

Georgia: Economic and Social Challenges of the Transition

Ministry of the Economy of Georgia

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Preface

Being in a deep economic crisis, Georgia is pursuing very significant reforms. The accumulated experience must be critically analyzed and put into its proper context in order to choose and implement the correct course for the reforms.

In this work, the broad characteristics of the economic and social reforms realized in Georgia in 1989-96 are outlined. Changes in economic policy have been noted in significant areas such as macroeconomic stabilization, trade liberalization, institutional reforms, and privatization. Also enumerated are the characteristics of the changes that were carried out in fiscal reform, prices and wages, the labor market, and income policies of the country. The influence of the current changes on the indica-

tors of the living standard as well as on the distribution of income and poverty is evaluated. The primary emphasis is on social groups that have experienced significant losses during the reforms. Special attention is devoted to children in difficult circumstances and to child protection policy in Georgia. Furthermore, there is an appraisal of all measures that have been carried out by the government for the social defense of the population.

The main purpose of this work is to provide readers and specialists with accurate information about the recent changes in economic and social policy in Georgia and about the results that have been achieved, in order to help to explain the main reasons for both successful and unsuccessful reforms. The authors express their gratitude to representatives of the International Child Development Center in Florence (Italy) and the United Nations Children's Fund (UNICEF) in Georgia for their assistance in the completion of two projects in the Ministry of the Economy, "Public Policy and Social Conditions: Monitoring the Transition to the Market Economy in Georgia" (1995) and "Children in Difficult Circumstances: Risks and Promises in Georgia" (1996). The main content of the projects is presented here.

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Part 1

Post-Communist Development of the Georgian Economy

Over the past year, Georgia has made a significant recovery from an economic and financial crisis that brought great hardship and threatened the continued viability of civil government [see bibliography]. With a more stable macroeconomic situation, it is possible to consider longer-term measures for economic reform and revival. This paper [i.e., Part 1 of the monograph] advocates a process of “social promotion” of economic reform to encourage the growth of entrepreneurship in the visible market and the emergence of the professional skills necessary to a market economy.

Introduction

Since its independence in 1991 Georgia has been through a severe economic and financial crisis. Loss of markets in the former Soviet Union, loss of inputs from the same source, and internal civil strife were the major factors behind a decline of about 80 percent in recorded real GDP from 1990 to 1994, with a decline in recorded industrial output of about 83 percent, and a decline in recorded agricultural output of about 63 percent. The figures on output for the construction industry show a decline of 97 percent, implying that the formal construction industry virtually ceased to function.

Confronted with the dislocation of trade and industry and the consequent loss of budgetary revenue, the initial reaction by gov-

ernment was to borrow in order to maintain government services and subsidies. At the same time, state banks and a large number of newly created banks provided credit to ailing state-owned companies. The result was an accumulation of large overseas official debts and an acceleration in the rate of inflation from approximately 5 percent in 1990 to 175 percent in 1991, 1,340 percent in 1992, 9,040 percent in 1993, and 8,380 percent in 1994. Hyperinflation eroded the real value of incomes in both the public and the private sectors, but particularly in government. It also seriously eroded the real value of social security payments, including pensions. Pensioners and others dependent upon state welfare payments were among those most severely affected by the crisis.

Hyperinflation also eroded the international value of currency. The coupon was introduced as a temporary currency in April 1993 to overcome a shortage of ruble banknotes arising from the refusal of the Central Bank of Russia to supply ruble notes to Georgia. The currency was introduced at par to the ruble, but was soon trading at a large discount. In late 1994 it had depreciated to about 5 million coupons to the U.S. dollar. Rubles and U.S. dollars were widely used as substitute currencies in Georgia.

The recovery of the fall in output relates essentially to the formal economy. In Soviet times, Georgia had a substantial informal economy, and there is no doubt that this informal economy has expanded during the period of crisis. The recorded decline in GDP evidently exaggerates the actual contraction in economic activity. In Georgia no reliable estimates of the size of the informal economy exist, but it has been suggested by Ministry of the Economy officials that, in late 1995, it may be as large as 80 percent of the recorded economy. In Soviet times the informal economy operated outside the law and was linked to activities of a common criminal nature. Materials and equipment belonging to the state were sold through the informal economy. The economic crisis exacerbated the extent of criminal activity and extended its scope into all spheres of economic activity. The criminal activity itself exacerbated the

economic crisis. There was widespread theft of equipment and materials from state enterprises. In the financial sector, the powers of financial institutions to direct credit were used for speculative purposes. Some state-owned companies were privatized through sales arranged by and for the advantage of criminal gangs. Many state and private enterprises were subject to extortionist demands by criminal elements. Much of the criminal activity emanated from the highest levels of government as an offshoot of the civil unrest and due to the needs of political factions for financing.

The government, with the assistance of the International Monetary Fund (IMF) and the World Bank, began to take drastic measures to overcome the crisis and to promote further economic reform in late 1994. The main focus of the program was the restoration of financial and budgetary control. Credit emission was drastically curtailed; budget expenditure was reduced, in particular by the redaction or elimination of subsidies for bread and fuel; government employment was reduced; and measures were taken to improve the collection of government revenues. At the same time, the further liberalization of prices was introduced (supplementing earlier measures of 1992 and 1993) and the privatization program was intensified and extended. Various projects were introduced, most of which were funded by external donors and financiers, to support the revival of industry and agriculture and to establish the legal and institutional infrastructure for a market economy.

The results of the program have been highly encouraging. Inflation has been brought down to around 60 percent per year—still high, but on a continuing downward trend. The coupon stabilized at about 1.3 million coupons to the U.S. dollar early in 1995 and held around that level throughout the first eight months of 1995. The stability of the coupon permitted the introduction of a new currency system on October 25, 1995, the lari and the tetri (1 lari = 100 tetri). The lari was worth 1 million coupons and was traded from the outset at around 1.25 laris to the dollar. During 1995, Georgia really began to reap the benefits of the reform

program. Following four years of the slump in output, real GDP increased by 3.3 percent. In 1996 GDP increased by 10 percent instead of the estimated 7–8 percent. Progress in curbing inflation has been particularly impressive. Average monthly inflation fell from the hyperinflationary level of 62 percent in the first nine months of 1994 to about 4 percent in 1995, and further to 1.1 percent in 1996 instead of the planned 2.4 percent. Price liberalization is nearly complete since the liberalization of the price of bread in June 1996. This step toward price liberalization does not affect the rate of inflation, and reform in this particular field was also considered successful.

The program involves the provision of credits by the IMF to the government to cover the continuing deficits in the government budget. The measures introduced to curb expenditure and raise revenue have successfully reduced the deficits to a stable level, [which should be maintained] given continued good management. A first purchase of SDR [special drawing right] 27.75 million under a Systemic Transformation Facility was made in December 1994, and a second in July 1995. A first purchase under a twelve-month Stand-by Arrangement totaling SDR 72.15 million was made in July 1995, and a second in October 1995. In February the IMF approved a three-year loan for Georgia totaling the equivalent of SDR 166.5 million (about \$246 million) under the Enhanced Structural Adjustment Facility (ESAF) in support of the Government's economic and structural reform program during the period 1996–98. The main objective of Rehabilitation Credit for Georgia, totaling U.S. \$75 million, approved in 1995 by the World Bank, is to support the government's economic reform program aimed at restoring macroeconomic stability and promoting resumption of growth and improvement in living standards. In 1996, the World Bank, with the cofinancing of the Government of the Netherlands, approved the Structural Adjustment Credit (SAC) totaling U.S. \$60 million and aimed at consolidating stabilization, fostering a strong and sustained growth recovery, and reducing poverty. The World Bank has also financed several projects in the spheres of health, transport, municipal infrastructure, and agriculture.

These changes suggest that the major threat of economic collapse is now past. With a stabilizing macroeconomic situation, it is possible to think more constructively and usefully about the rebuilding of the economy and of Georgian society. Many sound initiatives have been taken to revive the economy, including projects for the reform of the financial sector, for the development of local resources of energy, for the revival of agriculture and industry, for the rehabilitation of the infrastructure, for the improvement of communications, and for the intensification of training. Building on a stable base, these projects will promote the growth of the Georgian economy.

In order to determine how best to pursue reforms for a country in Georgia's situation, it is necessary to take as a fundamental reference the *human* being who creates and for whom the market system is created. It is the human dimension that must be the first focus of attention. This paper considers various implications of this focus in terms of taxation, social policy, and the role of government.

The "social promotion" of economic reform

In the classical market system, the notion of *homo economicus* was developed to describe the essential nature of man in business. This is man guided by private interests in his activity in order to gain maximum profit. Of course, *homo economicus* is an abstract notion, but it still describes quite realistically the behavior of the manufacturer.

In the final period of the existence of the USSR, which is called perestroika, *homo sovieticus* was a popular characterization of Soviet man. This is a man frightened and oppressed by the state machine, who depends on the good will of the powerful for his welfare. *Homo sovieticus* is also an abstract notion, but it expresses with some realism the type of man created by decades of communist power.

At the present stage of economic reform there is a type of man who, on the one hand, tries to act on his own initiative and in his

own interests, and on the other hand, still looks at government in fear and in the hope of charity and protection.

Voucher privatization might be viewed as a manifestation of the existence of this type of man. Vouchers valid for the acquisition of shares in the privatization auctions were distributed to the entire population of Georgia. The vouchers could also be traded privately. Here, principles of social justice are introduced as a foreign body into the economic interests of privatization.

Another example of this dualism is seen in the demand of depositors to be compensated by government for the loss of their deposits as a result of the bankruptcy of commercial and industrial trust companies operating "pyramid" schemes (when new debts with high interest are assumed in order to cover old debts). The Government of Georgia made no prior commitment to guarantee the deposits of these people, but it found social and political pressures so great that it was obliged to exempt from all taxes for one year all the companies that were reestablished on the foundations of the bankrupt victims of the pyramid scheme, and to give depositors vouchers—each depositor was given a block of vouchers with a nominal price of U.S. \$200.

Thus, at the present stage of transition to a market economy, there is a type of man who is steadily developing the qualities of *homo economicus* but who has not yet liberated himself from the qualities characteristic of *homo sovieticus*. We could perhaps call this type *homo transformativus*, which is about as close to reality as are the abstractions discussed above. Many contemporary entrepreneurs may be considered striking examples of *homo transformativus*. They make their enterprises function at minimum load, satisfying personal and family needs, and the needs of the small number of workers employed at the enterprise. This type of entrepreneur has no interest in expanding his enterprise because *homo economicus* has not been fully awakened in him.

To achieve our transformation to a market economy, we need to change *homo transformativus* into *homo economicus*—the faster we do so the faster we shall achieve a market economy.

This gives us an indication of how we should proceed in the coming stage of Georgian reforms. Stratification of society in accordance with the requirements of a market economy is bound to take place. The whole spectrum of social stratification is meant here, covering economic, political, and professional stratification.

The central objective is to create a social stratum of entrepreneurs that is strongly supported both politically and professionally. It implies improvement of the economic situation of the "middle stratum"—representatives of middle and small business, physicians, teachers, scientists, and so forth.

From this point of view, the democratic system can be seen as strengthening the institutions of political support for entrepreneurs, while the creation of a strong stratum of entrepreneurs is itself a guarantor of the existence of a democratic society.

In the transition process, it is necessary to create the practitioners of the new professions (managers, brokers, dealers, etc.) that are essential to a market economy and to the phenomenon of the entrepreneur.

At the same time, it is necessary to focus attention on the poor so as to render them targeted assistance. For this, it is necessary to identify the stratum of the population whose income does not provide a basic minimum standard of living.

To summarize, Georgia is at the beginning of a new phase of economic reform that could be called a *stage of target-oriented market sociogenesis*.

During this process of market sociogenesis, special attention has to be paid to target-orientation, because if the process is allowed to take place naturally, the time span of the transformation of *homo transformativus* into *homo economicus* will be considerably prolonged. If there is a long delay, we will not develop an entrepreneurial stratum, we will not develop national wealth, and we will not be able to provide social assistance to the poor.

Thus, in market sociogenesis, target-orientation has special importance. The process cannot be carried out by means of "natural selection," during which, over a long process of development, a

stratum of entrepreneurs is formed. The government must participate in the formation of the entrepreneurial stratum and in the process of stratification of society in accordance with market requirements.

In other words, to continue economic reforms in Georgia (and in other post-communist countries in similar situations) we offer the system of "social selection," or what might be called the method of *social promotion* of economic reform. The essence of this method is that the government should create the conditions that promote the quick formation of a stratum of entrepreneurs. At the same time, it is necessary to render target-oriented assistance to the neediest stratum so that the poor do not prevent the process of reform.

The method of "social promotion" of economic reform involves three essential measures:

1. Improvements in the criminal situation, to relieve the fear of formal or partially formal military formations. If unresolved, this problem will be a serious obstacle to the activities of both domestic and foreign entrepreneurs, and will prevent the arrival of foreign investors in Georgia.

2. Promotion of the development of entrepreneurial activity. Without this, the entrepreneurial stratum will continue to be developed in the shadow economy, which is fertile soil for the consolidation of illegal activities and prevents the creation of legal entrepreneurial activity.

3. The carrying out of purpose-oriented social assistance to the most needy stratum of society, so that people occupying this stratum are able to overcome difficulties arising in connection with the reform process. This targeted social policy would be the guarantor of support for the reform process.

These three elements are closely linked. A difficult criminal situation prevents the development of entrepreneurial activity; new goods are not produced; it is impossible to assist the poor; and the poor join the criminal world because of the hardships they experience.

There have been improvements in the criminal situation, as

mentioned above. It is necessary to complete the fight waged by the government against the criminal world.

To develop entrepreneurship, it is necessary to create an environment in which it is safe for the entrepreneur to move out of the "shadow economy" into legal status and to reinvest in the expansion of his business.

At the same time, it is necessary to create an environment in which savings are encouraged and made available to entrepreneurs for investment.

To the maximum extent possible, it is necessary to use the state budget to provide social protection. At the same time, we must adhere to the principle of the "social insurance state": the state cannot eliminate poverty if it does not accumulate wealth. The state budget should be used to target assistance to the most needy, rather than to increase the sums spent on social protection.

To achieve this, it is necessary to remove the "superfluous" burden from the budget sector. Today, much of the population of Georgia that is employed in the budget sector is engaged in private activities. It is true that the wage received by each citizen from the budget is very small, but the total nevertheless amounts to a heavy burden on state budget expenditure. It is necessary to remove from the budget sector those individuals who, in reality, earn their livings in nongovernmental activities. The problem can be solved by reorganizing health care, education, science, culture, and state management. The funds released will permit more reasonable incomes for those who remain and who receive their incomes only from the budget.

One of the most important tasks of a "state of social insurance" is to create the conditions for the establishment and development of private institutions of social protection, for example, private pension and insurance funds.

It is suggested that there is no alternative to the continuation of economic reform by means of "social promotion," since there is no sharper or more effective way to implement market socio-genesis.

Role of the government

Executive functions

In 1996, the legal framework for the market economy was established. In February 1996, the Parliament of Georgia adopted the "Law on Agricultural Land Ownership," according to which rights of possession of agricultural land are conveyed to citizens of Georgia. This law will undoubtedly lead to the complete privatization of agricultural land. The laws on "Monopolistic Activity and Competition" (June 1996) and on "Bankruptcy," as well as other fundamental laws, were also adopted by Parliament. Thus, the government together with the main ministries signals its intent to implement these economic frameworks.

Withdrawal from business enterprises

The transition from a command to a market economy involves a fundamental change in the role of government. It involves most centrally the withdrawal of government from direct involvement in business enterprise and trade, and the adoption by government of an enabling, or supportive, role. It also involves the government's dropping of its preeminent role in the intellectual and social life of the nation.

The withdrawal of government from business enterprises is exemplified in the program of privatization pursued by the government since 1991, but intensified by it in 1994. This privatization program opens up former state enterprises to private initiative and presents opportunities for the exercise of entrepreneurial skills that are the core concern of the "social promotion" of reform. It is frequently pointed out that it is not sufficient simply to privatize state enterprises; the new owners must make the new private enterprises function effectively.

Urban housing was privatized in 1992 under legislation passed in February of that year. Land privatization proceeded under a decree of January 1992. Up to mid-1995 about 51 percent of

tree-crop land and 38 percent of arable land had been privatized, although in total only about 20 percent of agricultural land had been privatized due to the large tracts of pastureland, only 5 percent of which had passed to private ownership.

For the privatization of industrial and agro-processing ventures, a law permitting workers or their nominees to acquire 51 percent of the stock of their enterprises was passed in August 1991, just four months after independence. Two decrees governing auction sales were adopted in May 1992. In April 1993, a government resolution converted all industrial enterprises with assets valued in excess of 30 million rubles into joint-stock companies with tradable shares. Under this legislation, however, privatization proceeded slowly. In May 1994 the process was accelerated by the introduction of legislation that gave employees the right to buy 100 percent of the shares of small-scale enterprises and 51 percent of the shares of medium and large-scale enterprises. Under this legislation the privatization process has proceeded more rapidly. The target privatization of 6,500 small companies by the end of 1995 has been nearly achieved. Small-scale privatization should be completed by the end of spring. Auctions of medium and large-scale enterprises began in June 1995 and will proceed for about eighteen months. About 700 enterprise are being offered for sale, with 35 percent of their shares offered through the voucher auctions. Vouchers have been distributed to the entire population of Georgia.

The mass privatization programs give priority to the movement of a large number of enterprises out of the public sector and into private ownership in a short period of time. It is recognized that many of the companies will be acquired by persons who are unable to provide the entrepreneurial and other skills necessary to rebuild the enterprises on a market basis. The support of the "social promotion" program for entrepreneurs is in part directed at encouraging and giving incentives to the new owners of these enterprises to develop them effectively.

In order to increase the chances of effective performance of some privatized enterprises the government has selected a number that will be privatized by international tender. In these, employ-

ees may hold only a minority share. While the immediate impact of this measure may be to substitute foreign entrepreneurial expertise for Georgia, it is anticipated that the transfer of skills to Georgia from foreign entrepreneurs will be valuable, especially in assisting Georgian entrepreneurs to adopt more fully the attitudes of *homo economicus*.

Budget considerations in the role of government

The government role is currently very sharply constrained by budgetary considerations, to the extent that it is unable to perform many of its nominal functions. In recent months it has been necessary to scale down the provisions of government services very significantly. The most notable change has been in the provision of health services. More sophisticated services are left to private initiative. Similarly, it has been necessary to modify the education system to guarantee a free basic nine years of education, rather than the full educational service of the old regime. Further reductions in the size of government are planned as part of the program of recovery and reform agreed upon with the IMF.

Budget management is a central part of the role of any government, and tax policy is a major factor in budget management. The program of "social promotion" of economic reform stresses the importance of maintaining incentives for entrepreneurs to take risks and invest, and to maintain their operations in the legal, tax-paying sector of the economy.

Role of government in "social promotion"

The program of "social promotion" of reform has further implications for the role of government. First, it proposes a positive role for government in the social restructuring of society, or the targeted sociogenesis of society. This would aim in particular at creating an effective entrepreneurial section of society and the professional stratum, which provides essential support services to commerce in a market economy, including lawyers, accountants,

and financiers. It would be necessary for government to define its targets and the means of attaining them.

The "social promotion" of reform also requires a concerted drive against criminal elements, particularly those that impinge on the activities of legitimate entrepreneurs. As noted in the introduction, criminal activity has been widespread in the country and has reached high levels in government. Recent changes and the outcome of elections in November 1995 have substantially improved the situation, although much remains to be done in order to develop effective police and security services.

The "social promotion" of reform also includes programs for the support of the poor. People dependent on state support, due to age, infirmity, or other reasons, have been particularly hard hit by the economic crisis. It is this group that is most likely to become disenchanted with the reform process and to give their support to political factions that would like to see the clock turned back. The election of November 1995 gave a clear mandate for reform, but it would be unwise to expect this support to continue without clear benefits from reform being spread through the community. An effective social safety net has to be established.

Basic directions and parameters for development of the Georgian economy for the period up to 2000

Based on the above conditions, the Ministry of the Economy together with the appropriate ministries and local authorities developed and presented the Indicative Plan for Social and Economic Growth for 1996–2000, incorporating measures for future improvement and measures outlined in President Eduard Shevardnadze's electoral campaign. The Indicative Plan stipulates the following basic growth parameters of the national economy: the forecast GDP growth for the stated period is 78–88 percent, implying 12.0–13.5 percent average annual growth; industrial output growth 2.0–2.3 times in 1996–2000 (15.2–17.3 percent annually); agricultural output—31–41 percent (7.1–7.2 percent annually); cargo turnover on every transportation category—2.2–2.3 times (17.1–

18.5 percent annually); passenger transportation—1.5 times (8 percent annually); capital investments in all source categories—10–11 times (63–66 percent annually); commodity turnover—1.5–1.6 times (8.9–9.7 percent annually); services—1.9–2.1 times (14.3–16.2 percent annually); commodity export—4.3–4.8 times (34.0–35.5 percent annually); and commodity import—2.1–2.2 times (15.6–17.5 percent annually). The Indicative Plan sets forth more ambitious volumes of production than presidential campaign outlines.

Within the planned period, changes in the economic structure of the country are expected. These changes will be of a positive nature because they will comply with market principles and national economic requirements. First of all, the share of industry in GDP growth is remarkable (from 21.6 percent in 1995 to 27.9–29.8 percent in 2000), of transportation and telecommunication (from 5.1 percent to 7.4–7.0 percent), and of construction (from 2.4 percent to 8.8–9.9 percent). Changes are also forecast in the consumption structure of GDP. In 1995 consumption was higher than gross domestic product volume, but in 2000 this disequilibrium will be liquidated. Another significant increase—up to 10 percent by the end of 2000—will occur in savings, which have declined almost to zero (0.8 percent) in 1995.

Branches of industry are adjusting according to market principles. In particular, an increasing pace of development is becoming apparent and causing an increase in industries with large export potential, or industries operating on local inputs, such as the heating industry (in which the share in total industrial output is forecast to increase from 1.5 percent in 1995 to 3.7 percent in 2000), the construction-materials industry (from 5.4 percent to 9.1 percent), and light industry (from 2.5 percent to 4.8 percent). This situation causes a rapid decline in the share of the food industry, which currently holds more than 50 percent of the total output in the country. However, it is anticipated that its share will hold around 40 percent until the year 2000.

There are plans to develop the energy sector with priority as-

signed to the generation of electricity. In fact, in 1995 under the Tacis program, the working group of consultants has developed the "Georgian Energy Sector Policy," which presents short-term as well as long-term prescriptions for resolving the energy crisis. Apart from that, a number of subprograms have been developed that, by the end of the century, will facilitate the output of 11 million kWh of electricity, 180,000 tons of oil, and 500,000 tons of coal. This will satisfy the country's demand for energy resources.

A market-based property transformation process will take place during the next five years. As a result, by the end of the century, private-sector industry will capture 68–70 percent of the total output and 66 percent of fixed assets. This percentage is expected to be higher in such fields as construction materials, light industry, and the food industry. The share of the private sector is expected to increase in the construction industry (to 85 percent of output and 75 percent of fixed assets), in the agricultural sector (to 70 and 80 percent, respectively), in trade and public catering (to 90 and 85 percent, respectively), in consumer services (to 100 percent), in road transportation (to 90 and 85 percent, respectively, albeit less pronounced in railroad and road transportation combined at 40 percent), and in telecommunications (30 and 25 percent, respectively).

Economic growth creates favorable conditions for increasing the living standard of the population. The crucial component here is an increase in employment, since currently 28.4 percent of the population is unemployed. The target is to achieve a 5 percent threshold on unemployment and salary increases from 15.7 laris per month (in 1995) to 200–250 laris per month for 2000. Furthermore, the budget sector salaries are expected to increase from 9.4 laris to 157–200 laris. It is important to note that the consumer-price index is forecasted to stay within the 2.2 limit.

The above measures require the specific steps listed below:

1. The acceleration of the economic reform, especially the phase of *targeted, market-oriented sociogenesis*, so that a strong

stratum of entrepreneurs, which is expected to efficiently utilize the country's economic potential and facilitate stable economic growth, emerges by the end of the century. On the other hand, the creation of such a strong class requires improved law and order, the protection of human and property rights, and thus the further sophistication of the legal framework.

2. The securing of an average annual inflation rate within an acceptable margin by means of a tight monetary policy.

3. The improvement of the energy supply through better utilization of internal resources and adequate importation during the winter period.

4. Better utilization of domestic resources, including an advantageous geopolitical location.

5. The maximum utilization of existing workplaces with the aim of reviving employment, followed by a phase of investment attraction that will promote the creation of new jobs.

6. The facilitation of a steady increase of the population's real income as a result of an emerging class of strong entrepreneurs and the simultaneous securing of the social protection of low-income classes.

Presently, the Georgian government views the materialization of the Transport Corridor Europe-Caucasus-Asia (TRACECA) project as the future perspective for the country's development. The first practical steps towards this objective have been made. In particular, the cargo transit in volumes of thousands of tons is already functional via Georgian transportation routes to destinations in Russia, Turkey, Iran, Armenia, Azerbaijan, and Middle Asia. A decision has already been made to construct an oil pipeline and to transport part of Azerbaijan's oil through Georgia. The preparatory and other supportive actions have been initiated under a special decree issued by Eduard Shevardnadze, the president of Georgia. But this is a minor part of the real opportunity that exists, and that, however, requires significant financing and time. In particular, one of the major conditions for the efficiency of the Europe-Asia Transport Corridor via Georgia is the timely reconstruction and modernization of rail-

roads, automobile highways, and the seaports of Poti and Batumi.

Considering the above, the World Bank has made a decision to allocate a rehabilitation loan of U.S. \$12 million specifically for the railroad and automobile transportation sector of the country with the Georgian government's counterpart allocation of the equivalent of U.S. \$2 million in national currency. Moreover, it is projected that grants will be attracted amounting to U.S. \$6 million from international organizations and donor countries. Currently, the logistics for attracting these grants are being developed.

The sea-transportation and seaport-development project, currently under government review, has also been elaborated. The financing of the project will have a local component, but will concentrate primarily on foreign participation. Its implementation will promote the successful development and operation of the TRACECA project.

One of the important elements of the country's revival is the peaceful settlement of conflicts in Abkhazia and Chechnya, which, in turn, will result in the elimination of the transportation blockade, in the return of displaced people, and in their active involvement in business activity.

To promote business development a consistent legal framework is crucial. This concerns, first of all, tax legislation—in particular, the problem of high tax rates, which quite often encourages businesses to move to the “shadow economy.” Apart from that, budget revenues should be compensated by expanding the tax base. Unfortunately, the law on foreign investment has also failed to play a key role in encouraging investment activity in the country and is subject to further amendments.

The measures for securing consumer rights protection are also quite important and should gradually be enacted. Although the law governing this field has been passed and will start functioning as of June 1, the subsequent normative acts have yet to follow. The Ministry of the Economy has elaborated over twenty-three legislative acts and will soon distribute them among other concerned ministries and agencies for review. If

this process gains momentum, it will be possible to enact them before the scheduled time, which is September 1.

In addition, a feasible and comprehensive system of concrete measures aimed at the acceleration of individual sector development is described in a specific part of the Indicative Plan. This part has annexed a list of state targeted programs, the implementation of which will promote the quick growth of the particular sector concerned.

The resolution of the above-stated general economic and noneconomic factors as well as the implementation of consolidated economic programs will result in the creation of an economic environment that promotes overall economic growth and achieves the targets set forth by the Indicative Plan by 2000. This, in turn, means the overcoming of today's economic crisis and the preparation of a solid background for future development.

5. Conclusion

The challenges facing the government and people of Georgia remain. While the most severe part of the economic crisis has probably been surmounted, the task of rebuilding the economy in a new shape remains to be achieved.

The most critical element in determining successful rebuilding will be successful social regeneration—the changes in thinking and attitudes that are necessary to make a democracy and a market economy function successfully. It has been suggested in this paper that the government has a major role to play, through “social promotion,” in making these changes take place. Entrepreneurs and other essential figures in a market economy must be encouraged to play their parts fully.

One important aspect of this social promotion is the establishment of a tax system that provides incentives for risk-taking and encourages entrepreneurs to conduct their businesses in accordance with the law. The program also envisages a continued drive to enforce law and order and a budgetary expenditure to establish an effective social security net.

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Part 2

Public Policy and Social Conditions

Monitoring the Transition to the Market Economy in Georgia

Initial conditions: social policy during the past years of socialism

Short description of the main characteristics of social policy during 1988–89

The government performed the function of centrally elaborating and implementing social policy, in accordance with which the regulation of wages and total employment in Georgia was practiced on the basis of the socialist principles of total labor and free will (i.e., voluntarily). These principles included labor provisions and guaranteed definite remuneration for labor. The latter appeared to be determined according to quantity and quality of labor input, but were in reality only based on the socialist principle of equal remuneration of labor so as achieve total employment. The employment of workers and their wages were administratively determined by working plans connected with the in-kind or subsidized provision of items of consumption. The number of workers in enterprises and offices and their wages were determined according to special plans. All this has provided a high level of employment, for example, 2,699,800 people were em-

ployed in Georgia in 1989, that is, 84.3 percent of all labor resources. The number of all unemployed was limited to 286,300 people at that time.

The minimum wage during 1988–89 was 70 rubles, whereas the average monthly wage for the period was 186.9 rubles, and in 1989 it was 197.9 rubles. Of course, it should be noted that in those years the poverty line was uncalculated within the republic. However, it may certainly be said that the wage and the social security system during this period provided the absolute necessities for survival.

While a fairly sophisticated and extensive system of social security instruments, including pensions and family allowances, had existed in Georgia, the benefit levels had been set in relation to the basket of in-kind provision. This subsidized basket covered the major items of consumption, including food (milk, meat and meat products, bread, etc.), baby products, utilities (water, electricity, and public transport), clothing, and housing. The losses caused by the artificially low costs of products were covered by the budget or, in some cases, by profit received by state enterprises. For the above-mentioned products and services the republic budget paid 284.8 million rubles in 1989; however, this is not the full cost, because there were a large number of products imported from other former Soviet republics. The subsidies on such imports were paid by the budget of the republic.

The national economy machine of the period envisaged the creation of a Social Development Fund that would receive income from enterprises. These sums would then be donated to workers in need as additional assistance and services, namely, free meals, transport, holidays, education, medical care, and cultural and other activities. Some enterprises gave additional benefits to former workers and their families.

Prior to 1991, benefit levels were fixed in nominal terms and adjustments were infrequent. The minimum pension had been set at 70 rubles per month in 1988. The maximum pension was 120 rubles per month. The average pension as a proportion of the average wage was over 60 percent in 1988, but the average replacement ratio for pensioners fell in 1989. Consequently, there

was a gradual deterioration in the living standards of pensioners that predated the reform of 1989–90.

A similar pattern pertained to the other “vulnerable” groups, including large families. A number of allowances existed prior to 1989, but most were payable only to low-income households.

The reforms of 1989–90 were designed to provide more effective coverage against life-cycle risks. The ceiling on maximum pensions was relaxed, benefits were made proportional to wages, and the minimum pension was linked to the minimum wage. The minimum wage thus became the standard reference for the payment of all transfers. Accordingly, the levels of the main family allowances were revised, and the main benefit payable to young children was set at the minimum wage for working mothers (and at half for nonworking mothers).

