation of the network of public VET centres, a number of other measures were implemented in 2006–08.

- Professional standards were developed for 50 profiles in agriculture, tourism, construction and other services, but the policy on the new qualifications system is not yet clear.
- The new role of vocational guidance and career planning consultant was introduced in VET centres.
- In-service VET teacher training is being organised by the MES, as well as donors, but a coherent approach to the teaching profession and career is lacking.
- The pilot introduction of vocational streams in upper-secondary education began in 2007/2008 in 39 schools. The purpose of this initiative is to expand young people's access to professional skills for work, and potentially also to professional qualifications. The monitoring report on the first pilot shows that about a fifth of the students involved are interested in continuing their studies in a VET centre.

In 2008-09 the policy debate on VET has been largely dominated by the issue of 'privatisation' of VET. This issue is highly controversial and shows significant difference of positions between the government (which supports the privatisation principle, but is not totally clear on the steps and implications for providers and students of this future policy), and the various stakeholders groups that fear disruption of state financing for VET provision, lower access for students unable to pay fees and misuse of future privatised VET centres by the new owners.

In the same period, other issues have remained under great uncertainties regarding the regulatory role of the state. Amongst these, the most important theme is certainly the qualifications system. For example, it remains unclear what will be the status of professional standards and their use/application by VET providers. In 2009 the MoES has started or reinforced actions to address the VET system needs in the following areas.

- 1) *Quality of VET provision:* concept of quality in VET, school self-assessment methodology and tools, review of legislation. The ETF contributes with expertise and exposure to EU experience in this topic. Initial technical and conceptual papers are elaborated, and a national technical working group formed that steered the national experts' inputs. Further steps in 2010 include the finalisation of these papers, and start the piloting of the new approaches.
- 2) *VET financing system:* MoES endeavours to build a fair and transparent system of public financing of VET provision, based on sound evidence of market demand, unit costs of training, and

private contribution. MoES sought to involve international expertise in 2009 to guide the assessment and analytical work and financing methodology proposals, however progress has been limited.

- 3) *VET teachers development*: MoES reinforced actions to train teachers, mainly in generic competences (simple IT skills, management and strategy). These actions have not been guided by an overall development plan for teachers, as the overall assessment of teachers training needs is planned for 2010. Various international donors carry out their teachers training programmes following their project strategies. Important training needs remain open in areas of technical competencies, as well as VET pedagogy.
- 4) *VET strategy and implementation action plan*: started mid 2008, the consultations and discussions of the various versions of the sector strategy have stretched for over a year, and the Strategy was officially approved by Prime Minister by the end of 2009 (2009–12). This is an important basis that highlights the state policy regarding VET, and the intended priorities to be developed up to 2012. At the same time this document was essential to start the EU VET Sector Policy Support Programme (SPSP), whose Financing Agreement was signed end 2009.
- 5) *System governance*: with the establishment in Quarter IV 2009 of the National VET Council (NVETC) under the steering of the Cabinet of Prime Minister, the government gave a positive response to one of the pressing requests of the stakeholders. The EU advocated for the establishment of this sector consultation and co-ordination body.

The EU SPSP covers the period 2009–11, and is based on the budget support modality (€17 million + €2 million for technical assistance). The policy matrix of the EU SPSP is well co-ordinated with the national VET strategy and if successfully implemented, will contribute to substantial systematisation of policies and instruments that are much needed in this sector, and to strengthening the credibility of competencies and qualifications in Georgian VET.

Enrolment in VET: a challenge

The information in the following section is based on the ETF's *Update report on VET system Georgia*, October 2007. We underline the main points.