In 1988–89, children up to 1.5 years of age were given an allowance of 60 percent of the minimum wage, from 1.5 to 6 years, 50 percent of the minimum wage; the one-time allowance for the birth of the child was the equivalent of the monthly minimum wage for single mothers, and for those not receiving alimony assistance—50 percent of the minimum wage.

In 1988–89, the main areas of social infrastructure, such as education, medical care, science, art, and sport, were financed centrally by the USSR United National Complex. Education (except playschools) and medical care were free of charge for the entire population. Playschools were founded at the expense of republic budgets, local budgets, or enterprise funds.

Moreover there was compulsory secondary education for ten years. As for preschool institutions, the amount paid per child was so little, it carried only symbolic meaning.

Budget financing was also the source for the development of art, sport, rest, and tourism. In this sphere as well, symbolically low prices would make it possible for almost anyone to receive the services needed.

In Georgia, although nontraditional mechanisms of social help were restricted, they were still operative. For example, the most unprotected people received all kinds of aid from donations at the

expense of various charitable organizations. This process was mainly controlled by local government and district social security services.

In Georgia there was also special housing for the elderly, the homeless, and disabled children.

The reform process from 1990 to the end of 1994

Main characteristics, sequencing, and phases of the overall economic, political, and social reforms introduced

The output and growth of Georgia's economic development was felt in the form of increases in production, and figures showing these effects were seen for the last time in 1988. Beginning in 1989, the economy of the republic started to regress due to various economic and noneconomic factors, foreign and internal, subjective and objective factors, which later evolved into a complete trend, reaching a critical level in 1994. The start of the economic crisis was obviously connected with two simultaneous global transformations: the breakdown of the Soviet Union (close economic links were broken), and the transition to a market economy. There were also the devastating effects of the war on the economy, ethnic conflicts, and the aggravation of the criminal situation.

Due to all of this, in 1990 the economy of the republic started to deteriorate rapidly, as clearly seen in macroeconomic indicators. In 1994, as compared to 1990, gross domestic product decreased by almost 4 times and gross national income by 5 times; by these indicators the republic's economy turned out to be at the level of the 1960s. We offer a numeric example: in 1994, per capita gross national product only slightly exceeded \$252 and investments in the republic had dramatically decreased to less than 13 percent of GDP.

The existence and specifics of the economic crisis in Georgia were determined under the socialist system. This is vividly illus-

trated by the reduction in the production rate in the 1980s. The transformation processes in industry started long before the attainment of political and economic independence in the early 1990s and continued through inertia for an indefinite period of time. In particular, the transformation process is linked to the switch to full-scale cost accounting in public-sector enterprises, to the creation of new forms of labor organization and payment, and to the development of leasing relations. In order to attain these goals, a wide range of measures were taken, which were practically considered to be the cornerstone of the economic reforms implemented in that period. At the same time, it should be mentioned that these measures did not bring the hoped for results. There were many subjective and objective reasons for this. But the main cause was the unsystematic method and lack of follow-through in carrying out economic reform policy. The reform policies should provide the real transformation to privately owned relations and thus create incentives that could make it possible to reduce the decline of production and prevent economic crisis.

Despite the attainment of economic and political independence in Georgia, it became impossible to carry out a real and original economic policy. It should also be mentioned that economic reform started in 1990.

In order to initiate the reforms, first of all steps were taken to create a legal basis, that is, laws on entrepreneurial activities, leasing relations, privatization, and property were adopted. Definite work was done to provide enforcement of the laws, to start the process of price liberalization, and so on, but there were still no corresponding results. At that time, Georgia was still in the Soviet ruble economic zone and was unable to conduct independent monetary policy. The negative tendencies of the ruble zone with its high inflation rate influenced the economy of Georgia and it was impossible to dispose of this influence. Besides, there were certain complications among former Soviet countries with regard to mutual settlements. The situation was further complicated by a liberal monetary policy that was carried out on the basis of emission credits of the National Bank. All this overval-

ued the Georgian monetary system with a noncash money supply and when it was impossible to reserve cash money a dramatic situation arose in the monetary system of Georgia. Negative tendencies sprang up and were expressed in considerable differences in prices between cash and noncash money; effectively, this was the starting point of the disruption of the monetary system. This process continued until the middle of 1994. In 1990–91 there was a period of political instability. The policy of economic self-isolation conducted during this period caused an economic blockade of Georgia. A process of disruption of traditional economic relations started and the monetary system deteriorated. All this appeared to be disastrous for the country's economy, which was an appendage to the integral economic complex of the former Soviet Union for decades. A majority of enterprises were left without material and technical supplies. These problems with the production of goods became acute. In reality all the main economic difficulties were outlined, and a part of them cannot even be resolved today, thus exacerbating the process of economic crisis.

In 1992–93, political instability continued in Georgia, accompanied by civil conflicts in the Tskhinvali region and Abkhazia, with aggravation of the critical situation and other negative tendencies, which caused an unfavorable environment for the economic reforms. In spite of this, a new stage of economic reforms was realized during the period, which was not followed by definite successful results but which did bring about preconditions for future economic reforms.

This stage is notable for the complete liberalization of trade under total reorganization and privatization. It was aided by a new stage of price liberalization. It caused the curtailment of regulation of prices on all kinds of goods and services except bread, electricity, natural gas, and public transport.

The process of privatization of trade and consumer-services centers was accelerated. It was carried out according to the first stage of privatization, which was approved in 1992. According to this program the land and flats were transferred to people without

compensation. Each farmer was given 1.25 hectares of farming land or orchards, or 5 hectares of pasture. At the same time collective and state farms were reorganized. The process of creating farms and agro-industrial complexes was begun and is ongoing even now. A macroeconomic anti-crisis and medium-term program was worked out, adopted by the government, and approved by the head of state on February 7, 1994. In 1992 and in the first half of 1993, the liberal monetary policy continued, considerably strengthening the existing inflationary tendencies. And as a result of this, the average inflation rate exceeded 40 percent. Under conditions of the production slump, when financial accounting had effectively deteriorated, it was even impossible to reduce budget revenues, in spite of the fact that, in 1992, a new tax law was adopted, which increased tax payments, introduced new types of payments, and established different mechanisms of reallocation between republic and budget revenues.

At the same time, in order to reduce attempts to avoid tax payments, strict fines and administrative measures were introduced. It should be mentioned that these measures did not yield any results. This was conditioned by many objective and subjective factors. The main factor was still the disruption of the monetary system. Due to the liberal monetary policy, when the noncash money mass was increased and it was impossible to meet even half of the demands in cash money, there was a loss in the value of noncash money. This caused the complete disruption of non-cash payment. Enterprises and organizations started illegal cash payment and money accounting became impossible. As a result of all this, a considerable part of economic activity moved to the shadow economy.

Aggravation of the economic situation was conditioned by the policy that temporarily considered Georgia to be within the ruble zone and by the expectation of considerable financial aid.

In order to improve the situation, in April 1993 the Georgian government issued into circulation, simultaneously with the ruble, a coupon of the National Bank of Georgia, which was not independent but represented the Soviet ruble. In effect, its aim

was to fill the gap in the money supply. At that time, people had not been given salaries and pensions for six to eight months, which caused a serious social problem. These measures were capable of improving the situation or stabilizing the financial system. However, due to the increase in the inflation rate it was possible for the government to partially fulfill its obligations to people. On July 27 of the same year, the coupon was announced as a single and legal means of payment, but because of the existing difficult social and economic conditions, the coupon lost its function of payment and calculations were limited by the money market and by the obtaining of goods granted to people by the government at artificially low prices. These goods included bread, electricity, natural gas, public transport, and some public utilities (subsidies on public utilities were paid from the local budget). Under these conditions, the coupon rate continued to drop and was gradually forced out of circulation. The average rate of inflation exceeded 60 percent. Although the national income of the budget increased, it was impossible to meet the growing demands on expenditures. The increase in budget expenditures was caused by civil conflict; by the growth of expenditures on stabilization of the criminal situation; by the gradual increase of subsidies on goods with regulated prices; and by social protection measures, which were expressed in the growth of pensions, salaries, and donations. Because of all the above-mentioned factors, republic budget expenditures exceeded revenues and the fiscal deficit widened significantly. Due to the worsened situation and despite strict measures in monetary policy undertaken in the second half of 1993, it was impossible to achieve budget targets in three quarters of 1993–94.

A new stage of economic reforms started in 1994. The anti-crisis programs of macroeconomic stabilization and system changes were approved. This determined the main strategy of the social, economic, and political development of the country and the main outline of the economic reforms was clarified. Moreover, the Indicative Plan for 1995–96 was adopted, in which the forecasting parameters of social and economic development for 1995 were determined.

Against a background of improving the political situation, settling the criminal situation, improving relations with the Commonwealth of Independent States [CIS] and other neighboring countries, the relations of the republic with international monetary organizations have intensified. Accordingly, when implementing the economic reforms, the Georgian government took into consideration the recommendations of international monetary organizations. The process of transformation of state-owned enterprises into joint-stock companies has been accelerated according to the privatization program. Preconditions for mass privatization have been prepared, and for this purpose, legal and sublegal acts have been adopted. The role of enterprise workers has increased considerably in speeding up the process. They were given the right to purchase the shareholdings of enterprises transformed into joint-stock companies. The list of enterprises that are still state-owned has been specified. Measures have been taken to introduce a decree on bankruptcy. The sanation policy for unprofitable enterprises and enterprises on the brink of bankruptcy has been worked out.

Laws were adopted on entrepreneurial activity, on leasing, on indicative planning, and on property. Thus, the legal basis has become stronger.

A strict monetary policy was initiated. Under these conditions, emission credits were issued by the National Bank only to cover the budget deficit and within the limits allowed by law. It is noteworthy that the price liberalization started in September 1994, when the prices on electricity, natural gas, and public transport were freed and thus subsidies on these services were canceled. The process of step-by-step liberalization of bread prices has started, with the result that the price of bread has increased 460 times.

Budget expenditures have been reduced considerably due to these measures. Additionally, the money received from selling humanitarian-aid wheat, flour, and other goods was added to the budget. For the first time during the past years, it became possible to approve nondeficit budget revenue consisting of the monetization of goods received as humanitarian aid.

Due to measures taken in the sphere of production and circulation as well as in the banking sphere, the stabilization of the national coupon has been achieved and some elements of monetary stabilization appeared in the country. In 1994, a considerable regulation of the rate of decline in production was achieved and in some spheres, as compared with previous years, the situation has even improved.

All of these measures precondition the possibility of intensifying the economic reforms and overcoming the economic crisis.

All the stages of the economic reforms mentioned above were proceeding simultaneously with the creation of the social safety net. Together with the rise in prices the government constantly carried out a policy of indexing of people's incomes and social subsidies. Definite steps were taken in the direction of improving labor payment and the social safety net. But the measures taken were inadequate to the difficult economic situation. Although the government tried hard to solve these problems, it should be mentioned that, against a background of extended crisis, the social security of the population has been worsening and progress in this sphere has not yet been attained. The transformation of pensions and family-allowance systems into social-insurance principles may be considered the most important stage of implementation of people's social insurance and pension reforms. Due to the reforms, a common fund for social security and medical insurance has been set up. It consists of two parts: a pension fund and a family-allowance fund. Since 1992, revenues for the fund have essentially been derived from employees' contributions based on 1 percent of salaries and on employers' contributions through a payroll tax set at a level of 37 percent for enterprises and 26 percent for budget organization. The reform envisaged the transformation of the pension and family-allowance systems to social-insurance principles. But there was no proper mechanism of differentiation of pensions and other social subsidies. That was the reason for the equalization of pensions and social subsidies, which resulted in a lower living standard for pensioners and other vulnerable groups of the population.

Reforms in the social sphere may be considered as the first steps in establishment of the labor market. In 1991–92, the common state employment fund, the employment service, and their regional organizations were established. They were financed by unemployment insurance constituting 1 percent of the wage fund (by 1993 this fee had increased to 3 percent). Correspondingly, the rules and conditions of unemployment insurance were changing.

The main shortcoming of the unemployment-insurance system and employment service activities is that they are not oriented toward conducting an active social policy. Because of an imperfect legal basis and the absence of organizational and economic mechanisms of the labor market, the unemployed avoid the employment service. There has been a sharp decline in the registering of unemployment in the republic.

The changes that are now being prepared in the republic in order to carry out the pension reforms may be considered a new stage in the reform of the social sphere. This means a reorganization of the social security and medical insurance common fund and the establishment of private pension funds. The mechanism of differentiation of social subsidies is being worked out on the basis of analysis of people's incomes and levels of poverty.

In connection with the transition to a market economy, pre-schools and other types of teaching institutions (lyceum, gymnasium, and college) that require payment have been created in the educational system of the republic.

In order to expand the net of such teaching institutions, their founders were given buildings and other teaching facilities free of charge for a certain period.

There were many defects in the above-mentioned reforms of the educational system. Specifically, despite the existence of rules for issuing licenses that were worked out by the Ministry of Education, the procedure for issuing licenses was formalized. In many cases the technical institutions were preparing specialists for professions that were not in demand and these specialists increased the unemployment figures. In addition, the qualifications of teachers and professors left much to be desired, as did

poor teaching facilities. Unfortunately, these drawbacks are also typical for some state high schools and secondary schools (poor teaching facilities and inferior level of the teaching staff). In 1991-93, more than 300 commercial teaching institutions were set up (among them there were more than 200 high schools, which is inadmissible for a country as small as Georgia).

In order to overcome serious drawbacks in the system of education, several versions of educational concepts have been recently worked out, are being considered in the corresponding commissions, and will ultimately result in the adoption of the "law on education." The preparatory work to normalize the system of medical care under the conditions of a market economy started in 1990-91, at which time the cost of medical services had been calculated.

In 1992-94, a self-accounting system was introduced in some polyclinics and hospitals in order to check possible effects of market forces.

On January 1, 1995, the first stage of reorganization of the system of medical care was initiated, in accordance with which the system was liberated from government management and transformed to self-accounting principles. Only a negligible number of medical institutions remain the property of the state.

Proceeding from the above, the forms and methods of financing the system of medical care have been changed. Budget financing has become target-oriented financing, according to which the government finances not a definite institution but a definite program, to be designated according to its volume, quality, and importance.

Compulsory medical insurance is now being introduced. Organizations, enterprises, and other institutions must pay 3 percent of their wage funds, and employees must pay 1 percent.

In the first half of 1995, the realization of a strategic course of economic reform continued in the Republic of Georgia. In cooperation with international financial organizations, measures were specified and improved in order to overcome the crisis and speed up economic reforms; specific parameters for the end of 1995

were determined; and work on the 1995 program and on further measures of international financial support of the reforms has started. In generally assessing the past three and one-half years of economic transformation, it must be said that the longest and most difficult stage has passed and that, as of fall last year, the country's economy has entered into a qualitatively new phase of radical transformation, which continues to the present. The current stage of the reforms is characterized by a systematic approach, complexity, and large scale. At the same time, owing to serious backwardness in accomplishing the reforms, the government of the country was forced to use radical and painful (from a social standpoint) measures. As a result of this, the country avoided complete economic disaster at the beginning of last year. Thus, the necessary conditions have been created to continue the reforms successfully, to revive the economy, and to set new goals.

The complex program of stabilization and structural reforms worked out by the Government of the Republic in close cooperation with the International Monetary Fund and the World Bank became the basis for the current reforms, which were backed by the first systemic transformation credit tranche. The realization of this program rapidly allowed hyperinflation to be overcome. The coupon rate has stabilized and the rate of economic decline has been significantly reduced. In the first half of the current year, according to a preliminary assessment, the total volume of gross domestic product will constitute 80–85 percent of that of last year. The average inflation rate is about 3 percent now.

For well-known reasons, in Georgia, as well as in many other countries, economic transformation began both chronologically and functionally through price liberalization. Unfortunately, from the beginning, it was not backed up by adequate monetary and fiscal policy or by large-scale liberalization of both domestic and especially foreign trade, which resulted in hyperinflation and a nearly five-fold reduction of economic potential.

Beginning in the second half of last year, complex measures in an integral program of macroeconomic stabilization, as already

mentioned, yielded good results. The financial system of the country is improving. While it is true that, in the last period of the current year, the state budget deficit has been reduced, there are still many serious problems and contradictions in this sphere, as well as in the economy as a whole. There is ongoing work to improve the taxation system. The problem of taxation is acute, especially revenues to the state budget, but also the entire taxation system. The main weak point in the budget system is a low relative share of revenues in it.

The above-mentioned success of the first stage of the monetary credit system reform is the result of strict monetary policy on the part of the National Bank. It is noteworthy that, under its guidance, complex mechanisms of regulation have been set up and are functioning successfully. These mechanisms regulate the entire money supply and also the coupon rate based exclusively on market levels. The Parliament of the Republic will soon adopt a law on the National Bank and later on commercial banks. These laws will normalize the problems that exist in this sphere.

The regulation of investments and foreign economic relations is directed at decreasing the relative share of state investments through increased private investments, on the one hand, and in regard to the foreign economic sphere—the creation of an open economy and favorable conditions for foreign investors ready to invest capital in Georgia, on the other. These trends have been realized irrevocably in the country.

One of the largest spheres of the economic reform is the intensive transformation of state property by means of privatization, shareholding, and municipalization. Achievements in this sphere do exist, although they also have their shady (dark) sides.

Privatization lists of state enterprises approved by the Georgian Government include almost 8,000 facilities (units). They include structures of all economic branches: industry, agriculture, construction (unfinished construction), transport, trade, and service. Armed conflict in previous years caused a delay in so-called small privatization.

Consequently, this year, both small and large enterprises are

being privatized. The process of shareholding is being carried out on a large scale.

On May 1, 1995, the number of privatized state enterprises constituted about 3,000 facilities, and about 850–900 enterprises became joint-stock companies (large enterprises).

Privatization vouchers are presently being given to the population of Georgia. Channels of circulation for securities markets, investment funds for goods and securities, and exchanges are in operation.

A careful investigation of state property privatization allows us to conclude that this process is of an intensive nature. When government structures function poorly, an artificial situation of exposed (unprotected) government property may be created, thus stimulating its quick privatization, which, of course, involves the danger of ineffective decision making.

Brief outline of the main economic policies introduced (including macroeconomic stabilization, trade liberalization, institutional reforms, and privatization)

The economic reform that has been carried out since 1990 is unsystematic in nature. The main parameters and strategies of economic reform were delineated in the programs of macroeconomic stabilization and systemic changes.

The program determines that the course of Georgian development is irreversible and directed toward the principles of a free market economy based on various forms of property, including private property, and will satisfy the economic needs of the population.

Along with the introduction of the market economy, economic processes should be regulated by economic methods and, in so doing, the government of the country must experience structural changes, with its activity in the economic sphere being limited by macroeconomic regulation.

A number of commodity producers should be created by stim-

ulating new market structures and radical changes in the government sector, which means privatization of its main part. These commodity producers will be able to establish direct contacts both within and outside the republic and to conduct effective economic activity.

The achievement of monetary stabilization and, consequently, the creation of a favorable environment in the production sphere is a prerequisite of overcoming the economic crisis and starting the work on the industrial potential of the republic. In order to achieve this, a strict monetary policy has to be conducted. This envisages an absolutely new approach to money circulation, to the convertibility of national currency, to budgeting, to payments, and to other spheres.

In the budgeting sphere, the aim is to achieve a real nondeficit budget by improving the system of payment, increasing income, and prioritizing expenses. The most important of the priorities include: the social security of the population, the defense of the population in the economic sphere, and a step-by-step transition to sanitation policy.

Tax reform envisages its liberalization and the creation of flexible (differential) mechanisms for conducting tax policy directed at simplifying the tax-collection mechanism. All taxes will be outlined, and tax limits on total income will be determined.

In order to balance the budget, the organizations financed by it and its managerial staff will be considerably reduced. At the same time, one of the sources of budget revenue will be the conversion of state securities and the formation of national money.

Monetary-credit policy provides for a number of anti-inflationary measures that will allow the reduction of the inflation rate by the end of 1995 to single digits. In order to attain financial stabilization, the introduction of a full value national currency is envisaged, and in order to preserve its convertibility, the formation of the corresponding financial reserves is provided.

Together with the achievement of financial stabilization, as the legal basis is being improved, a favorable environment for invest-

ments should be formed. It will allow the creation of conditions for attracting domestic resources and foreign investments and for using them efficiently.

In order to regulate foreign economic relations, specific restrictions will be lifted, step by step, by abolishing the system of export-import quotas and by considerably reducing the list of licensed goods. At the same time, a system of differentiated customs duties on imported goods will be introduced toward the goal of the total elimination of customs duty. This will stimulate the country's export potential.

One of the main directions of the economic reforms is a gradual and complete liberalization of pricing on all types of goods. Overall supervision over prices will be conducted only according to the antimonopoly law.

In order to overcome the economic crisis, the primary focus is on the qualitative transformation of government enterprises. Accordingly, some of these enterprises will be privatized, and some will be converted to stock companies, with the main part of their assets moving to the private sector in the process of mass privatization. The part of the assets remaining in the public sector will become corporate and be based on contract relations.

The process of privatization is being carried out in the Republic of Georgia according to the state program on privatization, which was initiated in 1992 and has recently accelerated considerably.

To date, an almost overwhelming majority of trade and consumer services facilities have been privatized, which has helped to completely liberalize trade in the domestic market. The only limitations in the trade sphere were on arms, drugs, and poisons, and there remains a system of licensing for medicaments.

The first stage of institutional reform has already been carried out in the country, and with it the tax and auditing bodies have been reorganized. Normative acts adopted by legislative and executive bodies have considerably strengthened the legal basis of the economy. But in order to accelerate and deepen the economic reforms, a number of laws and sublegal acts must be adopted. These must create favorable conditions for the setting up of mar-

ket structures and for their further development.

The transformation of state property naturally entails the necessity of transforming economic management institutions in such a way as to adequately meet the demands of new private relations.

A number of transformations in this sphere have already been accomplished. They belong to works of the first stage. It has already been five years since the establishment in the republic of the Ministry of State Property Management, which is responsible for the sphere of state property privatization, although the ministries of the Economy, Finance, and Justice take an active part in this process. As to the ministries of Industry, Trade and Supply, and Agriculture and Food Industry, as well as the Committee for Architecture and Construction, the Ministry of the Auto Industry, the Department of Sea Transport, and other sectional departments, they still function as government organs of state property management and, after privatization, will necessarily need to be reorganized (transformed into commercial-economic structures or institutions having state management and coordination functions).

The method of regulating the approach to this process is now being intensively worked out.

The creation of the legal basis of privatization and institutional policy management should also be mentioned here. A number of laws have already been issued to regulate the introduction of the market economy in the country. It must also be noted that some legislative statements elaborated with the participation of foreign experts do not in all cases take the national character into consideration and often reflect the platforms of the countries from which the experts come. This preconditions the low efficiency of these legal acts in reviving the economy and overcoming the country's crisis.

The country's internal trade has been liberalized. Foreign trade policy is targeted to the formation of an open economy. All trade barriers are being gradually removed, as required by the General Agreement on Tariffs and Trade (GATT). Exports are exempt from customs duty. Customs duty on imported goods is 12 percent according to the blanket customs tariff; the regime of exemption from customs duties within the CIS free

trade agreement is in force. The process of bringing domestic prices more in line with world prices is ongoing. In the near future it will permit the introduction of a full-value national currency. At the same time, it will allow us to make the manipulation of its rate one of the main means of state regulation of foreign trade and capital movement. The two-year experience with quotas and licensing made it clear that the existing regime of regulating foreign economic activity did not meet the goal of setting up direct cooperation and export-import relations based on market principles; because of this, further steps were taken in January 1995 (Decree No. 35 of the Cabinet of Ministers) in order to restrict the direct interference of the government into the activities of enterprises. Specifically, the lists of quoted and licensed goods were considerably reduced. The quotation system was preserved only on goods that are used for purchasing power resources and paying off government debts, while licensing was preserved only on goods connected with the defense of state interests.

At present, based on the agreement between the International Monetary Fund and the Government of the Republic of Georgia, the quotation system has been canceled as of June 1, according to the Decree of the Head of State No. 134 of April 24, 1995, as have all intergovernmental agreements on power resources. And so as to satisfy state needs, instead of quotation, a civilized system of state purchase will be introduced (the draft of the statement is now being considered in the Cabinet of Ministers).

Overall discussion of the direction of policy changes in the five sets of policy areas (fiscal, price and wage, active labor market, social security and income transfers, access to basic public services)

Fiscal policy

In 1990–94 two stages of fiscal policy may be singled out. The republic budget was without a deficit in 1990–91. Together with

economic failure, a sharp decline in the country's financial position may be traced. The total fiscal deficit of 16.7 percent of GDP (in 1992) decreased to 11.6 percent in 1994. While in 1990, the budget revenue constituted 104 percent of expenditures, the corresponding figure for 1992 constituted 30.5 percent. Thus, total budget revenues of the 1990 GDP of 37.9 percent decreased to 5 percent in 1994; budget expenditures have also decreased from 36.5 percent of 1990 GDP to 16.7 percent of 1994 GDP. In order to finance the fiscal deficit, the state had to use foreign debts and grants and credits of the Central Bank, which caused inflation and rather unfavorable financial conditions in the country (see Table 1 on summary monetary accounts).

The resolution of the government on issuing cheap nontargeted credits to state enterprises and its inadequate interest-rate policy hampered capital accumulation by commercial banks. But it created favorable conditions for refinancing by the Central Bank.

All of the above-mentioned factors preconditioned the explosion of hyperinflation and the failure of the exchange-rate policy. Correspondingly, while in the spring of 1993 the rate of exchange of the coupon to the U.S. dollar was 1 : 5,060 and to the ruble, 1 : 1, in September 1994 this ratio fell to 1 : 2,400,000 and 1 : 1,030, respectively.

Thus, for the period mentioned, budget discipline on the whole and control over expenditures exceeded all expectations, as clearly illustrated in Table 2 and the graph of selected fiscal indicators (Figure 1).

Structure of revenue

The budget revenue structure of 1989–94 is shown in Table 2. During the given period, the republic's system of payment has undergone important changes. In 1993, the turnover tax was canceled and changed to a value-added tax [VAT].

The tax rate, which ranged from 28 percent to 14 percent, now stands at 20 percent. If turnover tax included deficit goods, the VAT would cover all economic entities of the republic. Consequently, the share of VAT in total budget revenue has been changing. By 1992 VAT receipts in total revenue constituted 14.4 percent, in 1993 it was 16.7 percent, and by 1994 it was 52.3 percent.

Table 1

Summary Monetary Accounts, 1991-94

	1991		1992		1993				1994	
	Dec.		Dec.		March	June	Sept.	Dec.	Dec.	
National Bank of Georgia										
Net foreign assets [NFA]	—		-152.00		-259.70	-215.50	-208.70	-235.70	-3,901.30	
NFA in convertible currencies	—		0.40		1.50	3.30	3.90	149.30	—	
NFA in rubles	—		-152.40		-261.20	-218.80	-212.70	-385.00	—	
Net domestic assets	6.20		184.30		299.20	368.90	564.90	1,238.40	27,001.30	
Net claims on general government ^a	2.50		30.30		57.10	55.20	73.00	913.30	23,932.80	
Claims on banks	0.10		92.80		307.90	343.50	500.00	609.70	6,772.00	
Credit to banks	0.10		33.10		126.80	213.30	269.70	257.30	5,172.20	
Overdrafts on corresponding accounts	—		—		181.10	130.20	230.40	352.40	1,600.00	
Other items (net)	3.70		61.10		-65.80	-29.80	-8.20	-284.60	-3,703.50	
Reserve money	6.20		32.30		39.50	153.50	356.10	1,002.70	23,100.00	
Currency in circulation	6.20		28.40		31.70	135.50	320.40	940.60	13,002.60	
Banks' required reserves	—		3.90		7.80	17.90	35.80	62.10	10,097.40	
Banking system^b										
Net foreign assets	—		-149.30		-251.80	-186.50	11.20	510.50	-37,994.60	
NFA in convertible currencies	—		3.00		9.30	32.40	222.20	887.80	—	
NFA in rubles	—		-152.40		-261.10	-219.00	-211.00	-377.30	—	
Net domestic assets	12.90		222.20		372.70	484.70	752.70	2,710.00	93,434.60	
Domestic credit	17.70		158.20		401.80	515.10	858.30	3,769.10	112,795.20	
Net claims on general government ^a	—		23.60		24.80	36.00	70.30	877.80	19,860.80	
Claims on the rest of the economy	16.30		134.60		377.00	479.00	788.00	2,891.30	92,934.40	
Other items (net)	-4.80		64.00		29.10	-30.30	-105.60	-1,059.10	-19,360.60	

Broad money	12.9	72.90	120.90	298.20	763.80	3,220.60	55,440.00
Domestic currency broad money	12.9	71.60	116.00	277.70	555.00	1,834.10	32,940.00
Currency outside banks	6.2	26.50	31.10	12.50	286.50	829.50	18,083.00
Deposit liabilities (domestic currency)	6.8	45.10	84.90	155.20	268.50	1,004.60	14,857.00
Foreign currency deposits	—	1.30	4.90	20.50	208.90	1,386.40	22,500.00
Percent change relative to beginning of year							
Memorandum items							
Banking system							
Net domestic assets	—	1.621	68.00	118.000	239.000	1.120	3,347.80
Net claim on general government	—	1.661	5.00	53.000	196.000	3.617	2,162.50
Claims on the rest of the economy	—						
Broad money	—	724.000	180.00	256.000	485.000	2.048	3,114.30
Currency outside banks	—	464.000	66.00	309.000	948.000	4.319	1,621.40
Domestic currency deposits	—	330.000	17.00	361.000	979.000	3.026	2,080.00
Foreign currency deposit	—	567.000	88.00	244.000	496.000	2.129	1,378.90
	—	—	284.00	1.514	16.307	108.811	1,522.90
End period rubles or coupons per U.S. dollars ^c							
Exchange rate		415.00	684.00	1.06	12.629	102.30	1,280,000.00

Source: Data provided by the Georgian authorities and staff estimates.
General government includes republic and local governments, extrabudgetary funds, and pension funds.
The Savings Bank has been excluded because of irregular reporting.
^aRuble/U.S. dollar rates through July 1993 and coupons/U.S. dollar rates thereafter.

Source: Data provided by the Georgian authorities and staff estimates.

^aGeneral government includes republic and local governments, extrabudgetary funds, and pension funds.

^bThe Savings Bank has been excluded because of irregular reporting.

^cRuble/U.S. dollar rates through July 1993 and coupons/U.S. dollar rates thereafter.

Table 2

State Budget Revenue and Expenditure, 1989-94

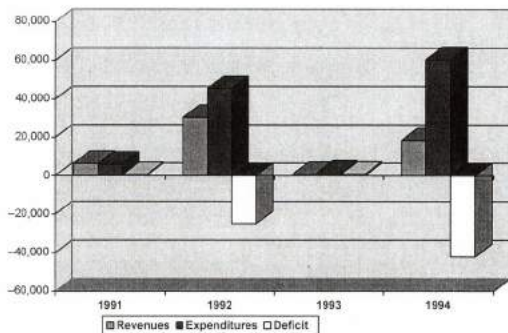
	1989	1990	1991	1992	1993	1994
Revenue	4,532.8	4,978.8	6,362.0	20,457.2	614.8	18,489.9
Profit tax	1,025.4	1,228.3	1,495.2	6,616.8	188.3	2,263.4
Income tax	529.5	431.8	520.2	1,719.5	73.8	3,078.0
Turnover tax	1,799.8	1,809.6	2,124.3	4,792.0	—	—
Value-added tax	—	—	—	—	98.8	9,683.6
Excise tax	—	—	—	2,965.8	68.5	3,033.4
Other taxes	259.9	453.8	629.9	982.7	49.0	50.0
Tax on goods and services from personal income	10.2	25.2	153.2	25.2	47.0	21.2
Property tax	6.7	7.4	20.3	13.4	17.4	68.8
Tax on domestic operations	177.6	289.7	5,402.0	466.5	37.0	45.0
Other current taxed and untaxed duty	727.9	723.0	878.7	3,275.3	35.0	45.0
Expenditures	4,398.8	4,786.3	5,939.8	45,452.7	1,331.4	60,573.1
National economy	2,117.7	2,103.5	2,793.6	22,070.3	333.4	15,059.3
Education and services	919.3	974.6	1,340.0	7,451.1	98.2	3,382.6
Culture and religion	13.5	16.8	220.7	165.2	10.7	11,626.4
Social security, welfare, and services	548.8	624.3	160.4	152.4	160.7	6,550.5
Health care and services	548.8	624.3	160.4	152.4	160.7	6,550.5
Collective activity of workers and service personnel	5.1	7.5	8.1	1,197.4	10.5	510.7
Military service	—	—	—	3,797.0	531.5	3,897.2
Other public activities and services	379.4	483.7	619.9	6,785.6	17.4	11,246.4
Surplus or deficit	134.0	192.5	422.2	-24,999.5	716.6	-42,083.2

Notes: Without grants.

1989, 1990, 1991, and 1992 in millions of rubles; 1993 and 1994 in billions of coupons.

Until 1993 the income-tax rate was 50 percent. After 1993 this rate decreased to 20 percent, causing budget disorganization. Correspondingly, the share of income tax in total budget revenue on an annual basis constitutes: in 1992—32 percent, in 1993—31 percent, and in 1994—12 percent.

Figure 1. Selected Fiscal Indicators: Revenue, Expenses, and Fiscal Balance (as % of GDP)



In 1994 a new tax on certain goods was introduced in the form of an excise duty. In the same year, the profit gained from excise duties constituted 14 percent in total budget revenue. And in 1993 and 1994 it constituted 11 percent and 12 percent, respectively. The income tax of natural persons takes an important place in the structure of revenue.

The dynamics of changes in shares of taxes in total revenue constituted 8 percent in 1991, 8 percent in 1992, 12 percent in 1993, and 17 percent in 1994. At the same time, there was a progressive system of taxation in the republic.

Despite definite changes in the republic's taxation system, there was no commensurate change in the generation of budget revenues. Unfortunately, Georgia has one of the lowest tax-GDP ratios—5 percent.

Structure of expenditure

Together with a low level of revenue, the budget deficit was defined also by a rise in expenditures. Despite the structural dis-

crepancies of the republic budget expenditures, with the implementation of market economy principles and international standards of budget-expenditure items, a trend toward changing the main items of budget expenditures may appear. Some spheres of the national economy are showing a systematic reduction of budget expenditures.

While in 1991 the indicated expenditures made up 47 percent of all budget expenditures, in 1993 they were only 25 percent. The financing of a number of important spheres was correspondingly reduced, which worsened the economic system. A tendency toward a sharp reduction of expenditures was seen in branches of the social sphere, such as education (in which expenditures decreased from 23 percent in 1991 to 6 percent in 1994) and health care. Considerable difficulties may also be noted in the financing of the social sphere.

In 1991, only 3 percent of the total budget was assigned to financing of the social sphere. In 1992, only a negligible sum was assigned for this purpose, and in 1993-94, there was a trend toward rising expenditures for the social sphere. Specifically, it made up 12 percent and 11 percent, respectively, of all budget expenditures. It may be considered a defect that 70 percent of these expenditures were for administrative purposes, and thus the efficiency of social protection programs was reduced.

Until 1991 the budget had no provision for military purposes. This item of budget expenditures appeared in 1992 as a result of the altered political situation, and totaled 8 percent of budget expenditures for that year. In 1994 these expenditures increased to 40 percent, as a result of the building up of the republic's army and the war in Abkhazia.

Under the conditions of an increasing budget deficit, there was a sharp limitation on subsidies. Only in 1993-94 did expenditures on subsidies fall from 19 percent to 5.7 percent. This made it possible to partially activate elements of the fiscal mechanism. In 1991, the most significant shares of all subsidies were assigned to public transport, natural gas, and food, constituting 76 percent of total subsidies. This increased to 91

Table 3

State Budget Subsidies, 1989-94

	1989	1990	1991	1992	1993	1994
Subsidies	812.4	1,497.5	2,293.6	20,635.6	253.4	3,511.5
Of which:						
Agricultural enterprises	431.0	433.5	330.0	7,042.3	9.2	256.0
Other enterprises	12.1	875.2	220.8	8,124.7	3.5	111.7
Prices on consumer goods (public transport, foodstuffs)	284.8	136.7	1,742.8	1,769.0	230.6	2,309.8
The rest	88.5	52.1	—	10,000.0	10.1	834.0
Subsidies as percentage of expenditures	18.0	31.0	38.0	45.0	19.0	5.7

Note: 1989, 1990, 1991, and 1992 in millions of rubles; 1993 and 1994 in billions of coupons.

percent in 1993 and declined to 66 percent in 1994 (see Table 3).

In order to balance budget revenues and expenditures, the government declines all responsibility for subsidizing the functioning of branches that are completely financed by the private sector. In order to strengthen control over budget expenditures, all budget accounts were transferred to National Bank accounts. Local authorities were forbidden to take over the debts of banks. During this process the government paid special attention to budget tax revenue, for which purpose the Department of Tax Inspection was established in the Ministry of Finance, instead of a tax department. The Department of Tax Inspection was responsible for tax collection. Following the advice of the IMF, the State Tax Inspection gave registration numbers to taxpayers. In order to improve tax collection for budget revenues, some tax rates were increased, for example, VAT, from 14 percent to 20 percent, and customs duties on imported goods, from 2 percent to 12 percent. A fixed 1 percent pay-in-kind duty was imposed on imported oil products. If the effectiveness of taxation authorities was not improved, the increase in tax payments would be rather limited.

In the first half of 1995, work on the further improvement of monetary and fiscal policy continued. The principal trend remains the same, that is, to toughen the policy and to improve its mechanisms and tools. Its final aim is to create the necessary prerequisites for financial stabilization and reduction of the rate of economic decline for the purpose of improving the economy in the future. At the beginning of this year, all kinds of subsidies from the republic budget on goods and services were terminated and the 30 percent reduction in staff began. Strict budget restrictions were introduced for enterprises and organizations. In order to improve the mechanism of tax collection, measures are being taken to strengthen and enlarge payment facilities.

While the budget system of payment is still characterized by serious drawbacks, it has become possible for parliament to create and adopt a balanced (nondeficit) budget in 1995. It should be noted that more than half of the balance (53 percent) was achieved due to foreign grants and credits.

Beginning in April of the current year, penalty sanctions on delayed payment decreased from 2 percent to 0.5 percent (for each day delayed). Changes on regulating the excise rate and changes in the methods of their calculation were adopted by the Parliament of the republic at the first reading. In connection with rejecting the vicious practice of exempting some economic subjects from taxes, the Parliament exempted educational institutions and educational products from value-added tax; other measures are also being carried out.

At present, the foreign experts have prepared a detailed program (project) on reforms in the tax system. When it is approved, it will gradually be reflected in corresponding legal documents.

The fulfillment of the state budget for the first half of 1995 is shown in Table 4. The data for the first quarter are shown as actual results, those of the second quarter as forecast calculations. The data show that, despite total planned annual budget balancing, the total deficit relative to GDP (including official grants and

Table 4

Summary of General Government Operations, 1995-96

(billions of coupons)

	1995 Q1 (actual)	1996 Q2 (forecast)
Total revenue and grants	40,048	49,971
Total revenue	28,737	35,887
Tax revenue	23,798	27,775
Taxes on income	3,025	3,028
Taxes on profits	6,641	6,567
Value-added tax	8,913	10,994
Excise taxes	354	471
Customs duties	1,467	3,278
Other taxes	3,398	3,437
Nontax revenue	1,003	1,540
Capital revenue	—	—
Extrabudgetary revenue	3,936	6,574
Grants	11,311	8,800
Total expenditures and net lending	81,850	113,468
Total expenditures	68,200	106,058
Current expenditures	53,795	84,904
Wages and salaries	13,692	12,749
Other goods and services	12,420	10,659
Subsidies and transfers	7,412	7,177
Social safety net	7,162	7,127
Other	250	50
Interest payments	—	—
Domestic	—	—
External	—	—
Interest on rescheduled debt	—	21,034
Other current expenditures	3,636	10,331
Extrabudgetary expenditures	10,032	10,201
Capital expenditures	1,409	7,206
Local government expenditures	12,999	13,949
Net lending	13,650	7,410
Unclassified expenditures	6,600	6,600
Overall balance (accrual)	-41,802	-63,497
Expenditure arrears	24,662	2,326
Overall balance (cash)	-17,140	-61,171
Total financing	17,140	61,171
Domestic	15,661	32,038
Bank	15,661	32,038
Nonbank	—	—
External	1,479	29,133
Memorandum items:		
Nominal GDP (billions of coupons)	688,731	819,590
GDP ratios:		
Total revenue and grants	5.8	6.1
Total revenue	4.2	4.4
Tax revenue	3.5	3.4
Total expenditures	9.9	12.9
Total expenditures and net lending	11.9	13.8
Total expenditures/current expenditures	-3.6	-6.0
Deficit (accrual)	-6.1	-7.7
Deficit (cash)	-2.5	-7.5
Other ratios:		
Total revenue and grants/total expenditures	58.7	47.1
Total revenue/total expenditures	42.1	33.8
Cash deficit/total expenditures and net lending	-20.9	-53.9
Accrual deficit/total expenditures and net lending	-51.1	-56.0

transfers) was 6.1 percent, whereas revenue was only 5.8 percent, and expenditure, 11.9 percent.

The low level of budget revenue is preconditioned by economic stagnation and irregularities in managerial support. According to forecast data, an insignificant rise in revenue is envisaged (0.2 percent) in the second quarter as compared to the first quarter, which, with an expenditure of 13.8 percent, will result in a forecast deficit of 7.7 percent of GDP. This situation shows once again that, despite a number of positive shifts, total budget discipline, tax collection, and expenditure control are in need of serious improvement. Accordingly, the revenue and expenditure structure attracts attention to the real situation in the budget sphere.

According to the existing laws, the first role in tax revenue and revenue in general should belong to value-added tax because of its high rate of 20 percent. But in reality, in the first quarter, with regard to this tax, only 1.3 percent of GDP was collected. Serious conclusions should follow from this fact. Excise tax is the second main tax revenue at 1 percent of GDP. True, in comparison with value-added tax, the collection of this tax is much better, although it cannot be considered satisfactory. The principal part of the 1995 republic budget revenue relies on bonds (according to plan), but in reality the situation in collecting these taxes remains unsatisfactory, with taxes collected in the first quarter making up only 0.05 percent relative to GDP. This was conditioned by various reactions, among which should be singled out: high taxes on some goods (resulting in a reverse reaction—the hiding of real income by taxpayers); serious obstacles in the sales of some goods (because of this the excise tax on tea was lifted); disorder in accounting; and weak payments discipline.

In the first quarter of 1995, total expenditure and net credit totaled 11.9 percent relative to GDP, and the forecast index for the second quarter reached 13.8 percent. Current expenditure in total expenditure is 78.9 percent, whereas expenditure on social measures is 21.3 percent.

To a large extent, the first positive results achieved in financial stabilization have been due to strict monetary policy and the transformation of the entire monetary system. In the first half of 1995, financing of the public sector with bank credit decreased considerably, with the National Bank regulating all money circulation. Short-term credit auctions were introduced, there were stricter regulations for commercial banks, the supervisory function of the National Bank became more important, interbank exchange activity has improved, and today all the requisite conditions are present in the republic for setting up a real unitary market rate of the coupon and real market interest rate on credits. At the same time, the centralization of budget accounts in the National Bank of the Republic improved the monitoring of cash expenditure by state management institutions.

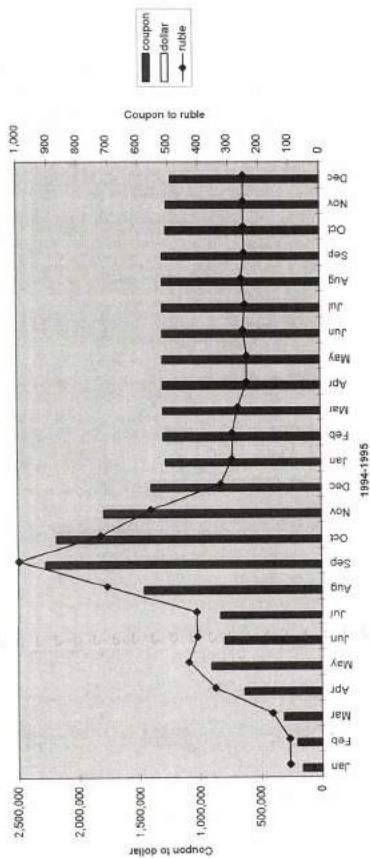
The measures that were undertaken have allowed the achievement of considerable success. Specifically, the coupon rate of the National Bank has remained stable for more than eight months (see Figure 2) in terms of the U.S. dollar, constituting 1.3 million coupons to U.S. \$1, whereas in September 1994 it was about 5 million coupons. Hyperinflation has been overcome. At present, the average inflation rate is 2–3 percent a month, whereas last year it reached 60 percent a month on average.

Decisive measures are required to improve the dramatic situation in the republic's budget. These should be expressed in increasing budget revenues and decreasing budget expenditures.

In order to overcome the critical situation in the taxation system, the government plans to completely reorganize the republic's taxation system, to strengthen management in the taxation sphere, to improve the system of registration of taxpayers, and to completely change the taxation law.

Decisive measures are being accomplished to remove the practice of interenterprise mutual debt repayment among state enterprises and organizations and also to improve the system of penalties and penalty sanctions for nonpayment, to freeze debts receivable and property in order to remove debts by local tax inspection, to reorganize tax bodies, and to train personnel. This work has resulted in a definite improvement in the situation.

Figure 2. Exchange Rate of Coupon to Dollar



Price and wage policy

Price policy

Price liberalization is one of the main strategic issues of economic reform. It began in 1990–91, with the large-scale introduction of liberated pricing for industrial and consumer products of the former Soviet Union.

The basis of state price liberalization policy in Georgia as an independent country is the global liberalization of 1992 prices. The implementation of this radical reform was dictated both by the severe economic situation in Georgia and by economic trends within the ruble zone. For the short term, this liberalization was aimed at the maintenance of economic activity, and, for the long term, it was aimed at the creation of a free market price system through which to establish the macroeconomic conditions for the self-regulation of the economy.

During the first stage of liberalization, most of the republic's products were sold at free market prices; only some of the prices for products that were vitally necessary to the population were regulated by the government. As expected, this was followed by multiple increases in prices and tariffs.

During the second stage of liberalization (beginning May 1, 1992), free prices were established on oil products, agricultural products, goods, and transport.

In 1992–93, free pricing was dominated by spontaneity. An important step toward accelerating this process is the enactment of a law of the Republic of Georgia, "Concerning the Basics of Prices and Pricing in July 1993." However, the macroeconomic circumstances necessary for competitive price formation had not formed in 1993–94. This was due in part to the general socioeconomic and social crisis, and in part to inadequate financial, credit, currency, budget excise duty, and export-import policy.

It is also important that the acceleration of preparation of the appropriate circumstances for privatization, demonopolization, free production, and the development of competition did not occur.

It should be noted that from the beginning of global price liberalization until September 1994, budget grants and subsidies were used to stabilize prices for bread, natural gas, electricity, transport, and public utilities.

The noted rule of price regulation was acceptable at the beginning stage of the liberalization, but with the economic crisis prevailing on a daily basis, it became difficult to put economic reforms into practice.

Specifically, the entire system of pricing was distorted by the acceptance of artificially low prices (tariff), which also promoted the unreasonable and unprofitable spending of restricted resources. Ultimately, enormous subsidies caused the complete paralysis of the financial system.

With the aim of improving the general situation and accelerating economic reforms, a new stage began that involved price liberalization and the radical reorganization of the financial system and of the economic reforms as a whole. In the sphere of price formation, the legalization of artificially low prices and the subsidization of price differences by the budget were rejected.

At present, the government-regulated prices have been updated and there are no subsidies. Work is being carried out on the economic liberalization of individual product prices.

As a result, all of the conditions have been created that are necessary to achieve balanced budgeting and to organize the entire system of financing.

Fundamental changes in budget policy became possible after the reforms in price policy. Price liberalization, which began in 1990 and is presently in its final stage, has resulted in industrial, technical, and consumer product price increases that have never been seen before. Specifically, consumer prices in 1990–91 increased 1.9 times, and in 1992, due to the global liberalization of prices, consumer prices increased 25.0 times.

During 1993–94, prices continued rising intensively and the economic crisis grew stronger. It was especially noticeable after August 1993, when Russia and the CIS countries liberalized

prices on energy resources, considerably increased expenditure on production and reorganization, and devalued the national currency (coupon). As in 1993, prices inflated 90 times and during nine months of 1994, 58 times. In September 1994, real prices were introduced on gas, electricity, and civilian transport. The price on bread was increased almost 460 times. Subsequently, budget subsidies were cut back and almost liquidated. Furthermore, the budget received considerable sources for revenue (wheat, flour, meat, and other products received on the basis of grants).

Together with price increases, with the aim of improving the population's social security, wages, pensions, and other payments made by budget organizations were periodically reconsidered.

Additionally, while the correlation between price and payment increases during 1990–91 was more or less stable, beginning in 1992, it became apparent that inflation was going much faster. In 1992 alone, consumer prices increased 25 times, while the population's receipts increased only 3.4 times. In the following years the gap was made even more noticeable due to the lack of any necessary resources and of any pay increases. Naturally, all of the above considerably affected the standard of living.

As a result, Georgia lacks commodity resources, the consumption of important food products is very low, and the consumption structure itself is irrational. During 1991–94, single commodity circulation in civilian and cooperative trade decreased 60 times, with all the weight shifted to private markets.

In 1995, within the structural reforms in the Republic of Georgia, the policy of price liberalization is ongoing and its practical realization is now in the final stage. At the same time, radical measures, specifically in the sphere of price liberalization, made the initiation of financial stabilization possible, and on this basis, a trend toward the sharp decline of the rate of price increase has been achieved.

Moreover, on April 1, 1995, it became possible to considerably reduce the price of natural gas and electricity (35 percent and 25 percent, respectively), which became an important factor in price stabilization.

A decision was made to completely abolish "hidden" subsidies on bread, which will result in the collection of the equivalent of U.S. \$127 in coupons for 1 ton of wheat received as a grant. The complete liberalization of prices (tariffs) on bread, electric energy, and natural gas is planned for the end of this year on the basis of the reorganization (conversion to joint-stock companies) of state monopolistic structures. Then, the center of gravity of state price-formation policy will shift completely to the creation of the necessary macroenvironment for price stabilization. Thus, the liberal policy of price formation will remain unchanged even after the introduction of full-value currency, although certain aspects of the policy may be changed significantly in order to maximize its operating effectiveness and, especially, its results.

Wage policy

In 1990, as a reaction to inflation and price increases, the government promoted a policy of minimum-wage indexing. The people's earning standards are dropping sharply because the rate of minimum wage increase is sharply falling behind the rate of consumer price increase. According to statistics, the average wage was increased from 197.9 rubles in 1989 to 2,100,000 coupons in 1994, and while the minimum wage amounted to 35.4 percent of the average wage in 1989, it was only 19.4 percent in 1994. At the same time, the ratio of minimum wage to subsistence minimum was falling considerably—while the minimum wage was 34.5 percent of the subsistence minimum in August 1992, it was 1.2 percent at the end 1994.

In this period, the purposes of the resolution on indexing the population's wage incomes varied, due to changes in fiscal and monetary policies. Specifically, there was only one wage indexation in 1991 (the wage tariff increased by 85.7 percent). In the first year of price liberalization in 1992, wage indexing occurred 6 times; in 1993, 5 times; and in 1994, 2 times (January 15 and September 15). After the last wage indexation, minimum wages

were increased 20 times. At the same time pensions, grants, unemployment assistance, and family allowances were increased. On September 11, 1994, the minimum monthly wage in the territory of Georgia was 1 million coupons, excluding additional premiums and other incentives, which implies a sharp decline in real terms from 65.9 coupons in January 1991 to 13.1 coupons in December 1994 (using the retail price index as a deflator) (see Table 5). The average wage in the public sector also suffered a sharp decline in real terms. Employees of state budgetary organizations, whose wages according to the united tariff scale coefficient were less than 2.5 million coupons, were given increases to attain the level of 2.5 million coupons.

Important changes were noticeable in the population's income structure. According to a public poll of 1,300 families in May 1994, 51.2 percent of their primary sources of income came from the public sector and 48.8 percent from the private sector, 43.3 percent of the income paid from the public sector was as wages, 4.4 percent as pensions and grants, and 3.5 percent as various types of assistance given by the government and by social organizations.

Income gained from the private sector broke down as follows: 12.5 percent from business, 18.5 percent as wages received from the private sector, 11.5 percent as economic assistance, 2.3 percent from the sale of items, 0.7 percent from the rental of property, and 1.5 percent as help received from relatives. Of those questioned, 87.5 percent were receiving supplementary income: 23.6 percent from the public sector and 62.2 percent from the private sector.

The supplementary income received from the public sector consisted of wages, 8.6 percent; pensions and grants, 9.8 percent; and various assistance from the government and social organizations, 5.2 percent. Additional income earned from the private sector broke down as follows: business, 3.5 percent; economic assistance, 23.4 percent; sales of personal items, 9.3 percent; relatives, 11 percent; and the private sector, 9.3 percent. Taking all of the above into consideration, in May 1994, the average income for one member of an average family equaled \$11 per month.

Table 5

Minimum Monthly Wage and Pension, 1991–94(in coupons^a)

	Minimum monthly wage		Minimum monthly pension	
	nominal	real ^b	current prices	
			working pensioners ^c	nonworking pensioners
1991				
January	70	65.9	70	70
February	70	63.8	70	70
March	70	60	70	70
May	130	79.8	140	130
November	130	67.1	140	—
1992				
January	260	91.7	240	260
February	300	86.4	240	300
May	500	42.5	240	420
August	650	41.7	240	555
October	850	39.4	240	720
November	1,700	57.8	240	1,500
1993				
January	1,700	37.5	240	1,700
February	1,700	29.7	240	1,700
March	2,300	37.6	240	2,300
April	2,300	34.4	240	2,300
May	2,300	26.6	240	2,300
June	4,600	43.7	240	4,600
July	4,600	33.9	240	4,600
August	4,600	28.4	240	4,600
September	9,200	41.3	240	9,200
October	9,200	27.3	240	9,200
November	23,000	32.5	240	23,000
December	23,000	21.7	240	23,000
1994				
January	50,000	26.4	240	57,500
February	50,000	18.7	240	57,500
March	50,000	10.6	240	69,000
April	50,000	6.0	240	82,800
May	50,000	3.7	240	99,360
June	50,000	3.2	240	99,360
July	50,000	2.9	240	99,360
August	50,000	1.6	240	99,360
September	1,000,000	15.9	0	2,500,000
October	1,000,000	11.7	0	2,500,000
November	1,000,000	13.5	0	2,500,000
December	1,000,000	13.1	0	2,500,000

^aFor the years prior to 1993 the coupon/ruble exchange rate is assumed to be 1 : 1.^bNominal wage deflated by retail price index (December 1991 = 100)^cAs of September 15, 1994, pension for working pensioners was canceled.

At the same time it was decided that employees whose monthly income of 2.5 million coupons is earned in a principal labor place would not have to pay income tax.

Definite steps were made to improve the system of payments to the republic's workers. After indexing on September 5, 1994, an integrated rate schedule was introduced for workers in the budget sphere; the amount of the minimum wage, multiplied by the ratios established for various work categories, was based on this schedule. Beginning September 11, 1994, the amount of the minimum wage was increased to 1 million coupons. Due to the budget deficit, the twenty-two active rate categories were reduced, and the maximum ratio was set at a level of 5.5 (i.e., for government workers and state organs the maximum wage could not exceed the 5.5 times minimum wage rate, while for workers of the remaining budget organizations the maximum rate was 4.5 times). These proportions were also operative during the course of 1995.

In the first half of 1995, there were no fundamental changes in wage policy. According to Statement No. 74 of the Cabinet of Ministers, dated December 24, 1994, the minimum wage in the Republic of Georgia increased by 50 percent, and for January 1, 1995, it constituted 1,500,000 coupons. The employees of budget organizations, who had full-time standard wages of less than 3 million coupons a month, were given additional money to fill the minimum wages of 3 million coupons, whereas those employed in production plants and self-supporting enterprises could receive the same type of allowance from their own funds.

The patterns of wage policy developed differently in different spheres of the economy.

The regulation of the wage-remuneration system in budget, management, and executive organizations is carried out on the basis of an integral labor-remuneration net, which is based on calculating the minimum level of labor remuneration in the form of minimum wage and then determining the different level of labor remuneration with respect to minimum wage for employees of different posts (positions) with the help of special coefficients. In order to achieve financial stabilization, and taking the budget

restrictions into account, the upper limit of wage remuneration was determined at 5.5 times more than the minimum level, which resulted in the lowest level of labor remuneration for employees involved in the budget and executive spheres in comparison with other spheres of the national economy. There are no wage restrictions on the part of government for self-supporting production plants and organizations, including the public sector. As a result of this, the wages in some fields are ten times higher than the wages of those employed in the budget sphere; in the private sector and in the nonbudget sphere, government control over wages is restricted by supervising the minimum monthly and yearly rates. The specific weight of the given sector in the structure of the income and employment of the population has correspondingly increased.

The absence of unified procedures for regulating the system of labor remuneration preconditioned the differentiation of its levels, thus resulting in disproportions of wages for different categories of workers employed in different spheres of the national economy; this was reflected correspondingly in the population's standard of living and employment structure. The drain of qualified personnel from the budget sphere increased and included those who left the republic.

Existing draws in the labor remuneration system are still aggravated by the mechanism of determining the minimum wage, which is considerably distanced from the subsistence minimum. This is caused by a deficiency of the corresponding resources and by a legal vacuum. In order to improve the situation, the consumer basket was worked out and submitted to the Cabinet of Ministers for approval by June 1. It will be used to calculate the normative value of the minimum wage and other social allowances.

In order to deepen the differentiation in labor remuneration and to eradicate the existing distortions in the system of labor remuneration of employees in the budget sphere, definite measures are being taken to regulate the inter-rank range of the unified tariff net and to increase the level of wage remuneration for the same category of workers.

Measures taken in order to achieve coupon rate stability and

financial stabilization have resulted in tendencies of real wage remuneration to increase. Thus, the specific weight of the subsistence wage is also rising.

On January 1, 1995, in accordance with the rise in the minimum level of labor, the remuneration of pensions and allowances have also increased. A pension of less than 3 million coupons is supplemented by an extra (additional) payment of up to 3 million and this income is exempted from income tax.

At present, the minimum wage (pension) was U.S. \$2.30 per month. As a result of coupon stabilization, the price of the consumer basket changed, which has caused tendencies toward decreases since January (see Figure 3). By May 25, the consumer basket constituted 83.7 million coupons and the subsistence minimum (including only foodstuffs, municipal services, transport, articles of hygiene, and medicine) constituted 60.3 million coupons. A simple comparison of the figures shown above illustrates the fact that the population of the republic is still in a difficult situation. However, it is noteworthy that the process of worsening has stopped and definite signs of improvement are becoming apparent. Specifically, from January 1995 until April, the real income of the population expressed in Russian rubles increased (based on the 1990 minimum wage of 70 rubles) from 29.7 rubles in January to 39.5 rubles in April (see Table 6 and Figure 4).

In March of 1997, in Tbilisi, according to data obtained on the basis of a special survey, it appeared that the average income of one family totals the equivalent of U.S. \$36 per month. The research conducted showed that the private sector plays an increasing role in income formation. For example, half of those observed have some income from the private sector, 35 percent receive their main income from the public sector, and more than one-third receive income in foreign currency. Food expenses are still high and about half of all income is spent on food.

Beginning July 1, 1995, for budget-sector employees, wages pensions, and other allowances are planned to increase by 30 percent (on average). Furthermore, the wage remuneration of the highly qualified and highly ranked is planned to increase at a much more

Figure 3. Minimum Standard of Living and Minimum Wage (in coupons)

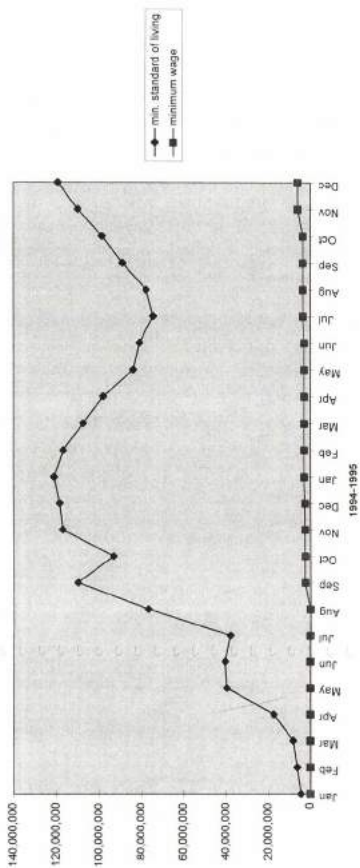


Table 6

Real Minimum Wage and Pension, 1995
(1990 = 100)

	1995		
	consumer price index	minimum wage	Minimum pension
January	10,103,325.9	29.7	29.7
February	10,107,367.3	29.7	29.7
March	7,580,525.5	39.6	39.6
April	7,596,444.6	39.5	39.5

Note: Real minimum wage is not estimated on the basis of the minimum wage rate approved by the state, which is 1.5 million coupons, but of the actual amount of the minimum wage that is paid, up to 3.0 million coupons.

rapid pace. Some changes will take place in pensions and other money allowances.

Social security and income transfers

In Georgia there was and is a fairly comprehensive social assistance system financed from the social security fund (see Tables 7 and 8).

Since September 11, 1994, pensioners of all categories, including pensioners of Military Internal Affairs, Intelligence, and similar services, received monthly pensions equal to 250 percent of the minimum wage (2.5 million coupons).

The assistance was given to:

- pensioners, those who were invalids from childhood;
- single mothers, 80 percent of minimum monthly wage (800,000 coupons) for each child.

Monthly unemployment assistance relative to minimum monthly wages was defined as follows:

- during the first two months of unemployment, 200 percent (2 million coupons); during the third and fourth months of unemployment, 150 percent (1.5 million coupons); and during the fifth and sixth months of unemployment, 100 percent (1 million coupons).