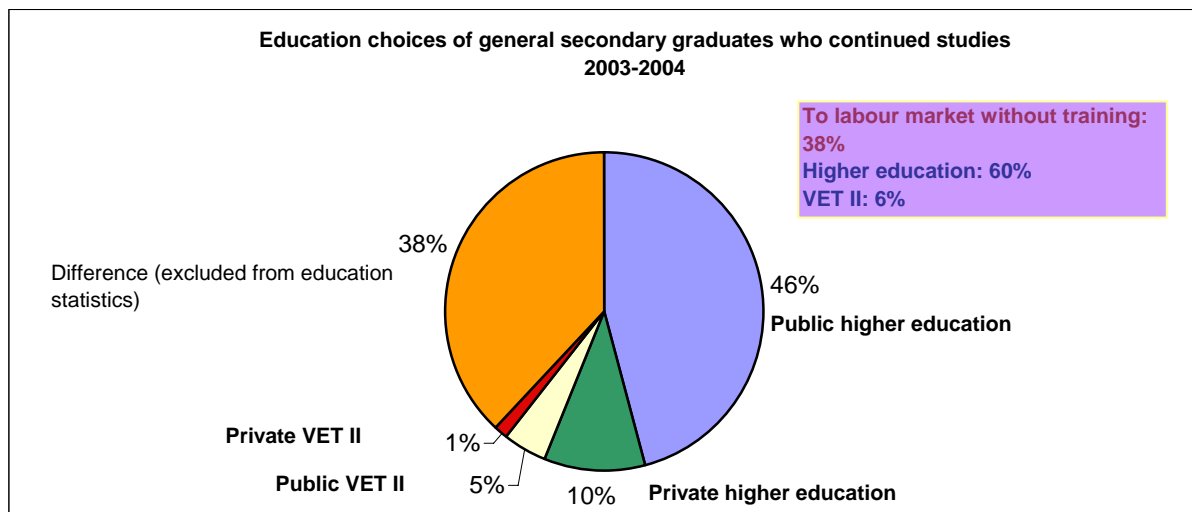
- Enrolment in VET pathways is very low in Georgia. This is not a new problem, as Table 5.4 and Figure 5.2 indicate.
- Compared with enrolment rates in EU Member States, the very low take-up of vocational programmes implies a significant distance from European trends in education and training. In the EU in 2004 more than 50% of upper-secondary students were enrolled in vocational programmes. Despite significant variations (under 10% in Ireland and almost 80% in the Czech Republic), the proportion of students enrolled in vocational programmes exceeds 50% in more than half of the Member States and is over 70% in the Czech Republic, Austria, the United Kingdom and Slovakia.
- At the same time, a large and growing proportion of young people after secondary school remain outside of known viable further education and training, as the capacity of higher education is limited, particularly after the accreditation of higher education institutions, while alternatives offering quality and relevant qualifications are insufficient.

Table 5.4: Education choices of general education graduates who continue their studies (2000/01 to 2003/04)

Graduates from secondary school	35 798	37 963	39 334	42 202
Destination:				
Public higher education	17 233	20 909	19 474	19 356
Private higher education	3 606	5 407	5 264	4 285
Public professional secondary	1 963	2 635	1 991	1 959
Private professional secondary	217	641	683	587
TOTAL (all pathways)	23 019	29 592	27 412	26 187
Difference	12 779	8 371	11 922	16 015
Difference (%)	36	22	30	38

Source: ETF calculations based on official statistics published in MED Department of Statistics (2004). ETF (2006).

Figure 5.2: Education choices of general education graduates who continue their studies (academic year 2003/04)*



*VET II (specialist secondary education) was abolished in the 2007 reform of the VET system. Source: ETF calculations based on official statistics published in MED Department of Statistics (2004). ETF (2006).

There is a large, unfavourable gap in the capacity of the renewed initial VET system from the perspective of public provision versus potential demand for training demand. Data for the period up to 2004 show that a significant number (about 16 000) of students who had completed secondary education were neither in higher education nor in VET. As the capacity of accredited higher education institutions is now lower than in 2004, the number of residual graduates of secondary education (who cannot access higher education) is likely to have increased significantly and may now amount to over half of the cohort. The situation would be less problematic if these students had received vocationally relevant training as part of their secondary education (e.g. in technology or economics) and if they had been better prepared for the labour market, or if the system of initial training had been sufficiently capable and attractive.

About 59% of general education graduates continued their studies in public or private higher education establishments in the period 2000–04. Only 6% to 9% opted for public or private vocational training. On average, about one-third of secondary graduates (38% in 2003–04) either directly enter the labour market or simply drop out of the education and training system. These figures indicate a relatively high proportion of young people who are genuinely unprepared for employment, and whose situation after leaving the general secondary system is precarious. Another disturbing fact is the number of students (about 9% to

12% in the period 2000–04) who leave the education system with no professional training after completing their compulsory schooling' (ETF, 2007, pp. 33–34).

In 2006/07 some 47% of secondary graduates were admitted to post-secondary education and training pathways, as shown in Table 5.5. The figures refer to public and private higher education institutions, and to public VET centres. This means that an additional number of students have found alternatives in the category of non-accredited higher institutions (this figure is unavailable) and in the rare operational private VET centres. However, the situation remains serious, challenging the government and in particular the MES.

Table 5.5: Graduates of secondary education 2006/07 and education pathways 2007/08

Total secondary graduates 2006/2007	62 152
Destination 2007/2008	
Higher education (public)	15 600
Higher education (private)	10 400
VET centres (approximately)*	3 000
Difference (not in higher or post-secondary/VET courses)	33 152
Total graduates from secondary education 2006/2007 (%)	53

*The total number of admissions to VET centres was approximately 6,200 in 2007/08. But almost half of these students are adults aged 22 or older and are thus outside the category of secondary graduates of 2006/07. For the purposes of this table we included approximately 50% of the cohort of admissions in VET centres 2007/08. Source: MES EMIS data. Calculation: ETF.