As of September 11, 1994, unemployed refugees received assis-

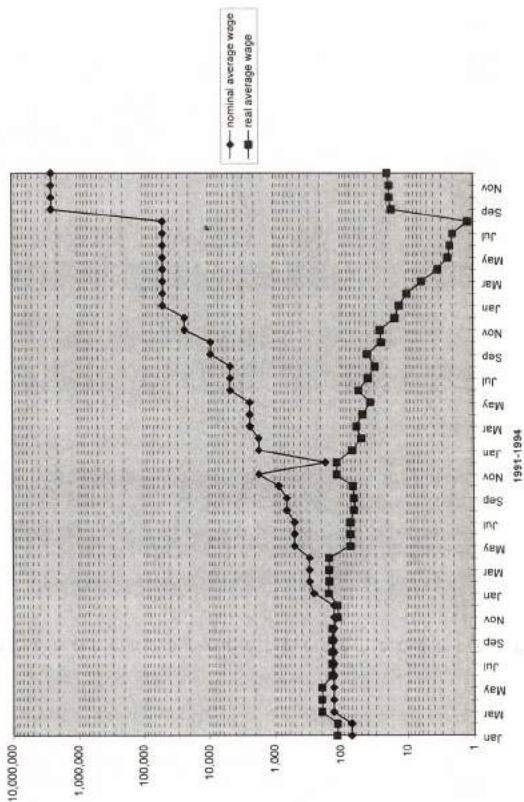


Figure 4. Nominal and Real Average Wage, 1991-94 (in rubles)

Table 7

Benefit Rates Paid from the Social Security Fund, 1993–94

Type of benefit and measurement	Benefit rate	1993	1994
Temporary disability (number of days paid)	80–100 percent of previous wage, depending on duration of disability	5,118,183.0	2,709,944.0
Maternity allowance (number of days paid)	100 percent of previous wage for a maximum of 105 days of maternity leave	3,873,399.0	2,095,937.0
Childbirth allowance (number of recipients)	100,000 coupons at time of birth	27,789.0	24,832.0
Child benefit (number of recipients)			
0–1.5 years	50 percent of minimum wage per child	143,833.0	41,499.0
1.5–6 years	40 percent of minimum wage per child	473,187.0	158,048.0
Funeral allowance (number of recipients)	150,000 coupons per funeral	20,471.0	12,560.0
Bread compensation (in millions of coupons)	6,800 coupons per person per month provided to pensioners, children, and civil service employees	104,163.4	696.2
Payment to nonworking mothers (number of recipients)	30 percent of minimum wage	138,578.0	114,531.0
Pensions			
Working (number of recipients)	240 coupons per month	118,691.0	378,563.0
Nonworking (excluding defense and intelligence personnel) (number of recipients)	108,000 coupons per month	1,021,048.0	1,026,981.0

Source: Data provided by the Georgian authorities.

tance of 250 percent of the minimum wage (2.5 million coupons). Refugees who were under state support received assistance of one-third of the minimum wage (330,000 coupons).

Standard grants received as a percentage of the minimum wage included:

—students with honors, 90 percent (900,000 coupons);

Table 8

Accounts of the Social Security Fund [SSF], 1991–94
(in millions of coupons^a)

	1991	1992	1993	1994
Revenue	2,713.2	8,777.5	129,802.4	10,158,261.8
Payroll taxes	1,155.8	7,211.8	99,139.9	7,789,171.3
Employee contributions				
Receipts from voucher sales	40.0	247.6	4,357.1	427,954.0
Health resort fees	2.7	2.9	61.0	9,405.6
SSF revenue from local budgets	1,511.9	1,251.1	—	1,810,946.5
Other	2.8	64.1	26,244.4	120,784.4
Expenditures	2,713.2	8,777.5	129,802.4	10,158,261.8
General assistance	418.2	1,718.2	28,286.8	1,004,971.3
Temporary disability	76.8	250.7	3,247.1	263,690.8
Maternity allowance	39.3	136.8	1,475.9	78,080.0
Child benefit for poor families ^b	41.1	14.8	4.5	1.9
Childbirth allowance	13.1	38.2	358.6	2,226.1
Child benefit (0–1.5 years)	85.8	354.1	2,358.9	38,337.0
Child benefit (1.5–6 years)	161.7	920.0	7,074.2	145,251.7
Child benefit for maternity leave up to 3 years and child benefit (6–18)	—	1.2	13,603.8	476,569.5
Funeral allowance	0.4	2.4	163.8	814.3
Pensions	2,289.9	6,602.3	96,038.3	8,623,103.9
Working	227.9	426.5	572.1	1,815.2
Nonworking	2,062.0	6,175.8	95,466.2	8,621,288.7
Other	5.1	457.0	5,477.3	530,186.6
Surplus/deficit	0	0	0	0

Source: Data provided by the Georgian authorities.

^aIn rubles prior to 1993; converted into coupons at 1 : 1 rate.

^bThis benefit was abolished as of April 1, 1994.

- students evaluated as good, 75 percent (750,000 coupons);
- students evaluated as satisfactory, 60 percent (600,000 coupons).

Children below the age of 10 years living in cities received monthly assistance of 45 percent of the minimum wage (450,000 coupons); those living in other regions of the country, 30 percent (300,000 coupons). Assistance to mothers comes from social insur-

ance funds. If the mother is not working, the assistance is received by the father. If neither parent works, the assistance is given to branches of social security according to place of residence. From 1991 until September 15, 1994, bread compensation was provided to pensioners, children, and civil service employees. However, after September 15, 1994, many types of subsidies as well as bread compensation were canceled.

On January 1, 1995, the minimum wage and, correspondingly, pensions, assistance, and benefits were increased by 50 percent.

Adjustments to minimum wages have significantly lagged behind inflation over the past year and various nonwage "compensation" schemes appear to have been employed instead of supplemental wage increases.

At the same time, in the social security sphere Georgia faced two major problems. The first was endemic to its demographics: it has a large population of elderly persons who are on fixed retirement incomes. The second, which is of more immediate concern, arose in the aftermath of the recent civil war, when the social security system had to contend with the basic accommodations and food needs of some 300,000 refugees from Abkhazia and Samachablo (formerly Southern Ossetia).

As in other republics of the former Soviet Union, the social security system in Georgia arose out of the reforms initiated by the USSR in 1988-89. These reforms provided for the establishment of a number of state government administrated extrabudgetary accounts designed to meet a range of social objectives, including the delivery of benefits, primarily to the aged, but also to the disabled, to children, and to the unemployed. For the delivery of these benefits two major funds were created and based on compulsory contributions, namely, the Social Security Fund and the Unemployment Fund.

Since its incorporation into Georgian law in 1991, the Social Security Fund's structure and administration has changed little. It is state controlled and contributions are compulsory for the majority of the workforce. It is financed on the pay-as-you-go (PAYG) principle whereby pensions and benefits are paid out of current revenues from employer and employee contributions. Under the PAYG

system, the benefits paid to retirees come directly from the contributions of those who are currently working.

A range of different pension benefits and entitlements, most of which are related to prior earnings, are paid from the Social Security Fund. Entitlements in addition to basic pension payments include those for temporary disability, pregnancy and childbirth, child care (for children up to 6 years old), and funeral expenses. Other less-targeted expenditures are directed toward health resorts and sanatoria, children's health programs, and sports facilities.

To meet, at least partially, the basic needs of refugees, the authorities have reportedly created a register of all known refugees, with information on their whereabouts and family status. Most refugees have been housed in private homes or in state-run hotels at the expense of the government. Apart from having their accommodations provided, they also receive some cash benefits in the form of bread compensation payment.

Definite changes were carried out in the sphere of social aid. In January 1995, the pension rate of unemployed pensioners of all categories was determined to be 200 percent of the minimum wage of labor remuneration. Allowances for children up to 16 (in general educational school, up to 18) years of age (except for children receiving disability pensions) increased up to 50 percent. Single mothers are given a monthly allowance of 80 percent of the minimum wage remuneration for each child. Persons having the status of unemployed are given a monthly allowance with respect to minimum wage remuneration according to the following rates:

- during the first two months of unemployment, 200 percent;
- during the third and fourth months of unemployment, 150 percent;
- during the third and sixth months of unemployment, 100 percent.

All categories of refugees and displaced persons are given a monthly allowance of 200 percent of the minimum wage.

Beginning on January 1, 1995, holiday payments and disability (sick-leave) payments began to be carried out according to new rates of pay for different jobs.

During this period, in the course of providing pension allowances, two main problems were identified: (1) an increase in the number of pensioners, which was caused by the low pension age (at present the pension age for men is 60 years and for women, 55 years, and the ratio n of the number of pensioners to the total number of employed is 0 : 7); and (2) the absence of a pension-differentiation mechanism, which preconditioned a tendency toward the leveling of all pensions. The leveling principle was characteristic for the whole system of "social protection" of the republic, which was caused by the absence of income analysis and the corresponding differentiation mechanisms.

Beginning July 1, 1995, the rise of social payments and their differentiation is envisaged.

Active labor market policy

The promotion of the economic and social spheres into the market economy demanded radical changes in the traditional approach to the employment and unemployment problem. While the labor-market mechanism that was put into operation led to some positive phenomena, it mainly produced negative phenomena, such as a rapid increase of unemployment and problems of employment. The number of employed workers totaled about 1,930,000 in 1994, as compared to 2,700,000 in 1989 (see Table 9). During this period the share of the state sector in total employment decreased from 79.5 percent to 67.5 percent, and in the private sector it increased from 7.8 percent to 25.6 percent. While some of the decline in total employment is reflected in the large increase in unemployment over the past five to six years, much of it might reflect emigration; little information is available on emigration, although it is assumed to be substantial.

The registered unemployed increased from 17,300 at the end of 1991 to 28,600 in 1993, and to 72,900 in 1994. However, not all of those registered receive unemployment benefits: only those designated as having "unemployed status" qualify.

On October 25, 1991, Decree No. 312 was ratified; it contained very strict rules concerning unemployment benefits. This was the main reason that the number of people who have unemployed status

Table 9

Employment by Sector, 1989-94 (annual average, in thousands)

	1989	1990	1991	1992	1993	1994
Total employment	2,700.00	2,766.00	2,518.00	1,961.00	1,954	1,927.0
Material sector	1,861.00	1,919.00	1,731.00	1,361.00	1,345	1,343.5
Industry	537.10	559.80	497.30	354.60	1,350	328.0
Construction	265.90	280.60	226.40	135.40	126	125.0
Agriculture	655.50	695.00	666.10	639.80	635	650.0
Forestry	12.20	11.70	11.30	9.60	10	10.5
Transportation and communications	123.30	114.90	102.70	74.90	72	75.0
Trade and other services	266.50	257.30	227.00	146.70	152	155.0
Nonmaterial sector	839.30	844.00	787.30	600.40	609	583.5
Housing and municipal services	122.60	131.40	109.00	61.90	70	64.0
Science, research and development	72.90	73.20	63.20	42.10	40	33.0
Education, culture, and arts	301.40	310.00	290.10	239.30	237	230.5
Health, social security, and sports	189.30	183.80	186.10	159.40	154	141.5
Banking and financial institutions	11.60	11.80	12.00	11.80	12	13.0
Government	55.10	51.60	48.10	38.60	35	31.5
Other nonmaterial services	86.40	82.20	78.80	47.30	48	50.0

Source: Data provided by the Georgian authorities.

was low. In 1994, the number of people looking for work and registered with the employment service was 77,000. Of this number, 72,900 were unemployed. During the year, 2,100 people found work with the help of the employment service, and 26,980 had the status of unemployed.

The amount of the unemployment benefit is very small. According to statistics from September 11, 1994, to the end of December 1994, unemployment benefits were given over a period of six months. For the first two months—2 million cou-

Table 10

Accounts of the Unemployment Fund, 1992–94
(in millions of coupons)

	1992	1993	1994
Revenue (employers' contributions)	204.2	3,562.4	328,662.4
Expenditures	94.8	2,156.0	92,989.5
Assistance and compensation to unemployed	66.2	1,485.1	11,837.6
Administration	28.6	670.9	81,151.9
Job creation measures	0.0	0.0	0.0
Surplus/deficit	109.4	1,406.4	235,672.9

Source: Data provided by the Georgian authorities.

Note: The reason for such a sharp increase of surplus in 1994 is abolition of bread compensation to the unemployed and reduction in time of assistance from one year to six months.

pons; for the third and fourth months—1 million coupons.

Due to the serious socioeconomic and political situation in the republic, it is becoming impossible to put the government policy of employment into effect. In 1993, 18.8 percent of the revenue of the unemployment fund went for administrative expenditures and 41.7 percent went for unemployment benefits and compensations. Active social policy activities on creating new jobs did not get any financial support (see Table 10 and Figures 5 and 6).

The unemployment problem is felt with particular severity in the republic. While in 1991 the number of unemployed slightly exceeded 200,000, in 1994 their number reached 841,000. Due to the serious economic and political situation in 1990–94, an active labor market policy has not been carried out in Georgia. There was no program for creating jobs and there were no measures for retraining of personnel.

The situation in the employment sphere is extremely dramatic. Further exacerbation of unemployment is directly connected with both the suspension of a large number of enterprises and organizations (the complete or partial termination of their functioning) and

Figure 5. Employment by Sector, 1989-94 (in thousands; yearly average)

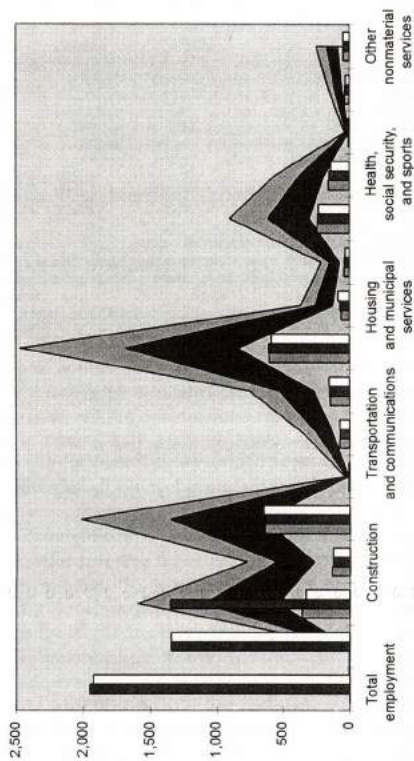
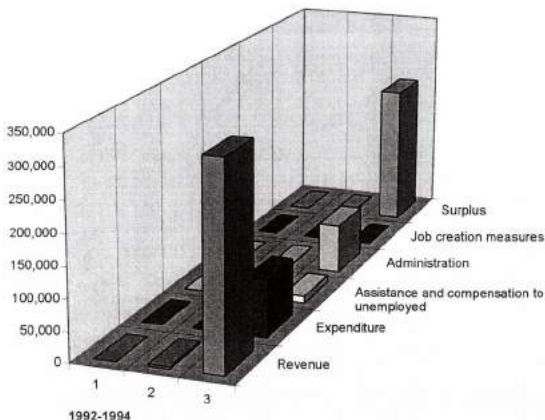


Figure 6. **Accounts of the Unemployment Fund** (in millions of coupons)



the carrying out of strict budget policy (that is, reducing the staff by 30 percent). According to the balance account, the number of unemployed amounts to more than 1 million. Thus, the insufficiency of the social-protection system for disengaged workers and the shortcomings of employment-service activities create an extremely unfavorable background for the solution of the most acute problem of unemployment in the republic. The elaboration of an "employment program" by the Ministry of Labor and Social Protection may be considered the first (but, of course, an insufficient) step toward improving the situation.

On April 1, 1995, only 54,000 job seekers were registered at the State Labor Exchange, out of which 51,000 (95 percent) were unemployed. Only 19 percent of the unemployed were given unemployed status. This status allows the unemployed to receive grants for 6 months. The official unemployment figure is 4 per-

cent. According to separate regions of the republic, the highest unemployment figure of 15 percent is recorded by the Kutaisi Labor Exchange. The above-mentioned data do not even approximately describe the real situation in the republic because according to balance calculations the number of real unemployed is more than a million. It may be explained by low efficiency and the inability of labor exchanges to secure employment, to organize retraining, to create new jobs, and thus to conduct an active social policy; it may also be due to the withdrawal of compensation for bread and the reduction of the period for unemployment assistance from 1 year to 6 months. It is enough to mention that as of April 1, 1995, only 1.7 percent of all registered unemployed were placed in jobs, that is, 918 persons. There is a shortage of vacancies in nearly all regions of the republic.

The majority of all registered vacancies at labor exchanges is in Tbilisi. For lack of vacancies in the republic, the migration of the active labor force (primarily of the most qualified specialists) has started. This is a serious problem for the republic and it will take several years to fill the gap in the future. Although this is the most serious problem, there is absolutely no statistical registration in the republic, to say nothing of directed state regulation. According to operational, unverified information obtained by the Ministry of the Economy, about 80,000 persons in forty-seven towns and regions are presently outside the republic in search of work.

Access to basic public services

In 1990–94, access to basic public services in Georgia dramatically declined.

Because of a dramatic increase in prices for communication services (water supply, gas, heating, and electricity) the majority of the population (especially pensioners and employees of budget organizations) is unable to pay for them. For example, the average monthly wage of employees of budget organizations is 3–3.5 million coupons, but the per capita monthly gas payment alone is 2.6 million coupons.

According to this, as a citizen buys his ration of bread, the average price of which is 200,000 coupons, he is unable to pay for communications services.

From the first standpoint, such a discrepancy actually reflects the real economic situation and is a temporary event. At the same time, such extremely strict income policies will be a guarantee for financial stabilization, and for strict fiscal and monetary policy implementation. On the other hand, it will provide a solid foundation for future wage increase, pensions, and other kinds of income.

The sociopolitical situation of the republic has had a negative influence on public services. The share of public utilities in the whole capacity of public services is about 17–19 percent, whereas this index was traditionally about 30 percent.

War in the republic caused the destruction of the entire system of health resorts situated on the Black Sea; sanitarium services decreased by 5 times, and tourism services by 7 times. Entertainment and sport services and their facilities did not operate at all. The level of cultural and sport services was 4 times lower in comparison to previous years.

At the current stage of the reform, education and health care are still considered as social service spheres that are provided by the government at least at the minimum necessary level. Besides, within the limits of common reform policy, significant changes are occurring in these spheres. For example, secondary education is still available for all, which cannot be said of preschool education. Most preschool institutions are incapable of functioning. At the same time, the network of paid children's institutions in the private sector is not available to the majority of people because of their high cost.

Some changes have been made in the field of education. State preschool (pre–primary education) institutions are functioning in the republic. Most of them are subordinated to the Ministry of Education, some of them to different organizations (at the offices and plants), and a very small number to public organizations. As a rule, they had been supported on the basis of the state budget (1989–91) through symbolic payments for care. It should also be noted that, during those times, because of some limits on state

Table 11

Access to Child Care and Education, 1989-94

Access to child care	1989	1990	1991	1992	1993	1994
Children (percents)						
ages 1-3	35.7	52.1	50.3	35.9	25.4	22.4
ages 3-5	58.9	60.4	56.9	44.8	35.5	27.1
Day-shift secondary (general education) schools (thousands of persons) total	863.6	860.7	835.5	810.1	727.3	704.0
Including:						
In pre-primary grades (1-4)	343.0	345.6	344.2	323.9	290.8	281.6
In grades 5-10	392.4	388.5	375.7	364.2	326.9	316.6
In grades 10-11	128.2	126.6	115.6	122.0	109.6	105.8
State high schools (thousands of persons) total	93.1	103.9	102.8	100.7	97.2	93.0
Including:						
Joining first year	17.4	14.1	14.1	12.8	12.0	11.0

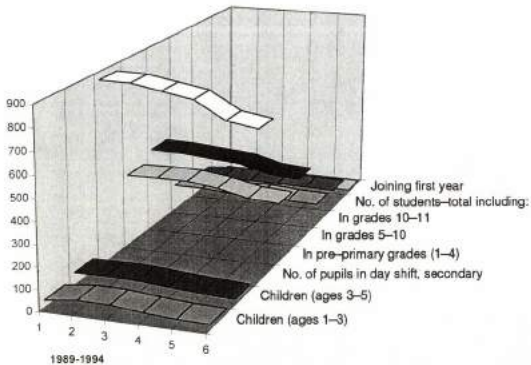
means, the demands of the population on preschool institutions were not met. Until 1989, an employed mother of a child 1 year of age was receiving full state pay; in 1989-90, the age of the child was changed to 1.5 years; and in 1991, the employed mother was given the right to receive full state pay for the care of a child up to 3 years of age. Because of the transitional period and the difficult political situation in our country, the standard of living also declined; the number of preschool institutions and especially the quantity of children in them decreased in previous years (see Table 11 and Figure 7).

It should be taken into consideration that the expense for each child at state preschool institutions was 35 rubles per month in 1984, and was increased up to 94,060 rubles (that is, 33 million coupons) by 1995.

Thus, the decline of access to child care in preschool educational systems may be explained by the circumstances described above.

In our republic, pre-primary education (grades 1-4) and sec-

Figure 7. Access to Child Care and Education



ondary education (grades 5–9) is accessible for each child aged 6–15 years on the basis of state financing. Complete secondary school (grades 10–11) is based on full state financing as well. Thus, complete secondary education is accessible for each youngster aged 16–17 years. Complete secondary education may be 80–85 percent, obtained basically at the secondary school (which provides general education) and also at specialized secondary and trade (vocational training) schools.

Under the difficult financial and economic situation and conditions in the republic, there is no possibility of providing complete state financing of secondary schools in the future. Hence, pupils aged 10–11 years will have to pay for their education in the immediate future. Until 1991, there were only state high schools with complete state financing in the republic. Therefore, according to the existing law, all school children could get a higher education. Moreover, they were given scholarships. It should be taken into consideration that the number of applicants entering high schools was

Table 12

Total Expenditures on Education from the Republic Budget, 1992-95

	1992 (millions of rubles)	1993 (millions of coupons)	1994 (millions of coupons)	1995 (millions of coupons)
Total expenditures on education	464	29,709	1,533,633	7,831,000
including Ministry of Education	275	23,971	988,722	5,222,662
Expenditures on wages and salaries	129	9,312	518,774	1,281,939
including Ministry of Education	71	6,975	316,598	780,000

determined beforehand and it was much less (by 4-4.5 times) than the number of pupils who left schools. Thus, they had to pass examinations to be enrolled in universities and institutes.

As mentioned above, according to the present law, primary, incomplete-secondary, and secondary education in the republic is available to children of different ages. The private sector in school education is being introduced in different forms. At present, fifty-eight private schools requiring payments of various types are functioning, among which are lyceums and gymnasiums. In state schools, some private classes are held.

Considering school education reform and the economic situation in the republic, it is obvious that in the very near future it will be impossible to provide secondary schools with proper government financing (see Table 12). A growing number of pupils in grades 10-11 (12) will gradually be transferred to institutions that require payment.

The private sector in the higher education sphere has been developing considerably and chaotically. Presently, except for the state higher educational institutions financed from the state budget, 226 private high schools (requiring payment) are functioning.

The present situation in the republic's system of health care is

quite dramatic. Hospital beds in medical institutions decreased by approximately 5 percent in 1994 compared to 1989, and capacity in that period increased by 21 percent. The capacity of out-patient and polyclinic institutions decreased by 5 percent. Medical posts (positions) have increased by 14 percent, but the employment of medical staff is a problem. There is a great deficit of medical personnel in most regions of the republic, while, at the same time, there are 6,000 unemployed doctors in Tbilisi (Table 13 and Figure 8).

Since 1993, key changes have been made in regulating the financing of health care, which had been subsidized from the state budget. In 1994, the number of hospital beds in clinics under budget financing was 21 percent of the total number, while only 15 percent of medical personnel was employed. The capacity of budget-financed out-patient and clinical institutions was reduced to 6 percent, a considerable decrease. These changes in the level of medical service to the population are also caused by a deficit of medicine, medical, and diagnostic equipment in out-patient, polyclinic, and medical institutions.

With regard to the availability of health care, the situation is dramatic. Table 14 shows that during three months of the current year [1995] as compared with the same period of the preceding year, the number of hospital beds decreased by about 14 percent, as did the capacity of one hospital bed.

The rate of decline in the number of physicians is very high. An acute shortage of medicine and medical equipment for diagnostic purposes is being experienced.

In connection with the transition to a new system of financing of health care and the difficulties in the functioning of medical institutions, high prices do not give the republic's population the opportunity to pay proper attention to their health. People seek the advice of medical institutions only in extreme situations, and some of the population cannot afford even this because of high prices.

In July 1995, the reorganization of the health-care system in the republic will begin (the first stage). With this intention, the

Table 13

Access to Health Care, 1989-94

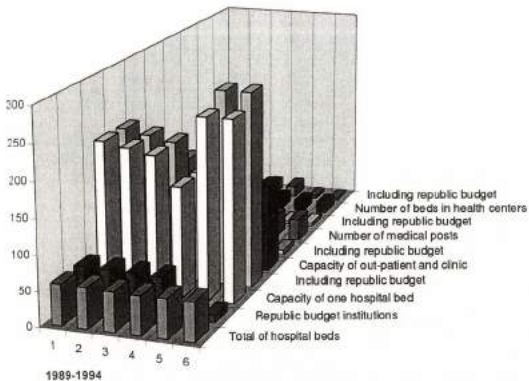
	Unit of measure	Years					
		1989	1990	1991	1992	1993	1994
Total hospital beds	Thousands	58.61	58.03	56.67	55.56	56.03	55.91
Including republic budget institutions		58.61	58.03	56.67	55.56	11.70	11.70
Capacity of one hospital bed	Bed/day	215.00	208.00	201.00	160.00	260.00	260.00
Including republic budget institutions		215.00	208.00	201.00	160.00	280.00	280.00
Capacity of out-patient and clinic institutions	Thousands of patients/workshift/day	133.16	135.10	127.70	126.30	126.90	127.30
Including republic budget institutions		133.16	135.10	127.70	126.30	7.50	7.50
Number of medical posts (positions)	Thousands of employees	28.20	30.11	33.00	32.20	32.35	32.29
Including republic budget institutions		28.20	30.11	33.00	32.20	4.00	4.90
Number of beds in health centers (sanatoria) with maximum capacity per month	Thousands of beds	18.20	17.15	17.21	16.97	16.97	16.79
Including republic budget institutions		18.10	17.15	17.21	16.97	4.00	4.00

concept and a new complex program of economic reform have been worked out along with new regulation of health-care system financing, regulation of the state health-care fund, and regulations on receiving medical assistance.

Some variants of state education are being dismissed. The law on education is being prepared. Regulations on medical institutions, the granting of licenses, and the obtaining of accreditation by medical institutions have been elaborated. There are about twenty regulations, statutes, and programs.

In the first stage of the reform, the medical institutions will change over to a self-support system, which will necessitate changing the rules of the financing system. This will be accomplished, according to the quality, volume, and importance

Figure 8. Access to Health Care



of the work being performed, by the main sources: the republic budget, the local budget, and payments from patients. The core sources will be realized with the help of a newly introduced tax system in the state health-care fund from which the work performed in medical institutions will be financed. In the second stage (second half of 1996) of the reorganization, the two-step financing system of medical insurance will totally embrace the population of the republic. The first step is compulsory state medical insurance, which will provide the population with the minimum of medical aid. Above this, there will be voluntary medical insurance, which will provide specialized medical care.

A regional center of health management that is responsible for coordination of the entire reorganization process will be established.

The people's protection policy in force in most situations is based on generally accepted principles, but its practical realiza-

Table 14

**Key Indicators of the System of Health Care,
1994-95**

N		Unit of measure	1994	1995 (three months)
1	Total number of hospital beds	Thousands of beds	53.0	46.3
2	Capacity of one hospital bed	Bed/day	260.0	224.0
3	Capacity of out-patient and clinic institutions	Thousands of patients/work- shift/day	127.3	125.8
4	Number of medical posts	Thousands of employees	32.3	21.7
5	Death rate	Per capita	9.4	10.1
6	Child death rate	Thousands of newborn children	15.7	18.3
7	Total expenditures on health care from the republic budget	Billion coupons	1,695.1	3,911.6

tion is greatly limited because of insufficient state resources.

At the present time, the social protection of refugees and displaced persons is a painful social and economic problem. For this purpose the budget of 1995 envisages the allotment of 17 trillion coupons to provide at least a minimum living standard. In particular, in March, 99,000 refugees and displaced persons out of 287,000, that is, 35 percent of all displaced persons, were placed in special centers (hotels, health resorts, etc.) and in private houses. There is ongoing work to determine the exact number and social structure of these people for the purposeful utilization of state resources and various types of help. Generally, for the coordination of this process, it is necessary to make efforts to discourage trends toward migration by displaced persons to big cities in order to eliminate additional problems.

In addition to being provided with living accommodations free of

charge (at government expense), each displaced person receives money grants from the government equal to the minimum wage (1.5 million + 1.5 million = 3 million coupons). Those living in special centers receive free rations of bread and receive, in addition to their pensions, 3 million coupons monthly. Refugees enjoy privileges of the use of public electricity and transport.

In addition to the sums mentioned above, in the budget for the current year, 1.3 trillion coupons were allotted for reconstruction projects and state centralized capital investments in Samachablo. In 1994, 0.22 trillion coupons were spent on different projects. The same projects will begin in Abkhazeti after the necessary prerequisites have been set up.

Humanitarian aid is the main element of social protection of refugees and displaced persons. The government always tries to obtain such aid and use it properly. At present there are forty-three private, Georgian nongovernmental and international organizations providing humanitarian aid. Their programs envisage aid not only for refugees but also for their host families. Humanitarian aid programs include the provision of foodstuffs, goods, and medical services. In February of the current year, of total foodstuffs distributed in the republic, displaced persons received 36.08 percent (964,930 kilograms) of foodstuffs, and in March, 50.34 percent (1,635,039 kilograms).

For the purposeful management of humanitarian aid, a special coordinating group has been established in the Cabinet of Ministers.

An important problem is the eradication of the consequences of the 1991 earthquake in the Zemo Imereti and Racha-Lechkhumi regions, where nearly 200,000 people were left without roofs over their heads. At present, 45 percent of the reconstruction projects have been fulfilled by the government and by the population of the republic. It has already been two years since the government has had the means to continue the work. To solve this problem, it was decided to fulfill reconstruction projects on private houses based on low interest credits for twenty-five years.

Policy assessment: successes and failures

Expected versus observed policy impact (in terms of both improvements and deterioration) on income distribution, poverty, social welfare, and specific indicators of health, education, child-care coverage and access. Social groups that have gained or lost (or are expected to gain or lose) from the reforms already introduced or under way. Group most affected

The economic crisis has created difficult social problems. The incomes of the population have declined dramatically. Devaluation of the coupon has worsened the situation of the less-provided-for class of the population. Because of the existing situation in the distribution of the population's income, the majority of the republic's population has found itself below the poverty level.

Especially evident is the tendency of deepening social differentiation. Less-provided-for groups—retired people; invalids; students; people who are unable to work; single people; and young, large families—are in very poor condition. There are also groups with a special propensity toward poverty that have fixed incomes: employees of budget organizations; employees of the systems of education, culture, art, and child care; engineers; teachers; and professors of scientific institutions and educational organizations. The number of emigrants is increasing.

Along with the deepening of social and property differences and the worsening of the property status of low-earning groups of the population, there have appeared groups of higher-earning people, which constitute a very small part of the population.

The living standard of the population is especially influenced by the constant rise of prices on consumer goods and services. The rates of salary increases are far behind the rates of increases in consumer prices. Under these conditions, only the well-provided-for part of the population has maintained its consumption level. On the other hand, the consumption level of the families

with low income has been reduced and part of the population is actually starving. The per capita consumption of butter, milk, cheese, eggs, sugar, meat, and other necessary products has been reduced. There are other problems that will cause additional social difficulties in the future. The distribution of economic responsibilities and rights between the state and nonstate actors has resulted in a decrease in the state's role in the development of the shares of centralized income and consequently of social aid (health care, education, and housing). In conjunction with the broadening of the economic-financial independence of regions, enterprises, and organizations, the social problems of underdeveloped regions have been exacerbated. Consequently, further differentiation of the living standards and of the social development of the population in certain regions of the republic are to be expected.