One of the measures for dealing with this challenge was scheduled to begin in 2008/09 with the pilot programme of vocational streams in upper-secondary general schools. However, this pilot has limited capacity at present. Results of a first monitoring report show a relatively high level of success, expressed by the share of students enrolled in these optional vocational subjects (above 75% of students of higher classes), and the expressed wish to continue study in VET centres to acquire professional qualifications after completion of secondary school (approximately 20% of students).

The issue of new alternative education pathways, in the form of an attractive VET system that offers relevant qualifications at various levels, takes on added importance and urgency in this situation.

5.5.3 VET provision

Occupational education

Some VET centres specialise in one field, such as ICT or tourism, but the majority are multi-profile.

Annex 2 shows the professional fields and programmes offered in public VET centres in 2007/08. The categories are indicative and do not correspond to any official classification of qualifications, which is unavailable at present.

According to information provided by the NPA in August 2008, the sector distribution of students at VET centres was the following in 2007/08:

- construction 6.6%
- agriculture 6.5%
- energy 2.3%
- tourism 10.8%
- transport 8.6%
- ICT 45.9% (in various centres).

Some of the profiles that are most in demand in the growing Georgian economy are not present in the areas offered by VET centres. They include, for example, seaport services, logistics, railway and air transport services, driver-distributors and dock workers.

In Table 5.6, the analysis of admissions versus applications to VET centres shows a number of interesting findings regarding the distribution of demand for VET by age and educational attainment. The total amount of applications for VET centres exceeded 8 000 in 2008. Certain centres used a competitive procedure, having registered a ratio of three applications to one training place.

Table 5.6: Applications and admissions by age and educational attainment, 2008 (%)*

	Applications			Admissions		
Distribution by age group	15–17	18–22	Over 22	15–17	18–22	Over 22
Share (%)	18	34	40	17	36	47

	Applications			Admissions		
Distribution by level of education	Basic	Secondary	Higher	Basic	General	Higher
Share (%)	18	34	40	20	55	24

*Data kindly provided by the NPA, August 2008, based on a broad survey of VET centres. This information is part of the background analysis of VET strategy.

Source: NPA, August 2008, unpublished data.

The figures in Table 5.6 are self-explanatory and confirm that VET is attractive to all population groups, including adults with higher education. It is also clear that VET centres are not attractive pathways for students after basic education, because they are disconnected from upper-secondary education.

Issues: equity, access, benefits of public funding

In relation to the situation revealed in Table 5.6, national experts raised the issue of equal opportunities in access to training funded by the public budget. Constrained by the limited number of training places, VET centres with the highest demand for training had to opt for competitive procedures. The tests that they used have given priority to life and logical skills, in which more experienced applicants have ascendancy over younger applicants. This creates an issue of unequal access of the more vulnerable (less skilled or younger) candidates to public VET. Although we do not have evidence on the socio-economic background of the younger applicants, it is probable that they belong to vulnerable households and/or status. As a result, if they are deprived of access to public VET, their social and employment future is likely to be compromised.

Higher professional education

At present there are 60 state-recognised (institutionally accredited and/or newly licensed) higher education institutions (HEIs) in Georgia, 20 public and 40 private. Of the accredited institutions, 70% are located in the capital, Tbilisi.

There are 83 757 students studying in all accredited higher education institutions at all programmes (2008 November). This represents approximately 90% of all higher education students in Georgia, considering the total number (93 000) provided by the Department for Statistics.⁴⁹

The following types of higher education institution have developed, partly under the auspices of the Bologna Process, to which Georgia adhered in May 2005:

- university – Bachelor, Master and Doctoral programmes;
- institute – Bachelor and Master programmes;
- college – Bachelor and higher professional education programmes.

The first academic year (2007/08) of the new short cycle of higher professional education started with the admission of about 4 200 students in 18 institutions. The Technical University of Georgia is the admissions leader, with 1 502 students in all engineering careers. According to the *Official information bulletin* for entrants in higher education published by the National Examination Centre, in 2008/09 14 institutions

⁴⁹ www.statistics.ge/main.php?pform=50&plang=1

offered higher professional education courses to a total of 1 208 entrants. The higher education institutions involved and data on the fields of study and number of students admitted are provided in Annex 3 to this report.

5.6 Conclusions and recommendations

The recommendations expressed in this report are based on the debate held among experts and stakeholders during the workshop of 9 July 2009 in Tbilisi.

5.6.1 Data and statistics

The independence of statistics needs to be re-established to ensure the reliability of data and analysis, which is currently considered at risk. GEPLAC has provided extensive analysis and recommendations on the institutional and methodology issues of the Department for Statistics. The IMF has also addressed these questions. The question of reliability of data (macroeconomic, employment, business) is not only technical, it is closely interconnected with policy design and monitoring, and public confidence.