Economic crisis and reorganization are strongly reflected in the conditions of the social infrastructure.

The situation in the system of education is complicated. In spite of the innovations introduced in this field in recent years, serious drawbacks and elements of chaos have not yet been overcome. This is caused by a lack of conception and legislation corresponding to modern requirements and by a reduction of budget sources for this field, as well as by restricted possibilities for the attraction of nonbudget means during the transition period to the market economy. Under these conditions, the transformation of this sphere to the market model is still under way: private structures in the sphere of preschool, secondary, and higher education are being developed; a modern conception of education is being worked out; and new types of state educational institutions are being created, such as colleges, gymnasiums, and lyceums.

Private, for-fee organizations are being successfully developed in the field of health care, with free medical service at the state's expense also being preserved, despite the fact that the state's capability in this field is quite restricted. This shortcoming cannot be put right by the private sector from the viewpoint of medical service.

The situation in the cultural sphere is also very poor. The number of libraries and clubs is decreasing. Many problems have

accumulated with regard to museums (the most urgent being the problem of their security); some theaters are in terrible condition; and due to a lack of funds the maintenance of historical and cultural monuments is poor. This condition has influenced the scientific-technological development of the republic. The decline of the production level had grave consequences on the attraction and implementation of scientific-technical innovations. Because of the suspension of enterprises, the accumulation of funds for financing scientific research and construction projects is impossible. The process of renovating the principal scientific funds has been stopped.

Despite trends toward increasing the population's real income, which were manifested at the beginning of 1995, the situation still remains difficult. The overwhelming majority of the population of Georgia is on the verge of poverty, which is expressed in the dramatic decline of the economy, the aggravation of the unemployment problem, and the population's outlays caused by the rate of price increases. According to data obtained from a special investigation of Tbilisi families conducted in August and November 1994 and 1996, the number of people who considered themselves poor declined from 80 to 65 percent.

Based on income, the population differentiation index is stable and high.

The inadequacy of income and overly high expenses are reflected in the problem of nonpayments. A great part of the population is unable to pay for municipal services, though the situation is partially improved.

The economic difficulties of prior years have especially affected the low-income population, pensioners, young and large families, single-parent families, and families with no breadwinners. As a result of political and economic changes, there has been an increase in the number of families with young people, unemployed, housewives, and certainly of displaced persons.

Poverty trends were different in towns and countries where conditioning was based primarily on the high specific weight of agriculture and the poor results of land reform in the republic. It

became evident and is expected in the future that the number of low-income families will increase to include budget organization workers employed in education, science, culture, and art.

Characterization of the factors that have caused discrepancies between planned and real results

The main reason today's Georgian economy is lagging behind is that it has developed and functioned for decades within the national economic complex of the USSR. It is true that, while functioning within this complex, it has reached a certain high level of industrialization. But, on the whole, the republic's economy has been too specialized and is therefore incapable of functioning as an autonomous organism.

With the collapse of the USSR, Georgia began emerging from its economic space without establishing any alternative economic bonds. And this is where the negative results of being a part of a single national economic complex appeared, such as:

- the lack of a self-regulating market relationship and of private property as a motivation for highly productive work;

- the structural distortion of the economy, which is expressed in the nonexistence of a unified domestic market and on this basis in the territorial, branch, and functional disintegration of the economy;

- practical isolation from the world economy and the international market (due to unilateral orientation toward the economy of former USSR republics) and, because of this, the nonexistence of alternative relations of production;

- the nonexistence of personal monetary-credit and financial systems and, consequently, a very restricted opportunity for the implementation of independent economic policy;

- the nonexistence of the infrastructure necessary for the development of the country's self-defense, security, and foreign relations, and the necessity of assigning funds for its creation.

Another considerable factor in the decline of Georgia's economy, and in particular of enterprise capacity, at unforeseen rates,

is the breakdown of traditional relations because of the collapse of the USSR, which caused the republic's economy to face a lack of fuel-energy resources and strategic raw materials. This caused the paralysis of the entire economy. On the other hand, the reestablishment of the above-mentioned relations was considerably hindered by the unjustified delay of Georgia's becoming a part of the CIS.

A specific role was played in the paralysis of the country's economy by price liberalization in Russia and in other CIS states, specifically, by a rapid increase of prices for energy and primary raw materials, which caused multiple increases in production expenditures. Moreover, despite the substantial rise of prices on produce manufactured by the republic's enterprises, it has appeared impossible to compensate the rise in price of energy and other raw material resources, which has caused a reduction of enterprises' profitability and at the same time a rapid increase in the funds from the state budget that are assigned for the social security of the population. The rise in price of domestic production has caused a second, no less substantial, negative result—because of the low competitiveness of domestically produced goods, it is impossible to sell them at high prices. This was followed by an acceleration of inflation rates and an anomalous increase in the republic's budget deficit and, consequently, by a considerable imbalance between income and expenditure.

The factors causing this imbalance may be conventionally divided into two main groups:

- noneconomic factors*; and
- economic factors*.

Concerning the noneconomic factors, it may be said that, as a result of the break-up of the socialist regime, and before the determination of the strategic direction of society's development in Georgia, a vacuum was created, which had a negative influence on a number of processes.

In the process of the break-up of old economic and political relations there appeared phenomena such as aggressive separatism, which was expressed in international wars and conflicts,

turning hundreds of thousands of people into refugees, and placing the country in an economic blockade.

Directly related to the above-mentioned factors, the following economic factors should be singled out: production at much higher rates in 1991-94 than had been foreseen; much higher rates of inflation compared to the forecast; a rapid aggravation of the foreign trade balance; the preservation of deliberately low prices on certain kinds of goods and services in the republic; a delay of institutional reforms; and so forth.

The inefficiency of budget arrangement laws and normative acts regulating budget processes also contributed to the deepening of financial imbalances. The deficiency of fiscal resources was related to the national structure of expenditure, as well as to the deliberate restriction of the income base. Payment mechanisms should be improved and control should be imposed over the expenditure of state funds.

Under the existing conditions, tax administration entities are incapable of controlling all the manufacturers, and that is why a considerable part of income is hidden. As a consequence of the noneconomic factors and because of restricted production space, a drain of manufacturers and capital from the country is inevitable and this, in turn, will cause a decrease in production capacity together with payment amounts. Among the factors influencing the real results of budget is the cyclic character of enterprises connected with the power crisis. The instability and deficiency of the power supply and the decrease of the gas supply restrict the possibility of using existing production capacities, which influences the final real results.

With these factors in operation, resources such as foreign investments remain unused. The situation is further aggravated by a worsening of the criminal situation.

For 1993, and with special intensity for 1994, a number of activities of cardinal importance in the sphere of the transformation of state property were envisaged. These were expressed in:

1. *the regulation and restriction of economically unpromising production, which will make it possible for industrial entities to*

revive their capacities by raising the competitiveness of their products and by implementing effective marketing techniques (and without the aid of preferential state subsidies);

2. the insurance of step-by-step integration of viable enterprises into the market process by conducting a policy of temporary support for reconstruction and technical reequipment.

The reform of state enterprises should have been closely connected with the process of intensive privatization of state property—the forms, meaning, and rates of implementation of which should have constructed the basis for establishing the principal reform methods of state enterprises.

With this purpose, by the end of 1994, minor privatization should have been made in the trade and service spheres by selling small enterprises at auction or by competitions for the intensive sales of unfinished buildings that have exceeded their construction deadlines; preparatory activities should have been conducted for the privatization of large enterprises by redeveloping them into joint-stock companies and by selling the shares to the privatization enterprises' officials, including at auctions or competitions.

All of these factors would have created the basis for the establishment of new property relations by the end of 1994. This process was based on the following main principles:

1. For the purpose of securing the social interests of the population, every citizen would be able to obtain a certain share of the state property by using privatization vouchers.

2. Enterprise officials would be given a certain share of state property and would receive privileged pricing when purchasing state property.

3. Favorable conditions would be created for the participation of foreign investors in the process of privatization.

One part of these programs has been realized, but it is not enough to save the country's economy. Economic reform is characterized by a heterogeneous process and has to confront considerable problems. These are some of the socioeconomic factors inherited from the directive planned economy, and endless activities toward economic reform include political disorder, a very

complicated criminal situation, the clan distribution of the economy, mass demands for individual payment privileges, subsidies, and so on. Tendencies of this kind are characteristic not only of the state sector but also of the recently emerged private structures; this may be explained by the fact that those elements form the greatest share in market structures, which, under the conditions of the planned directive system, were involved in illegal business and still have connections with the corrupt bureaucracy in legislative and executive bodies and with the criminal sector. This causes the distortion of independent reform activities (secret privatization, preferential credit, income hiding, a large number of unregistered goods, the secret employment of state enterprises, etc.), which is the main saturation factor of the private consumer market.

This is the principal reason that the institution of bankruptcy has not yet been put into practice at enterprises, that antimonopolistic legislation is not working, that production audit activities and lease laws were adopted only by the end of 1994, and that many important legal acts—without which the regulation of market relations is impossible—have not yet been adopted. The implementation of institutional reform has been delayed. Governmental structures do not correspond to the demands of the market economy. Statistical evaluation and the expertise of the so-called shadow economy have not been organized. The acting primary accounting differs considerably from the unified accounting established abroad, which makes the establishment of a national accounting system more complicated. This does not enable us to enact and evaluate the indicated processes, production, services, and movement of financial means in the economy.

Later this year, the boundaries of financial stabilization will be successfully attained due to the planned results of economic policy. Specifically, the rate of the coupon is stable and the inflation rate is minimal (in the coupon segment). At the same time significant backwardness is felt in the development of nearly all spheres of production (in reducing the production decline and reviving the economy). Despite definite success in the budget of

the second quarter, there are certain difficulties in budget replenishment and the covering of the budget deficit. There are also significant difficulties in the social sphere. The severance of traditional economic and industrial ties is still considered the most important external factor in the discrepancy and its restoration or finding alternative ways is only partially achieved. In confirmation of this, it should be mentioned that government agreements in the economic sphere have been accomplished only with seven CIS countries and in many aspects, they are still not always fulfilled by one party or another.

A significant impediment to further economic development of the republic is also noted in the process of procrastination in the formation of a normal intergovernmental banking system with the CIS and other foreign countries. The absence of such relations hampers monetary-credit activity and prevents industrial development.

The blocking of railroad arteries in Abkhazeti and Chechnya, which are the main linking roads with Russia and other CIS countries, is a great hindrance to the acceleration of the process of the further development of industrial production that has already begun. And finally, the process of procrastination in settling the problem of Abkhazeti, which should also to a great extent be considered an external factor, greatly impedes the republic's economic revival.

The results of economic policy, especially in the social sphere of the republic, might be much better if not for the acute deficit (insufficiency) of money resources. The present situation of industry and the legal status of tax collecting greatly restricts the possibilities of the budget, which cannot properly finance even current expenses. At the same time, taking into consideration that real cooperation with international financial organizations began only at the end of last year, and despite the fact that this cooperation is rather successful, the deficiency of local resources in the republic has not yet been compensated for (covered) by the attraction of external financial resources. Recently, special work with the World Bank and the developed countries has begun in

order to revive the production sphere; the problem of elaboration of macroeconomic reformist policy and institutional inadequacy has matured: the latter means the fundamental reorganization of both government bodies and government structures—ministries, departments, and central and local bodies of state management. The entire spectrum of these managerial institutions should meet the requirements of the republic's free economic system and consolidate the market economy. Taking into account the social mentality of our society, this may be considered an extremely difficult problem to solve. The existing sectoral institutions of management (ministries, committees, and departments) must be reorganized in the near future. Even the executive personnel of the government must be reorganized so that its effective functioning does not depend on its interest in preserving sectoral institutions. At present, several projects on institutional reorganization have been submitted to the parliament of the republic. In our opinion, it is necessary to have the problem resolved by the end of 1995 so that the governmental and nongovernmental managerial institutions will fully meet the demands of the new social and economic system, which will help to consolidate the free market economy and its component parts and to adapt these institutions to a changed social environment.

At present, the transition of the country's economy to market principles is proceeding together with the setting up of institutions that are necessary for an independent country—it has only been a few years since Georgia regained independence. The entire sphere of economic activity was historically cut off from the world economy. More radical methods must be implemented to root out earlier market conceptions and remoteness from "culture."

The problem of reorganization carried out in the republic is connected not only with setting up market economy institutions from zero (on an empty place) but also with a complete change of the economic structure and priorities. Extremely difficult by themselves, these problems are redoubled by civil unrest, the complicated criminal situation, a socially unprotected population, poverty, and unemployment. All this definitively reduces support to the

government. However, some recent political and economic steps have been made toward correcting the criminal situation, restoring the territorial integrity of the country (settling ethnic problems), and resolving the monetary-credit situation, which have gradually improved the level of support to the government by the population.

Procedures and expenses taken by the government to protect the poor and disabled during the process of transition to the market economy

Protection of the poor and disabled is being carried out by the government within the social security system. The social security sphere provides services for over 2 million people. Among these were 1,405,544 pensioners in 1994, of whom 179,615 are disabled and most require social assistance and medical and social rehabilitation; 214,855 people received minimum pensions and are in need of additional financial assistance; 360 citizens live in homes for the elderly and the rest require various social services at home.

The critical political and economic situation has made the level of assistance worse for pensioners, invalids, single mothers with many children, single disabled citizens, and people living in homes for the elderly, despite the fact that the government attempts to assist them as much as possible. The following steps have been taken in order to provide the population's social security: maternity leave is paid at 100 percent; assistance for those under age 16 years is 45 percent of the minimum wage; there is a one-time allowance of 100,000 coupons for birth; and assistance for single mothers is 80 percent of the minimum wage.

There have been steps taken to improve the problems of feeding children as well as problems with other needed food products. A considerable part of budget expenditure was for subsidies on food products, transport, and certain public utilities.

Objective difficulties existing in the republic (such as no financial-technical base and the low level of specialists) have

made it difficult to distribute pensions and assistance on time, to provide medical and rehabilitation assistance, and to give social assistance to pensioners and the disabled.

Providing pensions is one of the principal problems and is due to the absence of laws concerning pensions. In addition, the number of unemployed pensioners grows daily, which requires more money.

There are problems with social services for the elderly and disabled; homes for the elderly and disabled are in very bad condition and technically poorly equipped. The number of cases of death and chronic illness in homes for the elderly has increased, and this is due to poor heating, inferior hygiene, and a lack of milk and meat products.

In order to improve the situation and to provide people with the subsistence minimum, Georgia is developing relations with aid organizations using humanitarian aid to assist the poor and those who are unable to work.

Within the limits of existing possibilities, defensive measures were taken to help the most unprotected. According to the Decree of the Head of State No. 49, of April 23, 1995, 750 billion coupons were allotted from the state social-insurance budget for a lump-sum payment to the most unprotected people. According to the above-mentioned decree, World War II invalids, widows of those fallen in battles, and those who receive pensions due to having lost a breadwinner were given material aid of 5 million coupons in April–May.

Socially unprotected employees of creative societies, the Academy of Sciences, and the State University were given 5 million coupons of lump-sum aid according to lists submitted by those institutions. The most unprotected citizens were each given 3 million coupons according to the resolution of the committee under the Ministry of Labor and Social Protection of the Republic of Georgia.

Special measures are being taken to help the socially unprotected of some categories. Specifically, on May 1, in connection with the fiftieth anniversary of the victory over fascism, pensions

were doubled for all categories of pensioners who participated in World War II. These pensioners were also rendered lump-sum aid in the amount of two pensions.

Teachers in general education schools will be rendered wage allowances from the local budget in the amount of 5 million coupons.

Some categories of citizens—displaced persons, war veterans, category I invalids, orphans, children deprived of parental care and supported by the government, and recipients of merit pensions—were given travel privileges on electric transport in Tbilisi. Financing for this is carried out at the expense of the corresponding department.

In the first quarter of 1995, there were about 300,000 unprotected individuals in forty-seven regions of the republic who were rendered additional aid in the form of food, medicine, and articles of primary necessity from local resources and donations. For this period, there were twenty-eight free centers functioning, assisted by town municipalities. At the beginning of 1995, out of eleven homes for the elderly, only three functioned, housing 360 people.

There is no doubt that measures for the social protection of the socially unprotected, the poor, and the disabled only partially meet the demands in this sphere. The partial success of the policies that were undertaken was preconditioned by the shortage of budget and real resources, the inadequacy of institutional and organizational methods, the absence of a differential system of social protection, and disorder in statistical records. All of this, together with other violations in the system, prevented the targeting of the above-mentioned measures and hampered the delivery of the aid.

*Concerning the advantages and disadvantages,
as well as the inefficiency of modern social policy*

The conducting of economic reform requires the formation of a social security system that corresponds to the changeable eco-

nomic, social, and political situation. This, in turn, requires the evaluation of the existing social policy and the determination of the main trends in its realization. Despite the existence of the legislative base and organizational structures necessary for the state regulation of the republic's social policy, it may be said that, so far, due to various reasons, the state has not been able to carry out the function of regulating social policy because of drawbacks that exist in the development of the above-mentioned system.

In particular, the main drawback of the republic's social policy is that economic foundations for conducting active social policy have not been created. The republic has oriented itself toward a passive social policy, which creates a heavy burden on the republic's economy and restricts its perspectives. Organizational structures regulating employment and unemployment cannot function effectively in the republic; employment laws, demands, and conditions connected with them are not observed; labor exchanges cannot carry out their functions: the overall registration of people in the workforce who are looking for jobs, of the unemployed, and of vacancies (according to quantitative, qualitative, territorial, and field characteristics); the offering of work to job seekers; the conducting of systematic state control over those employed through the exchange; the social security of the unemployed; and so forth. This is caused by outdated equipment at the labor exchanges and disorganized communication between the republic employment center and regional exchanges.

The efficiency of the organizational mechanism for the state regulation of the labor market requires organizing the signing of business contracts, working out and implementing public labor programs, specifying the forms of influence over businessmen and trade unions, and regulating working hours and pension age.

The efficiency of the economic mechanism of the state regulation of the labor market depends on the certification of the volume and direction of budget assignments, on the definition and running of the state production sphere, on the working out of payment privileges and monetary-crediting policy with the aim of encouraging business, and on the working out and implementa-

tion of republic programs for the employment of the less competitive population in the labor market.

Considerable drawbacks are characteristic of the process of the population's income regulation, which should be realized by means of guaranteeing the minimum amount of salaries and differentiating the salary standards of budget organization officials and the system of taxation. The conditions for regulation of the labor payment system on the basis of labor agreements are not yet ready.

Under the conditions of weakening the centralized monetary and credit policy, the regulation of the labor payment system in the self-financing sector by the payment mechanism cannot be achieved. The mechanism for calculating the amount of tax-free funds for labor payment has many drawbacks. This mechanism should be related to the rates of inflation and branch differences in labor payment. The taxation of funds beyond the norms assigned for labor payment on a progressive scale, and also the liquidation of the distortions that exist in labor payment—taking into account the level of the labor complication and the differences between the levels of qualification—have not been achieved.

In the sphere of income formation, the foundation of state policy should not be the necessity of its inflationary growth. The state should ensure the creation of minimum guarantees for the population's social security by establishing minimum payment. The definition of minimum payment should be based on the subsistence minimum. It is necessary to ratify the consumer basket and on its basis to identify the social norms, oriented toward the definition of minimum pay. In turn, minimum pay should be related to the size of all kinds of pensions, assistance, scholarships, and other social payments (according to a percentage relative to the minimum pay).

For the long term, the organization of the transition to a contract system and the improvement of the normative base in accordance with the privatization process may be considered the main orientation to regulate the income system, and for the short term, in accordance with a decrease in the number of people

employed in the budget sphere and the release of the corresponding fund required to correct the joint tariff net, to regulate the intersectoral range of the tariff net, and to improve the labor modification system in keeping with the complexity and the quality of the work performed.

The lack of necessary information (i.e., analysis) on income and poverty and the lack of proper orientations determine the absence of a differentiation mechanism for the family allowance system. An alternative method of overcoming the above-mentioned deficiencies in the realization of the republic's social policy system is, on the one hand, the decentralization of the social security system and the stimulation of the development of private funds, the voluntary insurance system, and different social forms of services, and, on the other hand, the alteration of the state policy to an active social policy and the purposeful orientation of the corresponding subsidies to create new jobs and a system of credits and grants for special purposes to stimulate measures for the training and retraining of specialists required by technological changes in production.

The usage of the compensation mechanism for the less secure part of the population is also not efficient, because it does not account for the differentiation of population according to income. Consequently, it is necessary to reconstruct the existing system of compensation and assistance by giving priority to the lowest-earning segments of the population, and to differentiate the amount of compensation according to different social groups. Important activities in this direction include: the changing of the price subsidies by individual income subsidies; the compensation of losses incurred by inflation; the spreading of indexation on the deposits of the least secure part of the population; the broadening of targeted assistance, the introduction of new kinds of assistance, and enlargement of the family-assistance system for the security of low-income families.

Thus, the creation of a differentiation mechanism for the social protection system may be considered a significant trend for the improvement of the social policy of the republic. This requires an improvement in the methodological principles for elaborating the

differentiation system of assistance and the determination of the real income of the population. The main aim of the transformation of the family allowance system should be its orientation toward decreasing the leveling principle, which must be expressed in a shift from the universal system of family allowance to targeted aid and must be provided by government welfare resources and guarantees, on the one hand, and by increasing the specific weight of local budgets in sources of financing, on the other. One of the main trends of work should be the stimulation and coordination of different programs necessary to organize the family allowance system and the intensification of social insurance principles in the system.

The changes should cover the system of maternity allowance, childbirth allowance, and child benefit. They should be accomplished not only by increasing the quantity of allowances within the limits of existing forms but also by introducing new forms of allowances and payments and by extending age differentiation.

The purposeful targeting of the family allowance should be provided by voluntary social insurance and, correspondingly, by a differentiated system of taxation, on the one hand, and by a differentiated system of distribution to the families with average and low incomes, thus providing a fair income redistribution principle, on the other.

One direction of social policy should be the decentralization of the system for the financing of social programs, support of the formation of private insurance organizations and companies, the linking of pension levels with the subsistence minimum, and the working out of differentiation mechanisms for various kinds of pensions (for invalids, social needs, etc.). Special attention should be paid to the regulation of migration processes and the social security of refugees. Active migration processes placed on the agenda an inquiry into conducting and regulating migration processes according to international standards. The financial sources of migrational activities must be broadened.

The principal trend in the republic's system for providing pensions should be the decentralization of the pension maintenance system.

At present the package of documentation on the pension-system reform is being discussed in the government, which implies the creation of an individual pension service system in the form of private pension funds together with the state pension maintenance system.

Within the proposed system, there are plans to decrease the employer's obligatory state pension payment rate from 37 percent to 33 percent and to increase the obligatory individual contribution of employees from 1 percent to 5 percent.

At the same time, when the period expires, there are plans to reorganize state trust organizations on the basis of duopoly and oligopoly competitions.

The demographic situation is also complicated, as demonstrated by a decrease in the population's natural growth, by the distortion of the population's age structure, and by the activation of the demographic aging process. The interests of the country's long-term socioeconomic development require the creation of normal conditions for the reproduction of the population.

Strengthening of the health of the young generation, an increase in life expectancy, and preservation of the population's health should be emphasized.

There should be an efficient mechanism of providing a social-demographic policy with resources and a shifting of the center to local sources.

In the depopulated regions, it is advisable to activate regional economic activities (credits, assistance, privileges, in-kind assistance, etc.).

One of the priority tasks of social-demographic policy is support for the strengthening of the economic independence of families with children, not so much by giving aid and compensations as by creating various motivational mechanisms to provide incentives for the growth of earnings. Special attention should be paid to creating favorable conditions for large and incomplete families in order to increase their entrepreneurial activities and to establish preferences for women's labor.

The policy of decreasing the death rate and increasing the

population's health care should be directed, first of all, toward measures to prevent mother and infant mortality, to decrease the death rate of the able-bodied male population, and to equalize medical service standards in urban and rural areas.

The deficiency in social policy noted above is caused by a set of correlated factors, the most noteworthy of which are: a lack of institutional changes, a lack of budget means, an inadequacy of economic policy, an absence of support on the part of the government and society, and, what is most important, an absence of the political environment for economic reform to be brought into effect.

Bringing Georgia out of its economic crisis should be fulfilled by achieving political stability, putting internal reserves to work, developing friendly relations with the civilized world, and broadening foreign economic relations.

The main theses of macroeconomic stabilization and the program of systematic changes are based on the above-described course. The recommendations of international organizations have been taken into consideration in these theses.

There have also been proposals from various groups of scientists and politicians, based on alternative views or methods of overcoming the crisis, on the republic's foreign-economic orientation, and on strategic thinking.

Economic reform should be carried out by controlling the circumstances for free market competition, creating market mechanisms, and regulating of the economy by the government.

Georgia's centuries-old history of existence, the traditions of development within the country, and its great aspirations toward self-understanding and independence, together with the brotherly assistance of the international community, are the guarantees for the success of economic reform.

Part 3

Children in Difficult Circumstances

Risks and Promises in Georgia

The effects of recent welfare trends and social policy reforms on children and families with children

Update on welfare changes during the transition

Overall trends and short-term welfare outlook

In the republic's economy, 1995 appears to have been the crucial year. In this year, financial stability was attained, and on its basis, hyperinflation as a main destructive factor in the country's economy was overcome and, in general, the inflation rate was reduced to an acceptable rate, a valid national currency was introduced as the single legal means of payment, and, importantly, the trend toward a further decrease in the production volumes was ended. Specifically, according to the preliminary calculations and estimations of experts of the Ministry of the Economy, in 1995, on a country-wide scale (considering the approximate results of unregistered activities), the cessation of the decrease in the production volume was established as demonstrated by the indicators of the main sectors of the national economy (industry, agriculture, cargo transport, capital construction, and trade), as well as by the most important economic parameters.

According to official statistics, in 1995 GDP produced in Georgia amounted to U.S. \$2,100 million (as assessed by experts of the International Monetary Fund and the Ministry of the Economy, this figure is 1.4–1.5 times more in real terms), which equals U.S. \$390 per capita. The GDP usage structure is very unsatisfactory. Specifically, final usage exceeds total GDP volume by 14.1 percent, which is being covered by net exports of U.S. \$320 million. Only 0.8 percent of GDP is used for accumulating fixed (main) capital stock.

The disastrous decline of the economy in the recent period (especially since 1991) definitely has had a negative influence on the population's living standards. Since 1991, the wages of budget-sector employees have been reduced by 80 percent in real terms. The comparative contribution of wages in maintaining the subsistence minimum was drastically reduced, and while, according to data of August 1, 1992, the minimum wage of the budget sector covered 34.5 percent of the subsistence minimum for an adult man of groups I and II labor intensity, by the end of 1994 the same data indicated 1.7 percent coverage. As a result of economic reforms that were implemented in 1995, a definite increase in the real wage, and, accordingly, in the indicators of living standards, was attained. However, it must be noted that wages in the budget sector (as well as in other sectors of the economy) still remain very low (according to the data of January 25, 1996, the minimum wage of budget-sector employees was covering 6.6 percent of the subsistence minimum, which was approximately a four-fold increase compared to the same indicator for 1995) and cannot even serve slightly to satisfy the population's vital physiological demands. According to data of February 19, 1996, the actual minimum wage of 6 laris (U.S. \$4.80) was enough to buy 14 kilograms of bread, or 7.5 kilograms of powdered sugar, or 1.5 kilograms of beef. The majority of the population was not able to pay its bills for electricity, gas, water, or other public utilities. Additional impediments are created by the energy crisis and the rationing of electricity during the winter period. Actually, the population does not have the possibility of central heating, and the use of commercial sources for alternative heating creates an additional expenditure and is actually

out of reach for the low-income population stratum.

Social allowances are very small in nominal and real terms. As statistical data confirm, the population often sells private property to meet major expenditures. The drastic decrease in state financing for the social sector and the absence of an adequate system of social security aggravates the general economic situation.

Against the background of more or less stabilized real incomes, a trend toward differentiation of the population based on incomes began. According to the results of a selected survey of 500 households in June 1995, and the households' self-assessment, the economic situation did not improve in the first half of 1995 for 92 percent of the households (did not change for 35 percent, and was exacerbated for 55 percent).

In the prices of January 1996 compared to October 1995 (when the lari was introduced as the national currency) the poverty line for a family of four persons increased from 131.5 laris (U.S. \$103.50) to 195 laris (U.S. \$156), or by 48 percent (see Table 15). The dollar surplus totaled 50.7 percent. According to the results of the same investigation, 20 percent of the urban population had income higher than the subsistence minimum. The average urban household's income equaled U.S. \$68 in early 1996.

The private sector is becoming an increasing source for economic activities and for the formation of the population's income (which for the most part remains unregistered). The incomes received from unofficial private sectors through the sale of private property, together with assistance from the support of close friends and relatives and intrafamily transfers, are the main possibilities for escaping poverty. Under these conditions, the number of poor increases daily. According to the data of the Ministry of Social Security, Labor, and Employment, by the end of 1995, 1,252,614 poor persons were registered. From this stratum there were 50,000 infants from 0–1 years of age, 524,629 from ages 1–16 years, 108,098 members of large families, 25,891 disabled since childhood, 80,722 of those who had lost breadwinners, 5,000 pregnant and 8,305 lactating women, 287,215 refugees, 3,059 veterans of internal conflicts, and 142 children in specialized cure clinics.

Table 15

Poverty Line for Families of Different Sizes, 1995
(U.S. dollars)

1995	Number of persons in family					
	one	two	three	four	five	six
January	43.99	70.33	79.12	87.91	109.89	140.66
February	39.57	63.32	71.23	79.15	98.93	126.63
March	61.76	98.82	111.17	123.52	154.41	197.64
April	53.54	85.65	96.35	107.07	133.84	171.31
May	58.80	94.08	105.84	117.60	147.00	188.16
June	48.51	77.62	87.32	97.02	121.28	155.23
July	50.41	78.07	90.74	100.82	126.02	161.31
August	52.40	83.83	94.31	104.79	130.99	167.67
September	52.08	83.34	93.75	104.17	130.21	166.67
October	51.73	82.83	93.15	103.54	129.37	165.67
November	49.12	78.56	88.40	98.16	112.72	157.12
December	66.06	105.76	118.96	132.24	165.28	211.52
January 1996	78.40	124.80	140.80	156.00	195.20	250.40

As a result of the gradual implementation of measures directed toward the rehabilitation of the country's economic situation, the process of macroeconomic stabilization and economic upheaval, which had started by the end of 1995, continued at the beginning of 1996. The main contributing factors to this are financial stabilization, the reduction of the inflation rate, and the maintenance of a steady rate of the national currency on this basis; the placing of criminal activities into a manageable framework and the sharp reduction of its activities; and the extension and perfection of the legislative basis for the economic reforms.

The most important result in the sphere of the realization of the economic reforms in the first half of 1996 was the ultimate liberalization of bread prices and the attainment of complete liberalization. The planned implementation of these measures, without any difficulties or undesirable economic results once again indicates the correctness of the economic reform path. It is also significant that, together with the liberalization of bread prices, the demopolization of the state bread corporation took place and a competitive environment was formed in this sphere, which actually

defined the increase of prices to the level secured by the per capita compensation that is issued.