5.6.2 Employment and labour market

Unemployment

Labour market indicators have been in continual decline in the past decade, but the situation was severely aggravated in 2008, as the number of employed fell by 6% and the number of unemployed grew by a dramatic 21%, compared with 2007. The fall in the number of employed was particularly acute among wage earners (53 000, or 8.5%), and currently the total number of wage earners (572 400) is only 36% of total employment. Unemployment grew by over 25% in 2008. Fired without prior notice or compensation, and deprived of unemployment assistance and insurance, this large mass of unemployed is vulnerable.

This trend could be reversed if economic activity were to recover and government policy were to be more active in promoting job creation and decent work. But employment dynamism might follow a different recovery curve and be slower than output and investment growth.

Policies to alleviate the effects of the economic downturn on the income security of households in the near future need to be given priority. This includes supporting the unemployed to remain active and employable. Hence the unemployed cannot be handled as other categories of socially vulnerable population, and policy measures (active and passive) cannot be mixed with targeted social assistance programmes: to find employment and to benefit from the financial support of unemployment benefits.

- Implementation of these policies to counter the effects of the crisis should go hand in hand with a policy to support a higher employment rate, indispensable for economic growth and household income security. With only 53% employment, Georgia cannot overcome the division between urban and rural economies, and promote the necessary productive application of its large stock of human capital (people with higher and medium-level qualifications).
- The re-establishment of public employment services, in flexible forms such as public/private partnerships, is important and must not be further delayed. Services to assist job seeking and job matching are required, and existing structures could cooperate to form a network that would not necessarily be a drain on the public budget. The VET centres and the regional offices of social partners' organisations are willing to form such partnerships. But a supportive framework for such activity, capacity building and access to reliable labour market information will be necessary to quick-start such initiatives and ensure employers link up with job seekers through these intermediation and assistance channels.
- Approximation with the EU also implies the effective application of international labour agreements and commitments, and the role of the government is to ensure this compliance. The newly relaunched structured tripartite social dialogue has the potential to gradually address many of the key mismatches with internationally agreed standards, and other aspects of the labour conventions and social charter.

However the MLHSA, which has countersigned the Tripartite Agreement, is in practice divorced from any specific action or policy on labour and employment, which basically undermines the usefulness of the dialogue to the labour market. The ministry has a very important role to play and its capacity to deal with the labour and employment agenda should be restored without delay.

To increase the productivity of human resources, the social protection of workers must be ensured. Amendments must be made to the 2006 Labour Code that will empower workers in their relations with employers. These changes in legislation must also ensure that employees receive continuing training and educational opportunities. In particular the following topics require appropriate information and counselling:

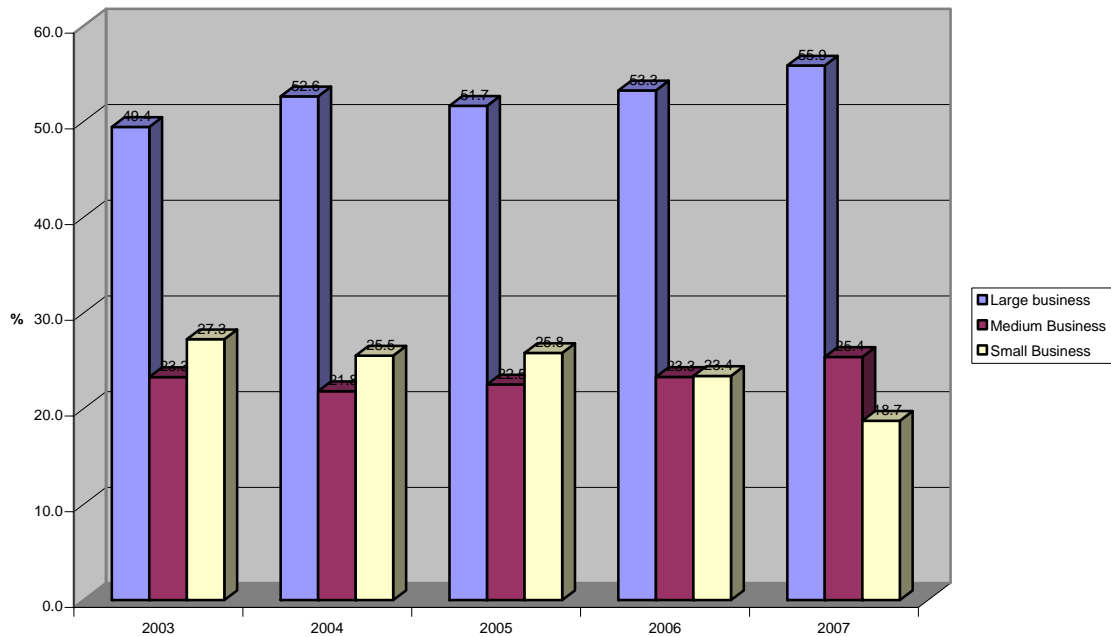
- youth employment;
- working time;
- health and safety;
- health and safety of pregnant and nursing workers;
- information on individual employment condition;
- collective redundancies;
- transfer of undertakings;
- employer insolvency;
- information and consultation of employees;
- fixed-term and part-time workers.