Since the beginning of the year, there have been signs of the speeding up of the establishment of the financial market, which is indicated by the real interest rate for credit set in credit auctions of the National Bank.

Since the beginning of 1996, the National Bank of Georgia has made significant corrections in its exchange policy, namely, the shift from a fixed to a regulated floating exchange mechanism, which contributed to the floating of laris in a narrow corridor—1.24–1.262 per U.S. dollar. This made it possible to save the exchange reserves of the National Bank.

With the contribution of the steady rate of national currency, the rate of inflation was an average monthly 1.9 percent, which is less by 0.2–0.3 units than the planned indicator.

Since the beginning of the year, as a result of those indicated as well as other measures, the process of activation of entrepreneurship is noticeable. Specifically, the rate of growth of industrial outcome compared to the indicator for the first half of the year was 104 percent. Meanwhile it lags behind the forecast, due to a decrease in the production of bread products and comparatively low rates of production in the electric-energy sector. During this period the volume of agricultural production increased.

During the first six months of 1996, the volume of state centralized capital investments exceeded the indicator of the corresponding period the previous year by 1.7 times. During the given period, goods turnover increased by 1.3 times.

As a result of the above, the volume of gross domestic product increased during the period under analysis by 13.7 percent in comparison with the corresponding indicator of the current year.

Despite positive developments, important negative trends persist; for example, the level of utilization of industrial potential is still low.

As a result, in the six months under analysis, tax incomes to the budget were 113.4 million laris, or only 30 percent of the yearly plan.

The positive shifts have been revealed in indicators of the population's living standards against the background of the economic reforms being carried out in Georgia. As a result of changes implemented in pricing policy and incomes, the trend toward a decline in the population's living standards has been sustained and the stabilization of the population's real incomes has been achieved. The comparative share of minimum wage in the subsistence minimum is still increasing, albeit insignificantly. While by December 25, 1995, the minimum wage of budget-sphere employees made up 5 percent of the subsistence minimum, by June 1996, the minimum wage for an able-bodied man was 8.1 percent of the subsistence minimum, 9.3 percent for the average consumer, and 18.7 percent for the person from an average family. This was caused primarily by the noninflationary growth of wages, pensions, and other social benefits. Specifically, by July 1, 1995, the minimum wage was 3.5 million coupons (U.S. \$2.70), by the end of 1995, 6 laris (U.S. \$4.80) and by June 1, 1996, this indicator was 9 laris (U.S. \$7.20); the average monthly wage in the budget sector of the economy was 19 laris (U.S. \$15.20), in the state sector, 24.5 laris (U.S. \$19.60), in the nonbudget sector, 37 laris (U.S. \$29.60), and in the private sector the indicator varied from 60 laris (U.S. \$48) to 90 laris (U.S. \$72) (see Tables 16 and 17).

In the first half of 1996, pensions, assistance, and social benefits increased by 1.4 times per child under the age of 16 years, assistance per second child increased 2.5 times, and by June 1, 1996, totaled 3 laris (U.S. \$2.40) in rural areas and 5 laris (U.S. \$4) in urban areas. The assistance for refugees and internally displaced persons (IDPs) increased on average by 1.5 times. As a result of anti-inflationary and social protection measures implemented by the government, the liberalization of bread prices took place, and this was not followed by the aggravation of the population's living standards indicators (see Table 17).

The result of a recent observation of households (1995-96) outlined the tendency of an increase in the comparative shares of wages in the cumulative incomes of families. While, by 1994, the

Table 16

Wages, Pensions, and Assistance by the End of 1995

Minimum wage ^a	1.50 laris	U.S. \$1.20
Pensions		
For aged	6.00 laris	U.S. \$4.80
Veterans of World War II and widows of those killed in wars	9.00 laris	U.S. \$7.20
Invalids (of groups I, II, and III)	6.00 laris	U.S. \$4.80
Disabled members of families who have lost breadwinners	6.00 laris	U.S. \$4.80
Assistance		
Children ages 0–16 years ^b (in urban areas)	2.00 ^b laris/month	U.S. \$1.60/month
Children ages 0–16 years ^b (in rural areas)	1.00 laris/month	U.S. \$0.80/month
Single mothers ^c	2.00 laris/month	U.S. \$1.60/month
Internally displaced persons		
Living in private families	6.00 laris/month/person	U.S. \$4.80
Settled securely and receiving ration of bread	2.40 laris/month/person	U.S. \$1.92
Settled securely, not receiving ration of bread	6.00 laris/month/person	U.S. \$4.80
Registered unemployed persons		
First and second months	6.00 laris	U.S. \$4.80
Third and fourth months	4.00 laris	U.S. \$3.20
Fifth and sixth months	3.00 laris	U.S. \$2.40

^aThe minimum wage at 1.50 laris (U.S. \$1.20) is used to determine the amount of payments, bills, and enterprise penalties to the budget.

^bOnly per one child in two- and multichild families.

^cSingle mothers also received assistance in the form mentioned above.

Note: In all categories given in the table (employees of the budget sphere, pensioners, people classified as unemployed, and students), bread compensation of 1 lari value was issued from February 1, 1996, except for employees of the budget sphere. In the budget sphere the issue of bread compensation was carried out according to a specially elaborated schedule, namely, persons receiving the minimum wages received 1.50 laris and persons receiving maximum wage received 1 lari.

comparative share of wages in cumulative incomes of families was 17 percent, by the end of 1995 it was 21.4 percent on average. Despite the fact that it exceeds the relevant indicators for 1994 by 4.4 percent, it lags significantly (by approximately 31.4 percent) behind the level of the beginning of the 1990s.

Table 17

Wages, Pensions, and Assistance in the First Half of 1996

	February 1		June 1	
	laris	U.S. dollars	laris	U.S. dollars
Minimum wage ^a	6	4.8	9.0	7.2
Pensions				
For age	6	4.8	8.5	6.8
Veterans of World War II and widows of those killed in wars	9	7.2	11.5	9.2
Invalids (of groups I, II, and III)	6	4.8	8.5	6.8
Disabled members of families who have lost breadwinners	6	4.8	8.5	6.8
Assistance				
Children ages 0-16 years (in urban areas) ^b	4	3.2	5.0	4.0
Children ages 0-16 years in rural areas	2	1.6	3.0	2.4
Single mothers ^c	3	2.4	6.0	4.8
Internally displaced persons				
Living in private families	6	4.8	8.5	6.8
Registered unemployed persons				
First and second months	6	4.8	8.5	6.8
Third and fourth months	4	3.2	6.5	5.2
Fifth and sixth months	3	2.4	5.5	4.4

^aThe minimum wage at 1.5 laris (U.S. \$1.20) is to determine the amount of payment, bills, and enterprise penalties to the budget.

^bOnly per one child in two- and multichild families.

^cSingle mothers also received assistance in the form mentioned above.

The incomes derived in natural forms (mostly through agricultural activities) and the selling of assets still remain the significant sources of family incomes. Despite the changes occurring in the indicators of living standards, it is still impossible to overcome the disproportions that exist between the level of wages and the subsistence minimum.

The comparative share of spending on foodstuffs from the sub-

sistence minimum is still high (70 percent). The caloric value of vital products used by part of the population is significantly low compared to the so-called subsistence level set forth by the World Health Organization. The majority of the population is not able to purchase basic goods or cover the fees for public utilities.

Changes in income distribution and poverty

During the transition period profound changes have taken place in the population's income structure. Income in the form of wages from the public sector have decline in comparative and absolute terms. In 1989-95 the minimum wage decreased from 70 rubles (U.S. \$107.70) to 6 laris (U.S. \$4.80), and the average decreased from 197.7 rubles (U.S. \$304.40) to 15.7 laris (U.S. \$12.60). The amount of allowances decreased from 35 rubles (U.S. \$53.85) to 5 laris (U.S. \$4) in urban areas and to 3 laris in rural areas (see Table 17).

While in 1989 the main source of incomes was wages from the government sector, in February 1995, according to the results of a survey of 500 households, the wages received from the government sector made up 25.1 percent of income, and from the private sector, 5.8 percent. It is worth mentioning that, since the first half of 1995, a trend toward an increasing comparative share of wages was revealed (the same indicator in the population's income did not exceed 14 percent in 1994).

In the structure of the population's income, other alternative sources were characterized by increasing roles. Specifically, a large part of income came from private subsidiary farms, from private activities, from help rendered by friends and relatives, from selling and renting private property, from money lending, and from humanitarian aid. In the recent period, the factor of increasing incomes by selling agricultural produce was revealed. Moreover, a decrease in the comparative share of spending on food products in total expenditures is noticeable, as may be clearly seen in Table 18.

According to the results of the selective survey of 500 house-

Table 18

Distribution of Family Incomes Among 1,205 Families, as of February 1996

One-fifth shares (quantiles)	Absolute quantity	Percentage of total
First one-fifth (poorest)	3,452	1.0
Second one-fifth	15,877	4.6
Third one-fifth	33,826	9.8
Fourth one-fifth	65,927	19.1
Fifth one-fifth (richest)	226,084	65.5
Total	345,166	100.0

holds in Tbilisi, in June 1995 the wage received from primary employment was equivalent to U.S. \$5 and in two-thirds of cases it was equivalent to U.S. \$10. Only 5 percent had wages higher than U.S. \$50. Only 5 percent of the families had more than U.S. \$50 income from wages. Four percent of families had income higher than U.S. \$100 (the subsistence minimum for a four-person household). The average wage per employee is equivalent to U.S. \$10, the average income in the form of wages per family is equivalent to U.S. \$24.

Incomes arising from self-employment are several times more than the average wage, which indicates the significant role of self-employment. The average wage of one self-employed person is approximately U.S. \$58, and, at the end of June, the average income of one household in urban areas was equivalent to U.S. \$68.

Against the background of a very low level of average real incomes, the process of differentiation of the population based on the criteria of incomes is still being carried on. The results of a selective survey of 1,205 households, carried out in February 1996, showed that incomes are not distributed equally among them (see Table 18).

According to this investigation, differences between urban and rural households exist, based on the criteria of incomes. The majority of urban families depend on wages and incomes from private business—91.5 percent; the respective indicator for rural families is 80.3 percent. To the contrary, the great majority of rural families, as compared to urban families, depend on produce

that is harvested on their own land (91.7 percent), on state assistance (43.1 percent), and on the usage of old savings (20.8 percent), whereas for the urban families such indicators are 26.2 percent, 38.4 percent, and 18.1 percent, respectively.

By February 1996, the average monthly income was 286 laris, made up of wages, 33 percent; income from private business, 6 percent; assistance for disability and students, 8 percent; alimony, 1 percent; assistance to children, 1 percent; dividends and interest from investments, 2 percent; in-kind benefits for service, 5 percent; financial assistance from local relatives, 5 percent; financial assistance from nonlocal relatives, 4 percent; loans, 12 percent; and value of products harvested and used from land, 28 percent.

No principal source of income, which forms more than half of total income, exists for any families. The families depend on various sources of incomes. In general, the incomes of urban families are less than the incomes of rural families, 195 laris (U.S. \$156) and 417 laris (U.S. \$333.60), respectively. Such differences mainly emerge due to the fact that the majority of the rural families are represented by the nonmonetary value of foodstuffs that are produced and utilized by them.

The results of poverty analysis suggest the same conclusions. Despite their type and composition, more urban families than rural ones are below the poverty line. In urban areas, 71.5 percent of families, and in rural areas, 42.7 percent of families are below the official subsistence minimum in terms of monthly income.

Those who consider their nutritional conditions to be bad and unbearable, and their material situations extremely poor include: 84 percent of single pensioners, 80 percent of multichildren families and families with pregnant and lactating women (42 percent of such families are below the poverty line), and 89 percent of IDPs in urban, and 50 percent of IDPs in rural areas.

Regional and subregional differences in welfare

Nationwide research on the issue of the Georgian population's welfare, income distribution, and poverty problems has not been

carried out yet due to a lack of finances. Thus, we have an incomplete image of regional and subregional differences based on the information of experts of the Ministry of the Economy.

Information should have been received from the eleven regional-administrative units, but was received only from Samegrelo, Shida Kartli, Guria, and Poti.

In spite of the informational gap, the conclusion that welfare is low in all regions can still be derived. This is determined by the existing general political, economic, and social situations. In particular, the lag behind is more noticeable in the western part of Georgia than in the eastern region (except Tbilisi and Samachablo), because the previous economy was ruined to a greater extent due to the actions of separatist movements, civil war, and natural disasters.

The information derived from some districts of western Georgia illustrates the above. According to this data, the districts of Samegrelo face deep hardship. Specifically, by the end of 1995, the average monthly per capita income was 6.8 laris (U.S. \$5.44), which covers only 7 percent of the poverty line. The same situation was seen in other districts of Samegrelo, namely in Zugdidi, Chkhorotsku, Abasha, and Senaki.

The only exception was the ancient port of Poti, where, by the end of 1995, the average monthly per capita wage was 59 laris (\$47.20). However, it should be mentioned that in Poti, the higher income of the population was reflected in the general level of prices, which did not offer an opportunity to significantly improve the population's living conditions. (Meanwhile, in the other administrative-territorial units, the prices of products varied insignificantly from average republic prices.)

According to information from Shida Kartli, the average monthly income of the population employed in different sectors of the economy is 13–19 laris (U.S. \$10.40–15.20), which covers 7–14 percent of the consumer basket in the region.

As a result of the present difficult socioeconomic situation, the number of socially vulnerable persons in Georgia makes up a significant part of the population; for example, in the following

districts, the numbers of such persons are: Zugdidi, 5,665 persons; Tsalendzhikha, 5,780 persons; Senaki, 18,970 persons; Khobi, 3,768 persons; Abasha, 7,730 persons; and in Chkhorotsku, 5,261 persons.

The measures for the social protection of the population implemented by the central and local authorities are imperfect and they do not offer the possibility of improving the conditions of the most vulnerable groups of the population. As a results of restricted state and administrative-territorial budgets, the expenditures for the financing of such measures are insignificant and cannot influence any improvement in the conditions of socially vulnerable groups.

Despite this, the local authorities do their utmost to try to find additional funds to relieve the hardship of the most vulnerable parts of the population. From this standpoint, the measures implemented by the authorities of Shida Kartli, Poti, and Chkhorotsku may be commended.

In Poti, 125,000 laris (U.S. \$100,000) in assistance was issued to 376 families; 3,000 cubic meters of firewood were sold at favorable prices or were given free to 200 families; 12 tons of kerosene and 10 tons of coal were distributed free; and 52,000 laris (U.S. \$41,600) was paid for intratransport services (for employees of the education and medical spheres).

Despite difficult economic conditions, the authorities of the Chkhorotsku district managed to implement measures for the population's social security. Beginning its functioning in 1995, the social assistance center rendered help to 650 inhabitants in the amount of 45,000 laris (U.S. \$36,000), as well as assistance in the amount of 17,955 laris (U.S. \$14,364).

Expenditures on the same measures were 162,233 laris (U.S. \$129,786) and 838,000 laris (U.S. \$670,000) in the Gori and Khashuri districts, respectively.

A social-service canteen has been created in Shida Kartli, in the Khashuri district. Similarly, two centers for free meals (serving 250 persons) have been established in Kaspi and Kareli districts.

In Senaki district 620 single pensioners are exempt from pay-

ing any bills for public-utility services and are receiving free medical services.

For the sake of comparison, in Abasha district 3,500 laris (U.S. \$2,800) was released for the assistance of socially vulnerable persons; in Khobi district—5,700 laris (U.S. \$4,560); in Tsalendzhikha district—900 laris (U.S. \$720); and in Zugdidi district—4,500 laris (U.S. \$3,600).

In the sphere of social security, an especially difficult situation exists in Guria. In 1995, the population's incomes were 6,123,000 laris (U.S. \$1,898,400), including: Ozurgeti district—3,660,000 laris (U.S. \$2,928,000); Lanchkhuti district—1,600,000 laris (U.S. \$1,280,000); and Chokhatauri district—863,000 laris (U.S. \$690,400). The average monthly per capita income was: in Ozurgeti district—3.25 laris (U.S. \$2.60); in Lanchkhuti district—3.22 laris (U.S. \$2.57); and in Chokhatauri district 2.37 laris (U.S. \$1.90), which covers the poverty line only up to 3 percent.

From October 1995 to February 1996, the existing regional level of prices increased by 14.8 percent.

The situation is aggravated by the fact that only 1,200 laris was released from the local budget for social security measures, including: in Ozurgeti district—522 laris (U.S. \$417); in Lanchkhuti district—362 laris (U.S. \$289.60); and in Chokhatauri district—244 laris (U.S. \$195.20).

A total of 6,082 socially vulnerable persons were registered in the region, including: those disabled since childhood—311 persons; invalids of group I—768 persons; invalids of group II—3,137 persons; families who have lost breadwinners—1,482; children of single mothers—384; orphans—55 persons; and children of multichild families—2,150 persons.

The scanty information above clearly demonstrates the disastrous situation that has emerged in the country's regions in the sphere of the population's welfare and social security.

Sharp regional differences in poverty and income distribution are noted:

If we arrange the regions according to average monthly incomes, we see that the Kakheti region has the highest indicator

(624 laris, U.S. \$499), followed by Adjara (401 laris, U.S. \$320), Samegrelo (397 laris, U.S. \$317), Kvemo Kartli (231 laris, U.S. \$184.80), Tbilisi (214 laris, U.S. \$171.2), and Imereti (175 laris, U.S. \$140).

Tbilisi and Adjara are regions in which wages received from the state and private sectors, including incomes from private business, form the bulk of average monthly incomes of families (in Tbilisi—47 percent, and in Adjara—43 percent). A substantial part of these incomes include support from relatives, income from the sale of property, and bank loans.

The average family income in Shida Kartli and Imereti, in comparison with other regions, depends more heavily on state assistance (14 percent in each), but the nonmonetary value of harvested and utilized foodstuffs makes up a comparatively significant value in Guria (64 percent), in Kakheti (49 percent), and in Kvemo Kartli (45 percent). Loans make up a greater share in comparison with other regions—in Tbilisi (18 percent) and in Imereti (17 percent).

The comparative share of urban families who found themselves below the poverty line is highest in Samegrelo (83 percent), Shida Kartli (79.7 percent), Imereti (76.2 percent), Kvemo Kartli (71.0 percent), and Tbilisi (70.0 percent).

The lowest percentage of families living below the poverty line is in Kakheti, where this criterion is met by 57.6 percent of urban families and 32.6 percent of rural families.

The results of comparatively wide-scale investigations on social vulnerability carried out in Georgia provide a basis for the elaboration of measures for the social protection of low-income families and less supplied layers of the population. Thus, the changes implemented in the country's social policy may be characterized in the following ways: the shift from the individual unprotected to the family unprotected, the usage of traditionally unprotected groups for the identification of foodstuff deficits, and, accordingly, the categories of new unprotected groups suffering from food deficits. Work is being carried out to direct targeted food assistance and to improve food packaging. Research is being

directed toward the most vulnerable settlements, especially in urban areas, toward the activation of income accumulation and agricultural production. The importation of humanitarian assistance for the less-provided-for layers of the population and for poor families is being carried out, focusing on the provision of means of production.

The implementation of the above measures offers the possibility of targeted orientation of the social-protection system, and with it, assistance to families and children at risk should be seen and their material conditions should improve.

Risks and promises of the transition period for children in public care

Inherited conditions: foster-child networks and policies

Under the conditions of the country's development by socialist principles, one of the main areas of the social sphere—education—functioned completely at state expense and secured education for a major part of the population in preschool institutions and for almost an absolute majority in general educational school-type institutions. Most of these institutions were covered by the Ministry of Education of the republic. In the transition period this sphere underwent certain changes.

Under the auspices of the Ministry of Education, 6,000 organizations and institutions functioned: 1,534 preschool institutions with 102,100 pupils; 755 primary schools with 17,000 pupils; 689 nine-year schools with 81,200 pupils; and 1,715 secondary schools with approximately 601,700 pupils. More than 60,000 pupils have completed ninth grade and more than 29,000 adolescents have graduated from secondary schools. In addition, 54 general and special educational schools and boarding schools with 6,865 pupils, and 9 kindergartens with 725 pupils were functioning. In vocational-technical schools, 21,400 young people were studying. In 1995, 9,500 young persons graduated from these schools.

The issue of children's studying and upbringing was served by a quite broad network of out-of-school institutions (pioneer palaces, pioneer homes, sports schools, programs for young technicians, young naturalists, young tourists, etc.). More than 102,000 pupils were enrolled in 1,534 such institutions.

These institutions of the educational system were functioning at the expense of the state budget and were designed to maximally satisfy the population's demand for children's preschool institutions, to secure compulsory general education for all young people at the appropriate age, and to establish the conditions for the receiving of a complete general education.

Great attention was paid to the issue of the raising and education of orphans, children out of their parents' care, children from multichild and poor families, as well as physically and mentally handicapped children. Despite the critical economic situation, attention is still paid to these categories of children. This is confirmed by the network of children's homes and boarding schools functioning in the republic; however, recently the number of such facilities has been reduced due to the republic's critical economic situation.

Educational policy for the republic's children is carried out by the relative structural division of the Ministry of Education. It coordinates the functioning of the out-of-school institutions, the realization of measures for studying and upbringing; it oversees the legislative education of youth studies with other appropriate institutions, directs the struggle against felony among adolescents and carries out preventive measures, guides the activities of employees of the educational sphere, and develops and sends instructions and methodological recommendations on vital educational issues to the educational authorities.

The future of the transition to the market economy and the situation created in the sphere of education determined the necessity for educational reform (during recent years it has been developing spontaneously against the background of the absence of a modern, scientifically elaborated conception and a legislative basis). In 1995, the state program on educational reform was devel-

oped and adopted to overcome the events that had developed spontaneously. The structural reforms have started; new norms and a transitional process of territorial financing have been developed. A resolution on the privatization of educational institutions was adopted.

The sources of financing for vocational training schools and general special training institutions are: the budget for state spending, private and state enterprises, the employment fund, income from paid study, commercial services, commercial-study activities, and charities.

Nontypical educational institutions include kindergartens and boarding schools for orphans and abandoned children, where all conditions for their study, upbringing, and preparation for independent life exist. These types of institutions are fully funded by the government, as are the special educational institutions for physically and mentally handicapped children, specialized schools, and other schools. Out-of-school child-care and educational institutions function for children of all ages.

The educational system is directed on the basis of the law on education adopted by the Parliament of Georgia. Within its scope the competence of the central, municipal, and departmental institutions is defined based on democratic principles of management.

Permitted at every phase of education is the functioning of nongovernmental educational institutions, which may be financed from study that is paid as well as from other financial means.

For the successful implementation of the reforms a material-technical base is needed, which is currently in an extremely unsatisfactory condition. In recent years, the conditions of pupils in boarding schools and children's homes have worsened dramatically due to the republic's critical economic situation. The material-technical base does not satisfy even the minimum sanitary norms.

Political and socioeconomic events in Georgia greatly aggravated the situation in the sphere of education. It is true that the real trends of the transition to a market economy and the measures carried out in this field generated some positive shifts (systems

for the teaching process; the opening of new types of schools; the creation of alternative textbooks; the establishment of nongovernmental public schools, which contributes to competition; the usage of modern teaching methods, etc.); however, against the background of the pertinent legislative basis, the above positive shifts have been carried out in a chaotic manner. This condition prompted the inclusion in the agenda of the need for reform implementation. Three main spheres of the educational system, secondary schools, higher educational institutions, and continuing professional education are closely interrelated, and all are in need of special transformation.

Because the country has no relevant experience and the necessary means for reform are restricted, the proper definition of priorities and the formulation of an optimal strategy are necessary.

After the resolution of the government "On the State Program on Educational Reforms and the Plan for Its Realization," by the end of 1995, the first concrete measures were carried out in the field of reform implementation. The regulation on the privatization of the facilities of the educational sphere was adopted. A draft law on education is being considered. A working program was developed according to Decree of the President No. 162, dated February 11, 1996. Structural changes began, new norms were defined, and a schedule for territorial financing was worked out.

By the end of 1996, it is proposed:

1. to work out state standards for main, secondary, and elementary schools;
2. to create teaching programs and textbooks for twenty-one subjects;
3. to start the certification of teachers;
4. to transmit part of the professional-technical and out-of-school institutions to municipal financing;
5. to approve new technical-economic norms and to reduce the number of teachers by 10,000; to consolidate the small-scale teaching institutions;
6. to start the privatization of educational facilities, which

should be carried out in the current and following years and will establish the precondition for the full-fledged reform of this sphere by the 1998–99 academic year.

The substance of educational reform in the field of social reform consists of the following:

- a shift to twelve years of study in the secondary schools;
- a general-educational school formulated as follows: Basic educational phase (phase of elementary education—grades 1–4, and main educational phase—grades 5–9). Such schools are financed by the municipal budget. Secondary educational phase—grades 10–12. The goal of this phase is to prepare youth for higher education, for work, or for obtaining a specific profession. Studies in this phase are carried out in the following types of institutions: gymnasium, lyceum, professional institution, and college;
- the sources of financing of the professional institutions and general educational institutions are: public procurement, the budget, private and state enterprises, the employment fund, means received through fees for studying, the teaching enterprise, commercial activities, incomes derived from commercial services extended to the population, investments, and various charities;
- in each phase, the functioning of nonpublic institutions is possible; this financing comes from study fees as well as from other sources;
- management of the educational system is carried out on the basis of the law on education adopted by the Parliament of Georgia. Within its scope, the competences of the centralized, municipal, and departmental institutions are defined on the basis of principles of democratic management.

According to the decree of the president, beginning with the 1996–97 academic year, after public procurement in the public secondary schools, only 30 percent of tenth grade pupils are to be exempt from study fees. At the beginning of the academic year, the maximal class load will be defined in accordance with the arrangement of class-load norms and with the implementation of study fees directed toward increasing class loads. The minimum load of schools increased as well. Optimization of the teaching

load also took place in order to meet international standards.

For the successful implementation of the educational reforms in the near future:

- work for the legal and normative perfection of the educational system will be continued;
- decentralization of system's management will occur;
- certification-licensing of state and nonstate institutions and the certification and training of teachers will be carried out; the reduction in the number of teachers and the privatization of facilities in the field will be continued.

The implementation of educational reform is accompanied by serious problems (including social problems).

The number of measures is hampered due to the limitation or absence of relevant means, which is attested to by the significant number of dropouts and by the number of pupils who graduate from ninth grade and cannot continue their studies in the third phase due to the absence of financial means. This process will be intensified by the implementation of study fees beginning with the tenth grade. According to expert assessment, more than 30,000 young people under the age of 15 years will leave study institutions and enter the labor market. The employment and social protection of more than 40,000 teachers (especially in urban areas) by the end of the century will be accompanied by serious difficulties.

Recent trends in child abandonment, foster care, and institutionalization in Georgia

The category of children facing especially difficult situations had already emerged in Georgia when it was a republic of the Soviet Union. The care of these children was undertaken by the state, which established children's homes and boarding schools for orphans and abandoned children, for children of multichild families and single mothers, and for mentally and physically handicapped children. Thus, until 1991 the state regulated issues of social security for children and mothers and developed institutional measures

Table 19

**List of Children's Homes and Special Boarding
Schools Within the System of the Ministry of Education
as of January 1, 1996**

Institutions	Total number	Number of pupils	Age of pupils	Number of employees
Children's homes	9	723	7-17	385
Boarding schools for physically and mentally handicapped children	15	1,634	3-18	1,173
Sanatorium-type boarding schools	3	222	7-17	160
Boarding schools for orphans and children without parental care	3	440	3-17	178
Auxiliary, general, and music boarding schools	32	4,547	7-18	1,620
Special boarding schools	1	20	7-17	16
Total	63	7,586		3,512

for the above-mentioned children. The children's homes and boarding schools established for this purpose were funded by the budget, which allowed them to function normally.

The events that took place in the republic in 1991 complicated the maintenance of these institutions by budget means, which, in turn, caused their closing/liquidation. Specifically, while in 1992, 12 children's homes for 980 pupils were functioning in the republic, by the beginning of 1996 their number had decreased to 9 homes for 723 pupils. During this period the number of boarding houses for physically and mentally handicapped children decreased from 18 to 15, with a corresponding reduction in residents (from 2,800 to 1,634). Today, in the republic there are only 3 sanatorium-type boarding schools functioning for 222 children instead of 9 schools for 1,200 children (see Table 19). Thus, we have a significant decrease in the number of these institutions at a time when the demand for them is great against the background of extreme aggravation of the socioeconomic situation of a broad category of the population.

The educational system of Georgia is not coping with contemporary demands. It needs fundamental reconstruction and reorganization; perfection of its management system; and the implementation of new methods, including at those institutions serving children who are in especially difficult conditions. For this purpose in 1995 the state program on educational reform was developed and approved. Structural changes, the development of new norms, and the shift to territorial financing have taken place. Naturally, these changes affect children's homes and boarding schools. But the main issue considered by the program is that the state bears the expenses for the full maintenance of institutions of this category.

The management of these institutions is carried out on the basis of the law on education adopted by the Parliament of the republic. The law, which is based on the principles of demographic management, determines the competence of centralized, municipal, and departmental governance, apart from children's homes and boarding schools for orphans and children out of their parents' care. The functioning of nongovernmental institutions is allowed and will be financed by payments for studying and other sources of financing.

The events of recent years have made it difficult to maintain children's institutions at state expense, causing the closure of some of them and, in those institutions that are still functioning, aggravating the conditions of child care and upbringing. By the beginning of 1996 compared to 1992, the number of children's homes and boarding schools decreased by 3 units and the number of pupils decreased by 260 and 1,200, respectively.

As a result of the work carried out by the Ministry of Education and local authorities, the conditions in children's education and upbringing are gradually improving in these institutions. Measures for the improvement of the material-technical basis of these institutions is being carried out on an insufficient scale, but it is still being implemented. For the purpose of fulfilling Order of the Cabinet of Ministers No. 161, dated March 27, 1995, "On Measures for the Further Improvement of Studying, Upbringing, and Material Provision of Orphans and Unattended Children,"

important work was carried out in the children's homes of Tbilisi, Tskneti, and Kojori, and in the Telavi boarding school for orphans and unattended children. The Zugdidi general secondary boarding school was transformed into a district boarding school for orphans and unattended children, where 220 refugee pupils from Abkhazia in this category have been placed.

In 1995 the state program of educational reform was developed and adopted in Georgia, on the basis of which the structural changes have begun, new norms have been developed, and the transition to territorial financing has been made. The most notable issue of the reforms is that the government still bears the expenses of these types of institutions. Their management is carried out on the basis of democratic principles within the scope of the competence of centralized, municipal, and branch authorities. The positive aspect of the changes in the policy toward such an important sphere is that, apart from the state-based kindergartens and boarding schools for orphans and unattended children, the functioning of nonstate institutions is permitted, which will be financed by the study fees and other sources of financing.

Options for reforming institutions and improving care

Simultaneously with economic decline, the financial situation of the state has worsened dramatically. While in 1990–91 the republic was running a nondeficit budget, in 1992 the deficit was 16.7 percent of GDP, in 1994 it was 11.6 percent of GDP, and in 1995 it was 13.7 percent of GDP. Thus, while in 1990 budget revenue was 104 percent of expenditures, in 1994 the same indicator was 30.5 percent, and in 1995, 41.5 percent; total budget revenue in terms of GDP decreased from 37.9 percent in 1990 to 5 percent in 1994, and to 5.7 percent in 1995. In 1990–95 the total volume of budget revenue decreased in terms of GDP. In order to finance the budget deficit the government turned to external debt and central bank credits, which aggravated the financial situation and caused very high rates of inflation.