Job creation

The highly flexible Labour Code of 2006 has not yet produced the expected growth in employment, despite the improved economic climate. Net employment growth was a negative 135 000 from 2002 to 2007, and a negative 43 000 between 2006 and 2007. In these two years 69 300 and 42 000 jobs were created, whereas 204 200 and 85 000 jobs were lost. Although this shows a certain dynamism in terms of job creation, with 60% of jobs created from 2002 to 2007, over 70% of created jobs were in one sector: construction. And it is known that this sector frequently offers temporary jobs, often low skilled.

The important question is why such an ambitious reform programme has not improved the employment indicators.

Figure 5.3: Share of small, medium and large enterprises in total employment, 2003–07 (%)



Source: MED Department for Statistics and author estimates.

One possible answer to this question is that economic growth in Georgia had a very weak link to the performance of small and medium-sized enterprises (SMEs). The economic growth in transition economies and developing countries is usually accompanied by SME expansion. Economic reforms through the elimination of barriers promote expansion and the capacity to create new jobs and increase employment and output. However, this was not the case in Georgia. As Figure 5.3 shows, the share of small and medium businesses in total employment substantially declined compared with the pre-reform period. This means that reforms of the business environment have not achieved their main goal – the success of small businesses.

The failure of the government to promote SME expansion could be explained by the following attributes of the current political economy in Georgia:

- insecurity of property rights for a majority of businesses;
- absence of equal conditions and opportunities for all economic agents;
- ability of government executives to encroach and redistribute the property;
- non-existence of a system of ‘checks and controls’ on executives;
- lack of independence and efficiency of the judiciary.

Recommendations include:

The business environment must continue to improve, to encourage the emergence of efficient market mechanisms through stimulating competition and the creation of new enterprises; providing free access to the market; actively implementing anti-trust policies; re-establishing the anti-trust agency and empowering it with sufficient authority and status to efficiently implement competition policy; establishing clear rules for market conduct for all economic agents without exception and thwarting any opportunity for non-productive or predatory activities; eliminating any opportunity for the government to take part in property redistribution.

The improvement of the rule of law through enhancing the functioning of the legal and judicial system is essential if Georgia is to achieve its long-term economic development goals.

The report underlines government attempts to implement an active industrial export-oriented policy. The implementation of an active economic development policy is very important and could provide the necessary 'push' for greater equilibrium and thereby for sustained economic growth.

However the implementation of such a policy is not simple and requires:

- the identification of sectors of the economy that will represent the basis for industrial development (ideally non-traditional export-oriented sectors, involving new technologies and knowledge);
- the elaboration of a development strategy focused on stimulating and attracting investments in selected sectors of industry;
- the sound implementation of industrial policy, which means strict oversight of the performance of enterprises and the imposition of discipline. Companies that fail to achieve high export performance should be held accountable.

5.6.3 Migration

Migration is an important issue in that it can influence the labour market directly and indirectly. First, it reduces the labour force directly when potential participants in the labour market migrate abroad. Second, the inflow of remittances could negatively influence the labour supply of residents. Georgia experienced large-scale emigration during the period following independence and the break-up of the former Soviet Union in 1991. Thousands of people migrated in a search of high-wage employment opportunities. Along with the increase in international migration, remittance inflows into the Georgian economy were boosted dramatically. Thus remittances from international migration could be among the factors that explain the poor functioning of the labour market in Georgia.

The report also states that remittances to Georgia are only marginally used for investments and entrepreneurship.

Taking these facts into account points to the following requirements:

- to manage migration through increasing job opportunities at domestic markets;
- to stimulate and facilitate the return of migrants, providing them with consultation and support in applying their skills in the domestic market;
- to create special educational and training programmes, institutions and financial instruments that will stimulate and facilitate investments of remittances in business and entrepreneurship.

5.6.4 Human capital

This report considers that as the labour supply will not change, any increase in national income will depend essentially on increased productivity, which will be the key growth component.

This is one of the major issues faced by the Georgian economy. To increase competitiveness the investments in human capital (by government, private business and labour force) needs to be increased substantially. In particular, the following measures could be considered.