Against the background of the budget deficit, the government was forced to reduce the financing of important spheres of the national economy. Accordingly, financing was reduced to such important social areas as education and health care. For example, in 1991–94, the expenditure on education decreased from 23 percent to 6 percent, and in 1995, to 5.6 percent.

On July 1, 1995, due to the reforms, the budget financing of health care decreased to 2.1 percent.

Expenditures in the social sphere have also been reduced. In 1991, only 3 percent of the total budget was allocated for the purpose of the social sphere (in 1992 only an insignificant amount was allocated). Only in 1993–94 was an increase in support of the social sphere noted. Specifically, in 1993 and 1994, it was 12 percent and 11 percent, respectively. In 1995 it declined to 9.4 percent.

State allowances for children were also insignificant. The expenditure for children was 2.3 percent of the total budget expenditure. Clearly, the critical economic situation had a relevant influence on the state policy of child protection (see Table 20 and Figures 9 and 10).

Until 1990, according to Resolution No. 659 of the Council of Ministers of the USSR, dated August 12, 1970, a one-time allowance was rendered to mothers of more than one child, as well as monthly assistance for children up to age 12 years, starting with the fourth child, in the amount of 4 rubles per month; for the fifth and sixth children, 6 rubles; for the seventh and eighth children, 10 rubles; for the ninth and tenth children, 12 rubles; and for the eleventh child and above, 15 rubles. The one-time allowance was 65 rubles for the fourth child; 85 rubles for the fifth and sixth children; 100 rubles for the seventh child; 125 rubles for the eighth child; 175 rubles for the ninth and tenth children; and 250 rubles for the eleventh child and above. According to the same resolution, single mothers were given 5 rubles for the first child, 7 rubles for the second child, and 10 rubles for the third child.

The objective of Resolution No. 759 of the Council of Ministers of the USSR, dated August 2, 1990, was to improve the

Table 20

Assistance for Children, 1989-95

	1989	1990	1991	1992	1993	1994	1995
Assistance for childbirth	—	54,630.0 4,369.9	54,624.0 13,109.8	48,162.0 38,183.6	27,789 358,601	24,832 2,226,128	— 0
Assistance for care of children ages 0-1.5 years	—	—	156,237.0 85,820.9	155,810.0 345,130.0	143,833 2,358,868	41,419 38,336,987	— —
Assistance for children ages 0-6 years	—	—	380,105.0 161,679.0	380,120.0 920,020.0	373,187 7,074,153	158,048 1,45E + 08	— —
Assistance for children ages 0-16 years	—	—	—	—	—	—	554,122.00 6,116.00
Assistance to single mothers	13,723.0 1,152.7	13,778.0 1,604.0	16,000.0 14,360.0	18,100.0 77,754.0	20,810 1,257,900	15,121 36,290,040	13,200.00 221.76
Assistance to multichild mothers from the state budget	19,637.0 2,303,000.0	19,587.0 4,277,801.0	—	—	—	—	—
Assistance to multichild mothers from the local budget	—	7,120.0 71.2	7,510.0 75.1	—	—	—	—

Note: In 1989-92 as rubles; in 1993-94 as coupons; in 1995 as laris.

Figure 9. Distribution of Foodstuffs According to Categories of Population, 1995 (as percentage)

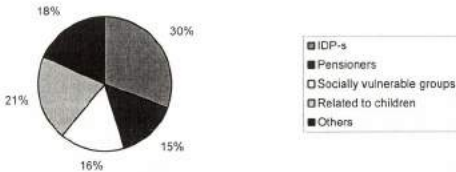
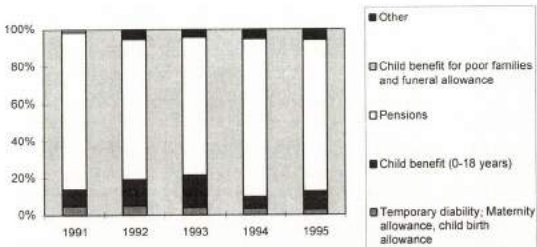


Figure 10. Benefits Paid from the Social Security Fund, 1991–95



material conditions of socially vulnerable groups, because, at the time, such assistance was only symbolic and in no way fulfilled the task at hand. With this resolution, a new issue emerged: the category of mothers of more than one child was abolished. Assistance was determined according to age. For every infant up to age 1.5 years, assistance was determined to be 50 percent of minimum wage, or 35 rubles; for a child age 1.5–6 years, 50 percent of minimum wage, or 35 rubles, provided the average income of each member of the family did not exceed 140 rubles, or twice as much as the minimum wage. Moreover, assistance of 12 rubles was determined for a child under age 16–18 years, provided that

the income per family member did not exceed 50 rubles. The same figure for single mothers was 20 rubles monthly.

The resolution was enacted on December 1, 1990, the same year in which it was adopted. As a result of this resolution, a one-time per family funeral allowance was implemented. In the first half-year the aid was 10 rubles, in the second half it was 20 rubles. Afterwards this amount increased to 100 rubles. By the second half of 1991, when the process of the deterioration of the Soviet Union was imminent and Georgia had obtained its independence, the regulation of family assistance affairs was already being resolved by the Government of Georgia, and Soviet resolutions were abolished. Georgia was plunging into the political and economic crises, which gradually aggravated the maintenance of the social security system. By 1991, monthly compensation for bread had already been implemented for children aged 6–13 years and constituted 240 rubles, and for children aged 13–18 years, 280 rubles. This form of assistance was implemented by Resolution No. 105, dated March 19, 1991. According to this resolution, all types of assistance were maintained and their amounts increased, specifically, monthly assistance of 110 rubles for children aged 0–1.5 years; 200 rubles for children aged 1.5–6 years; and 80 rubles for single mothers. In 1992 the list of assistance was the same, except for the addition of assistance for refugees. Due to ruble inflation, the amount of this assistance was changing. The criterion for assistance was based on the poverty level of the family. The situation was aggravated in April 1993 with the implementation of the coupon. The list remained unchanged, but unseen rates of inflation were nullifying government attempts to ease the conditions facing socially vulnerable groups of the population. Target assistance gradually disappeared and assistance was given to everybody, regardless of family income. In 1994, Resolutions No. 634 and No. 684 were adopted. Because of the difficult economic situation, Resolution No. 634 of the Cabinet of Ministers, dated September 5, 1994, abolished assistance for infants. Budget aid for children aged 16–18 was continued, except for pensioners disabled since childhood. (As-

sistance to children in the past two years has been through the central budget's unified state fund for social security and medical insurance. Assistance is given to single mothers through local budgets. If the funds are insufficient, they are replenished through the local social security unit.) According to Resolution No. 579 of the Cabinet of Ministers, dated August 20, 1994, assistance targeted to children under the age of 3 years was removed.

On September 11, 1994, as a result of Resolution No. 684 of the Cabinet of Ministers, dated September 11, 1994, assistance equal to 45 percent of the monthly minimum wage per child per job was paid to mothers (in the case of the mothers' unemployment, to fathers) of children under the age of 16 years living in urban areas. The same figure was 30 percent for those living in rural areas (assistance to children whose parents are unemployed is paid by the social security authorities). Despite a certain improvement seen in the country's economy, the budget of the republic is still running at a deficit and has no possibility of financing broad social programs, making it currently impossible to extend the system of social assistance.

As of November 1, 1992, according to Resolution No. 1032 of the Cabinet of Ministers, dated September 3, 1992, the plan for children's assistance was implemented. It constituted 20 percent of the minimum monthly wage (in 1992-94 this indicator changed with the implementation of indexing). Assistance for children of women on maternity leave was implemented.

According to Resolution No. 373 of the Cabinet of Ministers, dated June 21, 1995, as of July 1, 1995, assistance is paid only for the second child. (This list is active up to the present, 1996.) The amount of financial assistance per child living in urban areas was determined as 1.5 million coupons (U.S. \$1.28), and the same figure for rural areas was 1 million coupons (U.S. \$0.80). The monthly financial aid to single mothers per child was 1.5 million coupons (U.S. \$1.20).

As a result of Resolution No. 701 of the Cabinet of Ministers, dated November 1, 1995, social assistance is given to families with children under age 16 years, only from the sec-

ond child onward. Monthly assistance is 2 laris (U.S. \$1.60) per child in urban areas and 1 lari (U.S. \$0.80) per child in rural areas.

In accordance with the Convention on Children's Rights to Protection adopted by the United Nations and the "Plan for Children's Security, Protection, and Development" adopted in 1990, and in accordance with Resolution No. 838, dated December 2, 1994, the state program to improve conditions of women and children was founded, which encompasses a long-term plan for the security of children's prosperity and normal living conditions.

Pupils in boarding schools, children in kindergartens, orphans, and children out of their parents' care, whose material situations are miserable, are the objects of state supervision. Actually, the children do not receive standard food that is rich in calories, nor are they supplied with articles of hygiene, school articles, clothes, footwear, and so on.

In order to improve this situation, some measures have been taken in accordance with Resolution No. 161, dated March 5, 1995, on "Further Measures to Improve the Education, Upbringing, and Material Security of Orphans and Children Out of Their Parents' Care."

In addition to the above, financial assistance, as well as assistance in the form of natural products, was rendered through local budgets to the most vulnerable groups of the population. In 1990-95, at the expense of local budgets, aid was given to invalids of war and labor of groups I and II, to single heads of households and to multichild families, to families of those killed in war, to families that have lost their breadwinner, to less secure families, and to disabled children. Information on the number of beneficiaries and on the volume and types of aid received is shown in Table 21.

Despite the limitation of the country's financial resources, the 1996 state budget is socially oriented. Accordingly, a significant share of the budget goes for social expenses. Namely, according to the indicator of the approved 1996 year budget, 44.1 percent of total state budgetary expenditure is directed to the financing of the most important branches of social protection of the population

Table 21

Assistance Issued from the Local Budget, 1990-95

	1990		1991		1992		1993		1994		1995	
	persons	amount (rubles)	persons	amount (rubles)	persons	amount (rubles)	persons	amount (rubles)	persons	amount (rubles)	persons	amount (laris)
Category of Aid Recipient												
Single disabled	340	15,385	345	15,395	—	—	—	—	22,150	—	5,200	26,000
Group I invalid	5,620	56,210	5,635	56,500	—	—	—	—	27,225	—	—	—
Group II invalid	6,815	68,150	6,920	69,240	—	—	—	—	32,450	—	—	—
Multichild family	7,120	71,200	7,510	75,125	—	—	—	—	19,125	—	—	—
Children killed in wars	710	34,200	520	34,125	650	30,125	670	395,995	—	—	860	4,300
Disabled children	—	—	2,100	22,000	—	—	—	—	—	—	—	—
Single disabled war veterans	—	—	—	—	370	20,395	380	290,980	—	—	—	—
Disabled in labor accidents	—	—	—	—	760	35,200	795	498,095	—	—	1,890	5,670
Families provided with less assistance	—	—	—	—	—	—	—	—	4,260	—	—	—
Families with lost breadwinners	—	—	—	—	—	—	—	—	25,120	—	—	—
Total	20,605	245,145	23,030	272,385	1,780	85,720	1,845	1,185,070	130,330	0	7,950	35,970
Type of Aid												
Cultivated land	1,200	—	1,215	—	1,000	—	1,450	—	—	—	2,040	—
Apartment repairs	820	—	725	—	915	—	1,220	—	—	—	3,500	—

Notes: In 1995, additional assistance was received by 175,729 persons: clothing—1,500 persons; soap powder—2,200; wood—4,900; oil stove and 5 liters of oil—300; aid parcel of 20 kg—50,000; humanitarian aid in the form of food—22,836; rice, oil, flour, beans in five-month ration—61,863; and daily food—25,000. During the period from 1990 to 1994, 15,000 received humanitarian aid parcels of 20 kg and 795 received products equivalent to 498,095 rubles.

and the social sphere, including 30.9 percent on financing the measures of social protection: education—3.9 percent; health care—4.4 percent; 128.5 thousand laris directed toward measures of social protection of the population, including 9.3 percent directed toward children under the age of 16 years; 24.3 percent for refugees; 29.7 percent to the fulfillment of the pension fund; and 36.6 percent for other measures of social protection.

The limited financial resources of the country and of budget means placed on the agenda the issue of the need for health-care and educational system reorganization. Accordingly, on July 1, 1995, the bulk of the health-care system was placed outside the budget sphere and budget financing was maintained only on the twenty-six basic health service programs; in July–August 1996, significant steps were taken toward the implementation of the educational reforms. Within the scope of the program, the number of educational sphere employees was reduced by 10,000 persons, or by 6.1 percent. Parallel measures to increase the incentives of teachers were carried out. Through budget rationalization, measures were implemented for the social protection of the most vulnerable strata of the population, including mothers and children.

In the first half of the year, significant changes took place in the system of financing of social measures. According to the law on the 1996 state budget, the measures oriented toward the liberalization of the tax system were implemented. On January 1, 1996, the contribution of the employer (at independent enterprises and organizations) to the state consolidated fund for social security and medical insurance was reduced from 37 percent to 29 percent, and the volume of contribution to the state consolidated fund on employment, from 3 percent to 1 percent.

The changes affected the children's assistance system. According to Order No. 21-4-25-2/12 of the Ministries of Finance, Economy, Social Defense, Labor, and Employment, dated February 1, 1996, assistance to children (second) under the age of 16 years was set at 4 laris monthly in urban regions; 2 laris monthly in rural regions; and assistance to single mothers, 3 laris monthly.

According to Order No. 33/122/2-96 of the same ministries, assistance to children (second) of 0-16 years, was set at 5 laris (U.S. \$4) monthly in urban areas and at 3 laris (U.S. \$2.40) monthly in rural regions. On June 1, according to the same order, the volume of assistance to single mothers was set at 6 laris (U.S. \$4.80) monthly.

During the same period, the above measure was connected with an important phase of the economic reform, the liberalization of bread prices. Budgetary assistance was issued to subsidize the production of diabetic bread for children with diabetes. For this purpose 300,000 laris was issued from the state budget for subsidies to bread producers, which made possible the provision of diabetic bread to 11,641 children in the country.

The bulk of budgetary means are still directed toward the implementation of measures for the social protection of internally displaced persons. In the first half of the year, for the financial assistance of 268,420 refugees (including 87,504 children), 16,907,000 laris were issued to pay 7 laris monthly beginning February 1, 1996, and 8.5 laris monthly beginning June 1, 1996. Budgetary means are also directed toward the financing of homes for unattended children, rest homes, and children's reformatory institutions. Specifically, 65,000 laris was spent from the state budget in six months of 1996 for the upbringing and improvement of the conditions of 52 children living in the above institutions. Measures were implemented to identify children in especially difficult situations, to provide for their social protection and rehabilitation, to organize free transport, free attendance at cultural-recreational events, and free rest in local and foreign resorts for orphans and unattended children.

In six months of the current year assistance was issued in financial form from the local budget. During the past six months, simultaneous financial assistance was extended to 47,290 persons in the country. Accordingly, the volume of means issued in the form of assistance totaled 1,465,388 laris. Among the recipients were 10,250 members of multichild families (who received 225,412 laris) and 6,630 single mothers (338,130 laris).

In the first half of the year, 1,249,756 persons received food through humanitarian assistance in the country (23,092 tons of foodstuff), including children placed in children's institutions (1,118 tons); 27,996 multichild families (612 tons); 179,583 children under the age of 5 years (2,230 tons); and 34,856 pregnant and lactating women (580 tons). The percentage of humanitarian foodstuffs distributed among the less-provided-for strata of the population is depicted in Figure 11.

Children on the brink: the increasing demand for the protection of children

Possibilities and risks of family-based solutions, adoption, and foster parenting

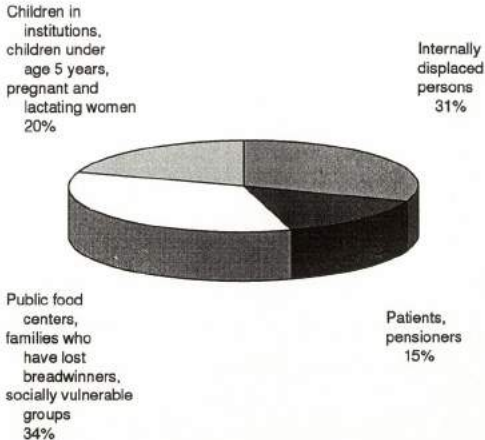
During the transition period, the deterioration of the political system and the difficulties associated with economic reform exposed the prosperity, health, and social security of country's population to new, unforeseen risk factors.

The majority of families found themselves in extremely critical situations. Accordingly, the number of children at risk has increased, while the possibilities for their protection have declined.

Simultaneously with the increasing poverty of families, the number of poor children has risen as well. According to the 1995 data, 55 percent of the total number of children was poor. The perpetuating factor of children's poverty was the diminishing role of the children's and family support system. The young and multichild families (with three or more children) in urban areas turned out to be in especially difficult situations. The majority of such families did not have enough financial means to purchase food. The majority of young families with children did not have sufficient funds to sustain the subsistence minimum.

This risk factor has increased even more due to the drastic decrease in family incomes and increase in unemployment (according to the results of the selected survey conducted in Tbilisi in July 1995, the unemployment level was approximately 20 per-

Figure 11. Distribution of Humanitarian Foodstuffs in the Strata of the Population That Are Less Provided For



cent and young people under the age of 30 years constituted 30 percent of registered unemployed persons).

The problem of providing apartments has been severely exacerbated, despite the fact that during the transitional period apartments have been privatized and the government has transferred them to the population basically free of charge. However, due to the circumstances, construction was practically halted and the majority of families found themselves without living quarters, hence the growing number of children living in inappropriate conditions.

Table 22

Payments for Public Utilities (November 1995; in laris)

Service	State payment	Unit of measure	Comments
Lease of buildings for privatized apartments	1.0000	Sq. m./month	1–20 sq.m.
	2.0000		21–30 sq.m.
	3.0000		31–40 sq.m.
Service	0.0025	Per capita/month Per capita/month 1 kWt	
Cold water	0.4000		
Hot water	1.1000		
Electricity	0.0250		
Phones	0.4000	Per family/month	Decoding by phone stations
	0.5000		Coordinating phone stations
	0.6000		Electronic phone stations
Radio	0.7000	Per capita/month	Size of payment is determined by route/km
Disposal of waste	0.05–0.10		

Additional difficulties were created by the reduction of state expenditure on the protection of clean water and the sewage system. Due to this, the levels of clean water supplies were reduced. Consequently, the number of areas experiencing epidemics is increasing. Rising payments for public utilities (see Table 22) and decreasing family incomes have deprived the majority of families of public utilities facilities. The reduction of state construction, on one hand, and the encouragement of private construction oriented toward the high-income stratum of the population, on the other hand, caused the apartments to become more expensive, thus placing a heavy burden on young, multichild families.

In particular, the situation of apartment construction for the victims of natural disasters and ethnic conflicts has worsened. Out of the total number of 109,042 damaged and destroyed houses, up to 1994, 31,252 houses were rebuilt and made available (including 28,665 damaged by the earthquake and 2,587 by other natural dis-

Table 23

Houses Destroyed and Damaged by National Hazards and Conflicts, 1995

	Total	Available in 1994	To be built
Total houses	109,042	31,252	77,790
Apartments	10,000	0	10,000
As a result of earthquakes, total	52,872	28,665	24,207
As a result of 1991 earthquake	49,872	28,665	21,207
As a result of 1992 earthquake	3,000	0	3,000
Other hazards	5,170	2,587	2,583
Adjara	1,913	433	1,480
Svaneti	2,659	1,912	747
Other regions	598	242	356
Military conflicts	51,000	0	51,000
Georgian-Ossetian	4,000	0	4,000
Georgian-Abkhazian, houses	36,100	0	36,100
Apartments	10,000	0	10,000
Samegrelo	10,000	0	10,000
Other regions	9,000	0	9,000

asters), 77,990 houses are to be built (including 28,665 houses destroyed by the earthquake and 2,583 destroyed by other natural disasters, and 51,000 houses destroyed due to military conflicts).

For the reconstruction of the above-mentioned destroyed and damaged houses, 1 million laris in budget expenditures are projected for 1996 (500,000 for Abkhazia and 500,000 for Samegrelo). This is undoubtedly a very small amount considering the extent of the demand (see Table 23).

The situation of providing food for children has worsened due to the reduction of agricultural production, the decrease in the rate of internal food production, and the restricted possibilities to import foodstuff.

By 1996, in the major categories of food products, only a small part of the demand was covered by internal production, including: cereals, 25 percent; eggs, 41 percent; powdered sugar, 1 percent; milk, 28 percent; vegetable oil, 0.3 percent; meat, 0.06 percent; and butter, 1.7 percent.

The drastic reduction of the rate of agricultural production and the extremely low level of wages and incomes resulted in the remarkable diminution of per capita consumption of agricultural products. The quantity as well as the quality of foodstuffs declined. For example, in 1993 as compared to 1989, the per capita consumption of meat and meat products declined from 41 kilograms to 16 kilograms (26.3 percent); milk and dairy products, from 322 liters to 120 liters (2.7-fold); eggs, from 144 units to 84 units (1.7-fold); sugar, from 21 kilograms to 9.2 kilograms (2.3-fold); and vegetables, 82 kilograms to 68 kilograms (1.2-fold).

While the consumption of fat and other products has declined, the consumption of bread and potatoes has remained more or less stable. Specifically, the per capita consumption of bread and maize products in 1993 declined by only 1 kilogram compared to 1989; potatoes, by 3 kilograms (in 1989 the consumption of bread products was determined as 187 kilograms; potatoes, 32 kilograms).

It is remarkable that there has been a significant reduction in the quantity of fat consumed by the population in food products. In 1993 as compared to 1989, the total consumption of fats decreased from 77 grams to 57 grams, and of animal fats, from 30 grams to 9 grams, which had an effect on the condition of children.

The problem of providing food for pregnant and lactating women has worsened, which is accordingly reflected in the condition of infants. In order to improve this situation, milk powder and baby food received from humanitarian aid (the amount of which is not sufficient) are being distributed for children aged 1–3 years based on region.

The transformation of health care into a fee-based system has had a negative impact on children growing up in families. The charges are very high and do not correspond to the population's incomes. Despite the fact that a state program for pregnancy and children's treatment is in effect, against the background of an inadequate social-protection system, it has its negative results.

Work is presently being carried out to identify the most vulnerable groups for whom medical services will be rendered free of charge or at a preferred rate.

Opportunities for children's education have diminished, which has been reflected in crises of the educational system. The transformation of preschool educational institutions into market-oriented ones and the drastic reduction of the financial system that was targeted toward general and higher educational schools have totally ruined the educational system.

Major risk factors for children were the civil war and ethnic conflicts, which were characteristic features of Georgia during the transitional period. As a result, the number of abandoned children has increased.

On the basis of current legislation, the issue of children's adoption is handled by municipal adoption agencies. According to the legislation, the main prerequisite for children's adoption is the existence of normal social conditions (the ministry could not find data for children's adoption on the territory of Georgia).

According to the resolution of municipal authorities, abandoned children or orphans who are not provided for in state orphanages (kindergartens, special schools), based on per child living place, are appointed a guardian or caretaker.

With regard to the issue of international adoption, this process began in Georgia in 1993, and up to the present time, over three years, as many as 120 children have been adopted. Issues of international adoption of children in the republic are carried out by the Ministry of Education.

It should be noted that the establishment of a structural division within the Ministry of Education, which will coordinate this issue on the whole territory of Georgia, is foreseen.

The health toll: infant and "paternal" mortality, child morbidity, and disability

During the period of socialism, free medical service was guaranteed by the Constitution and financed from the state budget. With the drastic reduction of budget means due to the severe economic crisis of the transition to a new economic system, the system of free medical service became impossible. Accordingly, the neces-

sity of health-care system reforms and alternative sources of its financing were identified. The health-care system reform started in 1995. Within its scope a unified state fund for health care was established. In order to supply financial resources to the fund, charges for health services were implemented, which were payable by the employer, as well as by individuals. The amount of the contribution was 3 percent of wage revenue for employers and 1 percent for individuals. The positive aspects of health care in Georgia are accompanied by serious financial and social conditions. As a result, socially vulnerable groups of the population were confronted with difficult situations.

On the basis of the decree of the Government of Georgia and the Head of State dated August 10, 1995, a complex, multistage process started in the system of health care. The necessity of this process was defined by radical changes in the political system of Georgia and on a socioeconomic basis.

In the first phase of health-care reorientation, the relevant organizational, legislative, and economic bases were developed.

On February 15, 1996, the second stage of system reorganization started and will continue until May 1, 1997. In this phase, the following main tasks will be carried out:

- the start of optimization of material, labor, and financial resources that are accumulated in the health-care system;
- the transition of the medical assistance extended to the population to a mostly insurance basis;
- the organizational establishment of public health care and the activation of a state program for preventive medical care, illness control, and the implementation of a healthy lifestyle;
- the organizational establishment and activation of hygienic norms of the state sanitation-control authorities;
- the start of reorganization work for medical education and medical science.

The economic-financial aspect is one of the most important parts of the reforms. Under the new conditions, the forms and methods of reform have radically changed. Instead of the old, phased system of central, budgetary financing, program financing

was implemented. For this purpose, federal and obligatory municipal programs were developed on the basis of various diseases and syndromes; sometimes only definite stages of sickness and life-threatening situations are considered when the eligibility of a case for medical assistance is being determined. Unfortunately, due to the lack of appropriate financial aid, the full range of needs for medical rehabilitation is not considered. Thus, the means issued by the state are not enough to cover the minimum needs of medical assistance. As a result, by 1996, in a number of state programs, the principle of cofinancing by the population will be recommended for the medical treatment of illnesses considered by these programs.

In the first half of 1996, the volume of state incomes transferred to the state fund will be 10,991.2 thousand laris, including 7,733,000 laris from the state budget (54.1 percent of the annual plan).

For the same period, fund expenditures totaled 1,091.3 thousand laris, 76 percent of which will be directed toward the financing of treatment projects. Unfortunately, during the first and second quarters, some important state programs were not financed at all, and insignificant means were issued for the population's immunization, for the treatment of tuberculosis, for pregnancy support, and for the financing of maternity programs; comparatively better financing was seen in the state programs of support for and medical treatment of children under 1 year of age.

As a whole, federal programs were fulfilled on average by 34.6 percent.

The second phase of health-care orientation is the transfer of the medical assistance extended to the population to the insurance principle. For this purpose, a state medical-insurance company was established, which in the future, in practice, should secure state obligations in the sphere of state assistance on the basis of medical insurance. The company has already started providing medical assistance based on the insurance principle to the helpless segment of the population.

The quota for the extremely helpless segment of the population

was defined as 1 percent permanent population and 10 percent internally displaced persons, the list of which is specified by the local authorities and is presented to the Ministry of Health Care. A list of 89,000 individuals was presented by the local authorities, but the documents have created numerous problems.

The main point is that a fair mechanism does not exist for defining the status of a helpless citizen. As a result, the lists are absolutely subjective and depend completely upon the fairness and informativeness of the employee of the local social service authority. When drafting such lists, these employees refer to the traditional groups of socially vulnerable citizens: single mothers, multichild families, single pensioners, and invalids of the war. Not one of these categories in itself defines economic condition and none is identical to the status of the helpless category. The situation is aggravated by the fact that, due to a lack of means, such lists cannot cover all helpless people and actually only the most abjectly helpless of the category should be chosen, which causes serious local disputes.

A state medical insurance company has been developed and will soon start implementing a safe maternity and child-protective state medical insurance program, which will cover the medical support of pregnant women, maternity assistance, and the medical support and treatment of children under 1 year of age.

According to the insurance program, medical support and maternity assistance would be implemented for insured persons who have the relevant insurance document. The document is received by the patient when she applies to the relevant medical institution during the first 12 to 15 weeks of pregnancy, receives the conclusion of the medical institution on the possibility of continuing the pregnancy, declares her willingness to take part in the insurance program, and signs the insurance agreement in accordance with the existing regulations.

For a period not exceeding 10 days, the newborn baby receives the relevant insurance document in the relevant medical institution if its guardian declares the willingness to take part in the insurance program and signs the insurance agreement in accord-

ance with the existing regulations. During this period, due to the considerable element of nonfulfillment of the obligation by the guardian, the insurance agreement is signed by a doctor who describes the existing situation in written form. If it is objectively impossible to obtain a signature for the insurance agreement, but the possibility of insurance for the baby exists, the issue may be considered by the individual insurer.

The special attention being devoted to the development and implementation of mother and child programs is a result of the fact that, in recent years, child mortality and illness levels have increased drastically.

Attention should be paid to the fact that, according to the information of the State Socioeconomic Department, the mortality of babies has increased considerably. The number of babies under 1 year of age who died increased by 44.7 percent to 17.8 percent of infants born. This issue demands special attention because the indicator of infant mortality in Georgia significantly exceeds the same indicator in developed countries. The number of babies who died due to septicemia, respiratory illnesses, and illnesses arising during the perinatal period has increased in the recent past.

The viability of newborn infants in the first days after birth mainly depends on the health condition of the baby while in the medical institution. The level of protective services for mothers and children in the country largely defines the viability of the baby as well. The deficiency of this service is indicated by the number of stillborn children. This indicator increased by 1.9 times in comparison to the relevant period last year and constituted 11.3 infants for each 1,000 born.

In June 1995, the process of privatization of health-care facilities started. The program of the privatization was scheduled over two years and developed in such a way that, by December 31, 1996, the majority of medical institutions would be privatized. The facilities to be privatized are divided into three groups:

- (1) facilities responsible for conducting activities under state orders or under basic programs, and that have a specific profile and narrow specialization for the next ten years;

Table 24

Indicator of Infant Mortality, 1989–95

	1989	1990	1991	1992	1993	1994	1995
Absolute indicator of infant mortality (0–1 year)	1,787.00	1,469.00	1,226.0	918.0	1,129.0	948.0	605.0
Per thousand	19.57	15.87	13.7	12.4	18.3	16.1	10.8
Mortality of children ages 1–5 years (per thousand)	24.9	19.9	17.9	17.4	—	—	—

(2) facilities that maintain narrow specializations for work during the next ten years;

(3) facilities that have no restrictive conditions.

The third phase of privatization was completed by July 1, 1996. During the previous three phases, drugstores, dental polyclinics, medical rehabilitation facilities, clinical-diagnostic centers, and the majority of dispensaries and polyclinics were privatized according to the list. In the remaining six months, the privatization of hospital in-patient facilities and clinical medical centers was planned.

Against the background of the existing difficult situation, children have found themselves in especially critical conditions.

Since 1989, the indicator of infant mortality has undergone a drastic change (see Table 24; Figures 12 and 12a). While in 1989 (the beginning of the analysis period) this indicator was 19.57 per thousand, in 1992 it declined to 12.4 per thousand.