- The government should substantially increase investment in education, first of all making basic education accessible to everyone. Special policies must be drawn up to improve education and reduce drop-out rates. All these measures are important in order to equip people with key competences, including the basic skills and learning that are prerequisites for the further upgrading of skills.
- The government should provide special incentives for the business sector to expand its participation in education and human resource development. For example, corporate tax cuts could be tied to incentives for increased reinvestment in training and equipment.
- Private business should employ advanced human resource management methods oriented towards the improvement of managerial skills and enhancing the training and development possibilities at work, such as skills charting and competence mapping.

The mismatch between offered and demanded skills and competences has been revealed. To deal with this problem the following set of actions could be useful.

- An entrepreneurial culture must be promoted at education institutions, requiring serious change in their governance and leadership methods. These changes are needed to ensure the ability of these institutions to generate new skills in response to the nature of the new jobs, as well as to improve the adaptability of human resources.
- The learning methods and curricula in education institutions must be substantially changed as follows: the inclusion of transferable skills in curricula at all levels; better examination and quality control methods; more interdisciplinary education and research; use of socially and economically relevant learning programmes and an improvement in their quality, especially at graduate level.
- Close cooperation between private enterprise and education institutions must be promoted in order to eliminate the mismatch between the skills and competences offered and the skills and competences demanded. To this end, a favourable environment for cooperation between education facilities and business must be created. Such cooperation should become part of educational strategy while, for their part, businesses should set up a special council to interact with education institutions to help with the continuing identification and updating/upgrading of skills demanded in the marketplace and support the advancement of educational programmes. The government needs to recognise the crucial role of these partnerships, and assist their development through supportive policies.

Certain obstacles in the education system impede opportunities for lifelong continuing professional career-building. For example, vocational education students who enter professional centres without a diploma from a secondary education institution (which is legally possible) will not be legally allowed to continue their education at the next level of technical education, which requires a secondary-school diploma. For these students, the chosen educational path becomes a 'dead end', as they cannot complete their secondary education inside the professional centre.

The main recommendations for the VET system are as follows.

- The education system must ensure continuing opportunities through the elimination of obstacles in the legal and regulatory framework, such as smoothing the transition between secondary education, vocational education and higher education.
- More investment must be made in the expansion and modernisation of the VET system.
- VET centres should be strengthened from the management perspective to be financially efficient, and entrepreneurial while focusing on their core business of skills development.
- Vocational education and training needs to be understood from a modern perspective with a renewed profile, but this will require adequate information from all user groups together with a consistent and competent government policy.
- Cooperation between academic and vocational education institutions can offer new solutions for VET teachers and programme development, while joint projects between innovative businesses and VET centres can offer platforms for learning, student research projects and a new image for VET centres.
- VET centres that are under capacity in rural areas can find new forms of contributing to the productive capacity of the working population by offering flexible, tailor-made and mobile skills development programmes, which can be well coordinated with rural credit and rural enterprise programmes supported by donors and public resources. This is one possible profile for public/private partnerships based on VET capacity. Creatively backed by a supportive policy it would open up numerous other routes to local communities and rural economies throughout the country, in order to boost in small but effective ways the productivity that is so much needed.

Annexes

Annex 1: Social partnership agreement⁵⁰

16 December 2008

Based on the Joint Statement dated 31 October 2008 and on their various consultations, the social partners have reached the following

Tripartite Agreement

I

In order to conduct an effective social dialogue the following work plan has been elaborated:

- The social partners: representatives of the government, the Georgian Employers Association and the Georgian Trade Unions Confederation will meet at least biweekly in order to discuss the current socio-economic situation and to solve the problems raised.
- In the format of the tripartite dialogue, in order to discuss the problematic issues the parties shall invite up to an additional five experts from each side.
- In order to solve the problems the parties will carry out specific joint activities.
- The activities will take place in the format of an ad hoc commission, for which temporary terms of reference will be drawn up.
- The ad hoc commission will make decisions by consensus.
- The decisions of the ad hoc commission will be binding on all parties.
- The government will allocate as much funding as possible for the functioning of the ad hoc commission, as well as for organising meetings in the framework of the tripartite dialogue.
- The government will appoint a person responsible for organising the meetings, taking the minutes and other procedures in relation to the decisions made, funded by the government to the maximum extent possible.

II

In the framework of the tripartite dialogue the parties shall

- discuss the legislative initiatives relating to the social and economic issues;
- develop activities, in terms of legislation as in terms of practice, in order to progress *inter alia* on the Labour Code, Collective Bargaining and Freedom of Association;
- expand cooperation and consultations with the International Labour Organization in order to carry out activities relating to securing decent work and living conditions.

The specific decisions reached in the framework of the dialogue shall carry the recommendation character for the government, which during the decision-making process will be respected by the parties.

The tripartite dialogue and related activities shall also cover the following issues:

1. Healthcare activities for those employed in both formal and informal sectors, skills training, retraining of the unemployed.
2. Protection of both workers' and employers' interests and rights.
3. Protection of health and safety conditions in the work place, development of safe working standards in different sectors of the economy (e.g. construction, mining).
4. Unemployment insurance systems.
5. Reform of the pension system.
6. Development of the tripartite dialogue at regional and sectoral levels.

Changes and additions to this agreement may be introduced by agreement between the parties.

Every six months from the signature date of this agreement the social partners and the government shall evaluate the progress reached in relation to fulfilment of this agreement and discuss future steps and related activities.

Alexander Kitiashvili
Minister of Labour,
Health and Social Affairs

Irakli Petriashvili
President of Georgian
Trade Unions Confederation

Elguja Meladze
President of Georgian
Employers Association

⁵⁰ This is the translated version received from GTUC.

Annex 2: Professional fields and programmes offered in public VET centres, 2007/08

Field	Programmes
ICT	Computer systems and networks Web media technologies Web programming Electronic and telecommunications networks Repair networks
Restaurants, hotels	Restaurant manager Cook Pastry cook Hotel manager Hotel electrician Waiter Reception/accommodation manager Barman Chef Tourism agency operator Guide Mountain guide
Construction	Carpenter Architectural details Welder Wide profile builder Building electrician Bricklayer Plumber Sanitary-technical Crane Industrial machine repair Road construction
Handicrafts, miscellaneous	Carpets and rugs Sewing, modelling Ceramics Jewellery, enamel, gold National dress Furniture (artistic) Gobelin Felt Weaving Printing, publishing Photo Photo modelling Shoe repair Shoemaking Knitting Wool work
Mechanics	Car repair Truck and tractor repair Electrician Household appliances repair Mobile phone repair TV maintenance Turning Locksmith Welding Black and coloured metalworking assistant moulder

Agriculture, rural economy	Bee-keeping Gardener Veterinary assistant Agro-production: farming, livestock Pond fishing Medicinal plants Grain reproduction Agro-tourism Land measurement Geodesy Laboratory analysis Plant protection Tractor mechanics Agriculture mechanics Cheese production Crop cultivation
Management	Bookkeeping Office computer operator Office manager Grocery seller Clerk
Chemistry	Chemical/pharmaceutical laboratory assistant Food control Chemical device operator
Industrial production	Glass production machine operator Mining deposit – wide profile Ship hull construction Juice technology operator Brewing

Source: MES, table provided to ETF in March 2008.

Annex 3: Higher professional education programmes

1. Technical University of Georgia – 7 programmes, 1 502 students
2. Tbilisi State Medical University – 3 programmes, 204 students
3. Tbilisi State Agriculture University – 5 programmes, 273 students
4. Ilia Chavchavadze State University – 15 programmes, 481 students
5. Apolon Kutetaladze Tbilisi State Art Academy – 12 programmes, 90 students
6. Shota Rustaveli Film and Theatre State University – 3 programmes, 22 students
7. Tbilisi Vano Sarajishvili State Conservatoire – 4 programmes, 27 students
8. Batumi Naval Academy – 2 programmes, 90 students
9. Ltd Tbilisi Public University 'Metekhi' – 3 programmes, 36 students
10. Ltd Public Affairs University of Georgia – 11 programmes, 408 students
11. Ltd Caucasus University – 5 programmes, 101 students
12. Ltd Aviation University of Georgia – 7 programmes
13. Akaki Tsereteli State University (Poti) – 4 programmes, 70 students
14. Akhaltsikhe Institute – 5 programmes, 54 students
15. Tbilisi Public University (Borjomi) – 3 programmes, 20 students
16. Zugdidi Higher Education Institute – 4 programmes, 37 students
17. Gori University (Gori) – 3 programmes, 87 students
18. Tsnori College (Tsnori) – 5 programmes, 20 students

In 2008/09 the higher professional education programmes and number of places for each programme were as follows:

1. **Akhalkalaki Higher Education Institution:** College – SME administration, 15; accounting, 15.
2. **Shota Rustaveli State University:** translator/interpreter, 40; business administration, 50; information technologies, 30; communication technologies, 30; agronomy and agro-engineering, 20; civil engineering, 20; chemical technologies, 20; electronics and telecommunication, 30; design, 20; television direction, 10.
3. **Gori University:** hotels, restaurants and special events administration, 25; SME administration, 25; construction business administration 25.
4. **Zugdidi Higher Education Institution:** banking, 10; accounting, 10; technology of alcoholic and non-alcoholic beverages, 10; specialist of law enforcement bodies, 20; pharmacy, 10; nursing, 10.
5. **Tbilisi Vano Sarajishvili State Conservatory:** piano, 10+3 international; band conductor, 5+3; vocal art, 10+6; orchestra – string instruments, 11+4; theory of music, 4+2.
6. **Georgian Technical University:** civil engineering, 30; energy, info-telecommunication, 30; mining geology, 15; chemical and metallurgical engineering, 15; transport and mechanics engineering, 15; architecture, 15.
7. **Shota Rustaveli Theatre and Film University:** artistic photography, 20; scene technology and design, 15; choreographer-tutor, 15.
8. **Tbilisi State Medical University:** nursing, 100; dentist's assistant, 40; dental technician, 10.
9. **Ilia Chavchavadze State University:** designer of clothes, 7; shoes and fabric, 7; art of jewellery (goldsmith, enamel), 7; computer design and graphics, 7; monument painting, 10; ceramics, 7; tour operator, 7; tourism management, 7; acting, 7; directing, drama, 7; set design, 7; television journalism, 40; screen art, 30; informatics for banking systems, 20; sport coaching, 20; sport management, 30.
10. **Tbilisi Saero University 'Metekhi':** nursing, 10; assistant to pharmacist, 10; hotel and restaurant business and tour operation, 15; banking, 15.
11. **Caucasus University:** tourism management, 30.
12. **Jacob Gogebashvili Telavi State University:** industrial management, 10; winery, 10.
13. **Akaki Tsereteli State University:** naval transport, 90.
14. **Higher Education Institution – Tsnory College:** banking, finance and insurance, 18+2; accounting and auditing, 13+2; hotel and restaurant management, 18+2; tourism and travel management, 18+2.

Annex 4: Contacts in Georgia and abroad

Delegation of the European Commission to Georgia

- Per Eklund
- Martin Klaucke
- Oliver Reisner
- Maria Iarrera
- Michel Jambou
- Nika Kochishvili

Tacis Coordination Unit

- Roman Kakulia
- Andris Kuznieks
- Irma Khvedeliani

Ministry of Education and Science

- Giorgi Nodia, Minister
- Irine Kurdadze, Deputy Minister
- Anna Zhvania, Deputy Minister
- Archil Gagnidze, Deputy Minister
- Maia Chankeliani, Chairperson NPA
- Lela Maisuradze
- Simon Janashia, NCAC
- Ani Kitiashvili, NCAC
- George Gakheladze, NAC
- Berika Shikakidze
- Sophia Gorgodze, TPDC
- Zurab Giorgobiani
- Nani Dalakishvili
- Maia Gabunia, National Examination Centre
- Maka Advadze, National Accreditation Centre
- Natia Andguladze, Analytical Department
- Zaza Tsiramua, ICT Centre Tbilisi
- Tamar Tabidze, Tourism Multi-profile Centre Tbilisi
- Sergo Maisuradze, Tbilisi VET Centre
- Giorgi Makharadze, Tbilisi VET Centre
- Ramaz Gagoshashvili, Rustavi VET Centre
- Zaza Mikadze, Gori University
- Lali Ghogeliani, Georgian Technical University
- Sergo Esadze
- Nino Tsereteli

Ministry of Health, Labour and Social Affairs

- Nikoloz Pruidze, Deputy Minister
- Sofia Lebanidze
- Giorgi Kakachia

Ministry of Economic Development

- Giorgi Nanobashvili
- Otar Bubashvili, Head of Department of Tourism and Resorts
- Nino Ormotsadze, Department for Statistics
- Lia Tsharikishvili, Department for Statistics

Ministry of Finance

- Goga Gugova, Head of Budget Division

Non-governmental organisations

- Elguja Meladze, Georgian Employers Association
- Konstantin Nanobashvili, Georgian Employers Association
- Irakli Petriashvili, Georgian Trade Unions Confederation
- Gocha Alexandria, Georgian Trade Unions Confederation
- Irina Kantadze, Association of Adult Education of Georgia

International organisations

- Arvo Kuddo, World Bank
- Nino Kutetaladze, World Bank
- Tamara Sulukhia, World Bank
- Mariam Dolidze, World Bank
- Nino Moroshkina, World Bank
- Medea Kakachia, USAID
- Natia Kvitsiani, IOM
- Marc Hulst, IOM
- Zsolt Dudas, ILO
- Ivane Chkhikvadze, Eurasia Foundation
- Koba Turmanidze, Eurasia Foundation
- Maya Kipshidze, British Council
- Revaz Sakvarelidze, UNDP
- Levan Kvatchadze, DVV
- Ludmilla Klotz
- Steffen Schuelein
- Mr Sekarev, GEPLAC
- Veronika Schneider, GEPLAC

Experts

- George Berulava
- Lika Glonti
- Lali Brakradze
- Tsiuri Antadze
- Peter Tasker

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