In 1992–94, due to the incredible decline of the economy, political instability, and the general worsening of the situation, an increase in infant mortality occurred. In 1993, infant mortality for the 0–1 year age group increased to 18.3 per thousand, and in 1994, it decreased to 16.1 per thousand. It should be noted that during eight months of 1992–93 immunization was not carried

Figure 12. Changes in Birth, Mortality, and Natural Increase of the Population, 1980–95

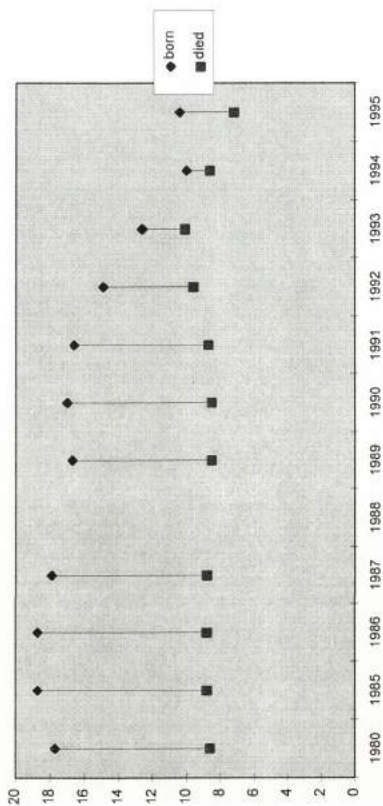
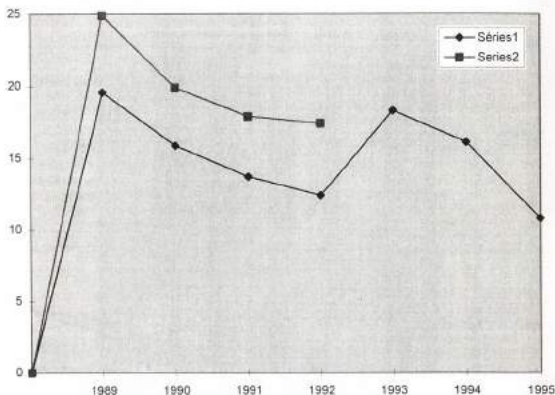


Figure 12a. Indicators of Infant Mortality, 1989–95
(per thousand)



Series 1—Per thousand (age group 0–1)

Series 2—Mortality of children ages 1–5, per thousand

out in the country due to the absence of vaccines, further contributing to the increase of the infant mortality indicator. By 1995, in connection with general economic stabilization, these indicators had already significantly decreased and constituted 10.8 per thousand. In 1989–93, the mortality of children in the 1–5 years age group also decreased (see Table 24). (From 1993 to the present, the statistics committee has no data on the mortality of children ages 1–5 years. We do not have information on the mortality of the population ages 5–19 years.)

The main cause of infant mortality is respiratory illness, complications arising after the perinatal period, and stomach and intestinal illnesses (70 percent). In 1994, complications arising after the perinatal period made up 50 percent of the total mortality figure.

The lack of vaccines had a negative effect on children's health

due to a lack of immunization in the country. This resulted in the spread of illnesses that previously had been eradicated, including diphtheria, whooping cough, tetanus, and German measles. Moreover, immunization was seriously impeded by medical personnel and by society because of their negative attitudes toward vaccination. In 1993, Georgia received evidence attesting to the safety of vaccination from the World Health Organization; however, the training of medical personnel and the education of society remain serious problems.

In recent years, cases of venereal diseases have grown significantly among adolescents aged 15–17 years. While in previous years only 15–20 cases were registered, in 1994 this figure reached 120 cases (including syphilis, 79 cases, and gonorrhea, 41 cases).

The number of nonvenereal sexually transmitted diseases has increased. The latter have increased 15-fold, and because venereal diseases result in severe complications and the deterioration of reproductive functions, they drastically reduce the country's demographic indicators. The sanitary conditions of the population have drastically worsened, causing the spread of illnesses such as herpes.

The events of recent years have drastically reduced the population's incomes, causing its supply of wholesome foods to decline. There is a deficiency of protein, fat, iron, and iodine in food products, causing abnormal changes in children's health. For example, due to iodine deficiency, children from high altitudes contract, among other illnesses, Basedow's disease. A decrease in the breast feeding of children also demands special attention. Infants who were fed breast milk during the first six weeks declined from 30 percent to 22 percent.

In accordance with Resolution No. 702, dated November 1, 1995, the national program for the improvement of children's and women's conditions was adopted. Within the scope of this program, according to the provisions of the World Convention on Children's Survival, Protection, and Development, among the priority objectives are: the reduction of infant and child mortality between the ages of 1 and 5 years by one-third in 1996–2000; the reduction of mortality caused by respiratory illnesses among chil-

dren under age 5 years by one-third; the immunization of 90 percent of infants under the age of 1 year, including against such illnesses as diphtheria, tetanus, and tuberculosis; the feeding of infants with mothers' milk during the first 4–6 months; the increase of the lactation period to two years; the eradication of illnesses caused by iodine deficiency; the eradication of poliomyelitis; and a 90 percent reduction of measles, by the year 2000.

Early child development and access to public and private child-care support

During several decades in Georgia (when Georgia was part of the Soviet Union), the state system of children's preschool upbringing was established in the form of nursery schools and kindergartens. These organizations functioned at the expense of the state budget, and payments made by parents (not of all categories) were of a symbolic nature. Poor and multichild families did not pay. Despite this, the development of the network of such institutions always lagged behind the population's demand due to the deficiency of the necessary material-technical base. In recent years, many institutions have been closed due to the existing social and economic processes in the republic, and this has significantly diminished children's access to this system. Today (under the conditions of the population's real income reductions, the continuous increase of prices, and the high level of unemployment), many more families have the material need for children's upbringing by the state than was the case in recent years. Due to the extremely difficult situation in the provision to preschool institutions of food products, electricity, and heating, nearly 520, or 25 percent, of these institutions were closed.

Based on the above, while in 1990 the provision of continuous state preschool institutions was 57.8 percent, by 1996, according to experts, it should be only 16.4 percent (see Tables 25 and 26).

The budget means designed to maintain preschool institutions were drastically reduced, and their material-technical base worsened. This caused the closure and liquidation of a number of these

Table 25

Access to Public Child Care, 1989-96 (%)

	1989	1990	1991	1992	1993	1994	1995	1996
Active provision of child care by state preschool institutions	51.2	57.8	54.9	42.8	33.3	26.2	19.9	16.4

Table 26

Expenditures for Educational Purposes, 1992-96

	1992 (millions of Soviet rubles)	1993 (millions of coupons)	1994 (millions of coupons)	1995 (lari)	1996 (lari)
Total expenditure from central budget for educational purposes	464	29,709	1,533,633	9,175,168	21,262,000
Including Ministry of Education	275	23,971	988,722	5,740,653	13,501,000
Expenditure for wages	129	9,312	518,774	2,179,128	3,725,000
Including Ministry of Education	71	6,976	316,598	1,284,834	1,771,000

institutions and a reduction in the number of pupils. Specifically, while in 1989 there were 209,000 children registered in preschool institutions and the population's demand was satisfied by 51 percent, by the beginning of 1996, the number of pupils was 82,000 and the satisfaction of the population's demand decreased to 29.7 percent. However, it should be considered that in real terms this indicator exceeds the given indicators. We did not consider the private preschool institutions, the network of which is increasing, and because of the lack of information, the definition of this indicator is not possible.

One interesting and positive result should be mentioned. Together with the regulation of the political and economic situation, the local authorities try to pay more attention to the issue of normal functioning of preschool institutions.

In some cases, this issue is being managed and the result is that, while before 1994 the staffs of these institutions were reduced drastically year after year, in 1995 some increase took place.

For the full-fledged implementation of the reform of the education sphere, there are plans to perfect and transform its first phase—the preschool institutions. Subsequent to the reforms, preschool institutions will function on the principle of municipal budget financing, with the partial right of self-financing and economic accounting. The state will also contribute to the development of the nongovernmental, state-commercial, public, organizational, household, cooperative, and other types of institutional framework.

Child labor

Together with the worsening of the economic situation, a significant children's employment problem has also been identified. Against the background of the reduction of jobs in the country and a massive increase in unemployment, the area of children's employment has changed. The indicators of children's employment have decreased; thus, in 1990 the number of working adolescents (children under the age of 16 years) was 12,400, in 1995 their number declined insignificantly and totaled 11,400. During the past six years this indicator has been more or less stable (see Table 27 [and Figure 13]).

The direction of children's employment has also changed. While previously children were primarily engaged in seasonal agricultural production, today there is an increased trend toward children's employment in the market. Children are employed in gas stations, in auto service, and, in general, in other service spheres, where they mainly perform the role of cheap workers. In

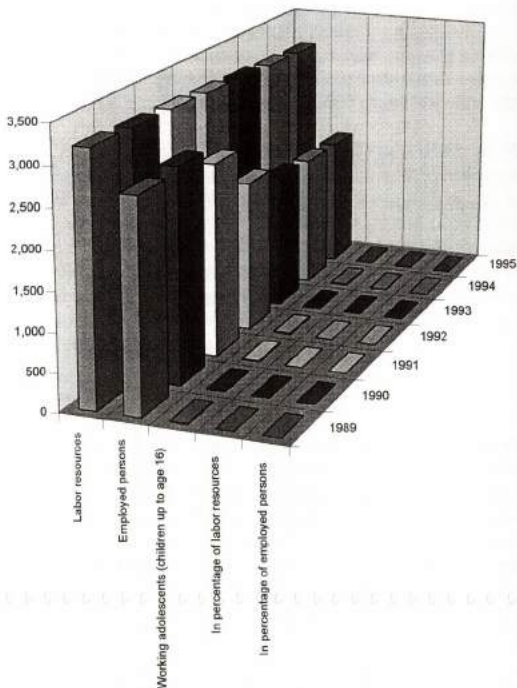
Table 27

Employment of Adolescents, 1989-95 (in thousands of persons)

	1989	1990	1991	1992	1993	1994	1995
Labor resources	3,202.60	3,175.50	3,161.00	3,133.00	3,104.90	3,063.90	3,033.90
Employed persons	2,700.40	1,763.30	2,518.10	1,984.20	1,792.00	1,748.30	1,728.00
Including working adolescents							
(children up to age 16 years)	12.40	12.40	12.40	12.40	11.90	11.80	11.80
As percentage of labor resources	0.39	0.39	0.39	0.40	0.38	0.39	0.39
As percentage of employed persons	0.46	0.70	0.49	0.62	0.66	0.67	0.68

Note: Data based on the assessments of the Ministry of the Economy.

Figure 13. Employment of Adolescents, 1989–95
(in thousands of persons)



urban areas the majority of children engaged in street trading are those aged 7–8 years. The bulk of children in this category are refugees, orphans, and stray children. Accordingly, the number of crimes committed by working children has increased. For exam-

ple, in 1993–94, the number of felonies committed by working adolescents increased 1.4-fold. As a result, in 1994, the crimes of working children made up 7.1 percent of the total number of crimes committed by adolescents (in 1994, the same figure for unemployed adolescents was 31.5 percent).

According to expert assessments, there may be cases of children's labor discrimination. Recently, there has been a marked increase in the number of tramps, beggars, and children selling goods on the street. This may be of an organized nature. The absence of appropriate statistical information prevents a detailed, intensive analysis of the problems that exist in the sphere of children's employment. Today, children's employment statistics are not kept in the country. The first steps toward research on the issue of children's employment are being taken.

The Convention on Children's Rights, which was ratified by the Parliament of Georgia, foresees a shift from the recognition of children's rights to their comprehensive protection. Currently, a legislative basis for determining the rights of children and adolescents and for protecting children's rights does not exist. It is necessary to create a legal basis for the approach of state and society to this problem for future generations. The socioeconomic and psychological basis for the upbringing of socially well-adapted, moral, and mentally healthy individuals should be established. In order to resolve this problem, a legislative packet to protect the rights of children and adolescents should be developed. Presently, there is a national program for the improvement of children's and women's conditions in the republic. Within the scope of this program, the adoption of a law on Children's Rights Protection and also a law on Children's Labor and Employment is foreseen.

Juvenile delinquency: street and stray children

Due to the political, economic, and social difficulties of the transitional period, there was a drastic increase in the number of felonies committed by adolescents and stray children. An analysis of the statistical data submitted by the Underage Children

Inspection Board of the Ministry of Internal Affairs (hereafter, the Inspection Board) has shed light on this negative fact.

In 1994, the Inspection Board registered 1,578 adolescents due to various kinds of committed crimes, including: 202 children under the age of 14 years, 380 children aged 14–15 years, 996 adolescents under the ages of 16–17 years; that is, 12.8 percent of crimes by adolescents are committed by children aged 14 years, 24.1 percent by those aged 14–15 years, and 63.1 percent by those between the ages of 16 and 17 years. For felonies, 19.5 percent are committed by adolescents who have only a single parent, and 8.2 percent are orphans (see Table 28).

In 1994, the crimes committed by adolescents under the age of 14 years increased 2.8-fold compared to 1993, and crimes committed by girls almost doubled. During that period, crimes committed by adolescents lacking one parent increased 1.2-fold, and by orphans, 5.2-fold. While 15 adolescents abandoned by their parents committed crimes in 1993, in 1994 this indicator increased by 36 units, that is, a 2.4-fold increase, and, during that period, felonies committed by lost children increased from 48 units to 56 units (a 1.2-fold increase) (see Table 29).

Criminals indicated by the Inspection Board serve a sentence in the no. 6 reformatory colony, which belongs to the system of the Main Division of Judgment Implementation of the Ministry of Internal Affairs. In this colony, 54 male convicts are serving sentences. They live in dormitories, wear identical prison uniforms, and may move within the territory of the colony according to its internal rules. The colony provides general educational and professional-technical education.

For the purposes of eradicating crime and reducing the need for the services of the Ministry of Internal Affairs, a number of measures have been implemented. Specifically, 1,177 lecture-discussions were made opposing crime, 305 issues were discussed by the council of the Inspection Board, 130 articles were published in the press and using radio and television.

During the past six months, a trend toward the further increase of juvenile delinquency was noted (see Table 30).

Table 28

**Registration of Adolescents Who Committed Felonies,
1993-94**

Status	Number of adolescents	
	1993	1994
Registered at the beginning of the period under review	2,627	1,421
Registered during the period under review	346	762
Taken off the register during the period under review	258	605
Including due to:		
Mending one's ways	104	257
Being arrested	24	32
Being sent to a special institution	1	1
Reaching the age of 21, no longer under parents' control	115	291
Other reasons	14	24
Registered by the end of the period under review	2,715	1,578
Including:		
Under age 14 years	73	202
Ages 14-15 years	566	380
Ages 16-17 years	1,976	996
Males	2,689	1,527
Females	26	51
With one parent	266	307
With no parents	25	129
With sentence postponed	172	261
Conventionally sentenced	55	127
Under amnesty	48	14
Freed from the colonies	4	79
Under warrant	61	128
Returned from special institutions	7	12
Drug users	17	11
Persons committing a crime (from ages 11 to 14 years)	32	74
Alcoholics	33	124
Prostitutes	9	39
Other categories	2,777	715

During January-June 1996, the Inspectorate of Juvenile Affairs of the Ministry of Internal Affairs showed that 1,930 adolescents were registered for various crimes, including 469 individuals under the age of 14 years, 493 ages 14-15 years, and 1,028 ages

Table 29

**Results of General Preventive Measures,
1993-94**

Status	Number of adolescents	
	1993	1994
Raids	811	1,933
Lecture-conversations made	853	1,177
Issue discussed in the Commission for Adolescent Affairs	74	305
Sent to special institutions for adolescents	2	8
Received into custody for placement	20	76
Statements prepared for press, radio, and TV	39	130
Presentations and information sent to state organizations	350	667
Answers received	242	426
Revealing of crimes committed by adolescents	861	1,184
Including:		
By official inspectors of adolescents	417	890
By criminal investigators	178	135
By district inspectors	37	84
By the investigative service	25	47
By other police divisions	12	18
By state and public authorities	178	10
Presented to the Commission for Adolescent Affairs	1,156	2,432
Including:		
School pupils	621	1,103
Pupils of other educational institutions	258	391
Employed	59	84
Unemployed	128	373
For crimes	104	189
For violations of public order	339	366
For drugs	5	7
For the use of spirits	21	58
For prostitution	32	23
For other reasons	119	1,930
Abandoned	15	36
Lost	48	56
Registered	102	618
Brought to the police station	37	362

Table 30

Registration of Adolescents Who Committed Felonies, 1995-96

Status	Number of adolescents	
	1995	1996 (first half)
Registered by the end of the period		
under review	1,697	1,930
Under age 14 years	965	469
Ages 14-15 years	275	493
Ages 16-17 years	739	1,028
Males	1,575	1,865
Females	32	65
With one parent	315	447
With no parent	52	76
Sentence postponed	61	250
Conventionally sentenced	102	85
Under amnesty	69	49
Freed from the colonies	10	38
Under warrant	72	96
Returned from special institutions	8	9
Drug users	14	22
Persons committing crimes (ages 11 to 14 years)	36	65
Alcoholics	17	40
Prostitutes	4	16
Other categories	1,384	1,260

16-17 years. The percentage of crimes committed by adolescents is high. For example, 24.3 percent of adolescent crimes are committed by persons under the age of 14 years, 25.5 percent by those ages 14-15 years, and 53.3 percent by those ages 16-17 years. Of the crimes indicated, 96.6 percent were committed by males and 3.4 percent by females; 23.2 percent were committed by adolescents with only one parent and 3.9 percent by stray children.

In the first six months of 1996, as compared to 1995, the number of crimes committed by children under the age of 14 years decreased by 2.6 times and the number of crimes committed by female adolescents nearly doubled. During the same period, the number of crimes committed by adolescents with only

one parent increased by 1.4 times, and by adolescents with no parents, by 1.5 times. While, in 1995, 21 adolescents who were abandoned by their parents violated the law, in 1996 this indicator was 10, that is, it decreased by 2.1 times. During this period, crimes committed by adolescents who have gone astray increased from 16 to 79 units (an increase by 4.9 times).

The Inspectorate of Juvenile Affairs revealed cases of adolescents who committed crimes: in the first six months of 1996, 52 prisoners aged 14–18 years were serving sentences in the labor colony under the general regime of the system of the main penal division of the Ministry of Internal Affairs of Georgia. For these people, measures for general education and professional-technical training were implemented and general living conditions were provided (see Table 31).

Alcoholism and drug use among adolescents

The deterioration of the economic and political system, combat provoked by separatist movements, the serious criminal situation, the decrease in the population's living standards, unemployment, and the drastic worsening of cultural and social conditions during the transition period caused an increase in the number of adolescents using alcohol and drugs. In 1990, surveys of underage persons by the Ministry of Internal Affairs revealed 65 cases of alcohol use among adolescents; in 1994 it amounted to 124 cases, that is, such crime has almost doubled. The situation in the country with drug usage among adolescents is worse. Three cases of drug usage among adolescents were revealed by the National Bureau on Narcotics and Drug Addiction of the Ministry of Internal Affairs in 1993, whereas in 1995, this figure increased by 48 and totaled 51 cases (a 17-fold increase).

The Government of Georgia and the heads of the Ministry of Internal Affairs established the fourth division, on the basis of the National Bureau on Narcotics and Drug Addiction, which has the direct responsibility and function to eradicate and prevent drug use among adolescents.

Table 31

Results of General Preventive Measures, 1995-96

Status	Number of adolescents	
	1995	1996 (first half)
Revealing of crimes committed by adolescents	1,334	1,189
By officials of Commission for Adolescent Affairs	861	875
By criminal investigators	270	168
By district inspectors	123	85
By the investigation service	39	9
By other police divisions	41	20
By state and public authorities	—	32
Presented to the Commission for Adolescent Affairs	3,811	2,023
School pupils	2,019	1,073
Pupils of other educational institutions	371	252
Employed	109	79
Unemployed	976	310
For crimes committed	317	232
For public order violations	644	238
For drugs	9	18
For the use of spirits	68	53
For prostitution	12	37
For other reasons	240	355
Abandoned	21	10
Lost	16	79

The critical economic situation in the country and the drastic worsening of the population's living conditions have recently caused a drastic increase in the number of alcohol and drug users.

An increased trend of alcohol and drug use was noted in 1995-96. In six months of 1996, the Inspectorate of Juvenile Affairs of the Ministry of Internal Affairs revealed 40 cases of alcohol use among adolescents, exceeding the relevant indicator of 1995 by 2.4 times. The situation among adolescents using drugs was worse. During six months, the National Bureau on Narcotics and Drug Addiction of the Ministry of Internal Affairs revealed 22 cases of drug use among adolescents, an increase by 1.6 times, despite the fact that the Government of

the Republic and the Ministry of Internal Affairs established a division on the basis of the National Bureau on Narcotics and Drug Addiction, the obligation of which is to prevent and to eradicate narcotics and drug addiction among youth and adolescents. Preventive measures for the narcotics abuse could not be implemented due to the absence of centers for addiction prevention and to the absence of the means necessary for their functioning.

Work is being carried out to seek active forms and methods against drug addiction and to find the relevant means. A program on the prevention of narcotics use will be included in the list of government-financed fundamental health-care programs.

Prostitution

In accordance with the traditions of the Georgian people, the family takes responsibility for the special guardianship of the moral as well as the spiritual upbringing of adolescents; however, severe political, economic, and social conditions have had a negative impact on the morality of adolescents. While until 1990 the Underage Children Inspection Board under the Ministry of Internal Affairs of Georgia had not recorded any case of adolescent prostitution, in 1990 9 cases were registered; in 1993, 32 cases; in 1994, 23 cases; in 1995, 12 cases; and in 1996, 37 cases; that is, in 1995–96, the number of cases increased by 3.1 times.

The undesirable political, economic, and social conditions have had their negative influence on the moral life of adolescents. Among adolescents, historically there were no cases of prostitution revealed. In 1995–96, an increase in the number of cases of prostitution took place in Georgia. Specifically, in this period, the number of cases of prostitution increased from 12 to 37 cases, that is, an increase of 3.1 times (see Table 31).

Employment and housing problems of young people

The situation in the sphere of employment is extremely difficult. The worsening of the employment problem is directly connected

to the cessation of the work of the majority of enterprises and organizations (the complete or partial stop of functioning) and is also linked to the implementation of a tight budget policy, which carried out measures of employment reduction in the budget sphere and the public sector. In 1989–95, the number of employed people decreased 1.5-fold. Unemployment has increased drastically. According to the results of a selected survey of 500 households in Tbilisi, the level of unemployment reached 20 percent. Against a background of deficiency in the social security system for the unemployed and of the nonexistence of an employment service, registered employment has decreased. By February 1, 1996, 64,000 job seekers were registered in the state labor market, 63,000 of whom, or 98 percent, were unemployed persons. The level of officially registered unemployment was 3.5 percent. Of registered unemployed persons, 51 percent were young people under the age of 20 years (49.8 percent in the same period the previous year). The number of vacancies remained small, totaling 1,850 units as of February 1, 1996. The majority of jobs (70 percent) registered in the market were for manual workers. During 1995, 15,000 persons registered in the labor market found jobs. By February 1, 1996, 2,300 unemployed persons were receiving assistance, that is, 2.3 percent of the registered unemployed people. The amount of monthly assistance received per capita is 3.1 laris (U.S. \$2.80). All of the above information does not reflect fully the difficult conditions that exist in the sphere of employment, in particular, in the sphere of youth employment. The real number of unemployed people is much higher, as is the level of unemployed youth.

On the basis of the law "On the Rules of Structure and Functioning of Executive Power of Georgia," adopted on December 8, 1995, the State Department of Youth Affairs was established, which implemented a unified state policy in order to define the social, political, economic, cultural-educational, and health-care problems of children, youth, and young families in Georgia in terms of their specific features. Some of its main objectives are to resolve the social problems of Georgian youth, to study the prob-

lems of social security of young invalids, and to prepare state programs that will be presented to the legislative and executive authorities. The department has already prepared a state program of youth policy, which is ready for consideration. Within the scope of the program, an independent project on youth social security has been prepared. One of the objectives of this project directly touches upon the youth housing problem.

The present difficult economic situation in the country prevents the possibility of resolving the youth housing problem positively. The housing area per capita in 1993 was 17.24 square meters; in 1994, 17.27 square meters; and in 1995, 17.3 square meters. As these data show, the increase is insignificant. In 1995, through state investments, 22,823 square meters of living area was made available, a growth of 183.3 percent compared to last year. In spite of this positive shift, the indicator was only 1.8 percent of the same figure of the best year (1987). In apartment construction, state investments of 10.4 million laris were used, which was 6.4 million laris, or 61.9 percent, of the total amount. The construction of individual living facilities is notable. In 1995, by private investments, 26,700 square meters of private living facilities were made available. The scope of apartment construction and the situation with the youth housing problem are mostly determined by the general economic situation, as well as already established housing facilities.

Handicapped and minority children

Despite the important achievements of economic reforms in certain spheres of the economy, the socioeconomic conditions of the republic remain very difficult, which, against the background of the general economic crisis, sharply raises the issue of sustaining the existing material conditions of the majority of the population. Against this background, handicapped children were confronted with an extremely difficult situation.

Presently, 8,219 invalid children under the age of 16 years are registered in the republic. These children need state care and

social security. In 1994, for their needs 2,995,884 coupons were issued in the form of pensions from the budget and, in 1995, 374,784 coupons. Two holiday hotels, designed for 600 invalid children, are operating in the republic. By the end of 1995, only 123 children were living in these hotels. The number of children living in the holiday hotels has decreased by nearly two-thirds during recent years. In 1989, there were 383 children living in hotels. Accordingly, the number of service personnel and maintenance expenditures have been reduced. While, in 1989, the number of personnel was 376, in 1995, the same figure diminished to 179. The expenditure on inhabitants in 1989 was 1,180.0 thousand rubles, and, in 1995, 36,888.0 thousand rubles. The reasons for the decrease in the number of inhabitants were as follows: none of the holiday hotels has an individual electricity supply source and they were poorly provided with fuel. The provision of hotels with food products is very limited. There is a considerable problem in the field of providing holiday hotels with clothes and linens. Due to the systematic deficiency of nutritious, high-calorie foods, dairy products, and fruits, and to the cold and the unacceptable hygiene situation, the drastic conditions of the hotels' inhabitants have become more unbearable (see Table 32).

Of IDPs and refugees, 14,087 are members of multichild families, 8,561 are singles and widows, 16,479 are invalids and persons disabled by conflicts, 4,255 are family members of those killed in wars, 7,927 are orphans, and 1,730 are disabled children (see Tables 33 and 34).

Within the scope of the existing real possibilities, the object of state daily care is to create a subsistence minimum in the living conditions of refugees.

Serious work has been carried out by the Government of Georgia, local authorities, society, and the population in order to allocate and supply the appropriate means to governmental, administrative, and public organizations to accommodate displaced persons and refugees. The implementation of the required measures could make it possible for hundreds of thousands of people to adapt to the new, difficult, and emergency conditions, to release them from

Table 32

Holiday Spas for Senior Citizens, Psychiatric Patients, and Invalid Children, 1989-95 (number of inhabitants and expenses)

	Unit of measure	1989	1990	1991	1992	1993	1994	1995
A. Holiday spas for senior citizens								
1. Number of places	Unit	5.0	5.0	5.0	5.0	5.0	5.0	2.00
2. Number of inhabitants	Place	600.0	600.0	590.0	566.0	420.0	400.0	300.00
3. Number of working personnel	Person	403.0	395.0	390.0	309.0	229.0	137.0	190.00
4. Expenses per inhabitant	Person	345.5	342.0	340.5	310.5	252.0	197.0	195.00
5. Average annual expenses per inhabitant	Thousand	1,139.2	1,780.5	2,426.4	3,100.0	4,608.0	3,528.6	11,416.00
B. Psychiatric spas								
1. Number of places	Unit	2,830.0	4,508.0	6,222.0	10,032.0	20,125.0	25,756.0	60.08
2. Number of inhabitants	Place	2.0	2.0	2.0	2.0	2.0	2.0	2.00
3. Number of working personnel	Person	420.0	400.0	420.0	400.0	420.0	300.0	300.00
4. Expenses per inhabitant	Person	300.0	290.0	286.0	161.0	125.0	89.0	73.00
5. Average annual expenses per inhabitant	Thousand	219.0	218.0	217.0	218.0	138.0	130.0	96.00
	Thousand	795.2	1,113.0	1,518.0	1,444.0	2,719.4	2,067.1	41.36
C. Spas for disabled children								
1. Number of places	Unit	2,652.0	3,838.0	5,308.0	8,969.0	21,755.0	23,225.0	56.66
2. Number of inhabitants	Place	2.0	2.0	2.0	2.0	2.0	2.0	2.00
3. Number of working personnel	Person	620.0	620.0	620.0	620.0	620.0	600.0	600.00
4. Expenses per inhabitant	Person	383.0	377.0	307.0	282.0	230.0	130.0	123.00
5. Average annual expenses per inhabitant	Thousand	376.0	371.0	365.0	343.0	337.0	223.5	179.00
	Thousand	1,180.8	1,781.3	2,116.9	12,992.0	32,546.8	16,821.0	9,222.00
	Thousand	3,080.0	4,725.0	6,896.0	46,071.0	141,507.0	129,440.0	74.97

Table 33

Number of Refugees and Internally Displaced Persons (IDPs) Classified According to Main Groups, 1993–96

	1993	1994	1995	1996
Total number of refugees and IDPs	254,103	288,447	287,215	288,764
Of which:				
Number settled by organizations	101,975	115,757	115,263	115,884
Number settled privately, 152,128	172,690	171,962	172,880	
Of which:				
Females	139,309	158,137	157,461	158,310
Males	114,794	130,310	129,754	130,454
Total number of children	74,657	93,580	93,180	94,084
Of which:				
Ages 0–2 years	10,549	12,693	12,557	12,714
Ages 2–6 years	25,862	36,194	36,106	36,445
Ages 6–16 years	38,246	44,693	44,517	44,925
Total number of pensioners	27,068	30,726	30,594	33,611
Of which:				
Females	15,975	17,015	16,981	20,535
Males	11,093	13,711	13,613	13,076
Total number of able-bodied persons	152,378	164,141	163,441	161,069
Of which:				
Females	93,308	100,017	98,538	100,126
Males	59,070	64,124	64,903	60,943

Table 34

Number of Internally Displaced Persons According to Categories, 1995–96

Multichild families	14,087
Single persons	7,184
Widows	1,377
Disabled in conflicts	8,118
Invalids	8,361
Family members of those killed in war	4,255
Orphans	7,927
Disabled children	1,730

their burden of misery, the regulation of their labor, and the difficult mode of life.

If we consider the fact that the full recovery of the economy is connected to the decreased possibility of a drastic increase of budget revenues in the near future, it may be argued that, in 1996, the living conditions of the entire population, especially the socially vulnerable groups, including handicapped children, will be drastically worsened. Humanitarian aid will play an important role in the resolution of this extremely difficult social problem.

In 1995, the parliament of the country adopted the law on the "Social Protection of Invalids." This law determines the basis of state policy toward invalids, and its objectives are to provide the invalids with rights equal to the rights of other citizens, to create favorable conditions, which will allow them to live full lives, and to secure their participation in economic and political life. In accordance with this law, the legal status of invalids is determined and extra guarantees for handicapped children are established by the state. In these guarantees, the issue of invalid children's education is very important. This problem is fully resolved by the law mentioned above. General secondary, secondary-special, and higher education of handicapped children are carried out in general educational institutions and in corresponding special educational institutions, if necessary. The process of education will be organized for children who are being treated in in-patient departments of hospitals or in rehabilitation centers. If it is not possible to raise and educate children in such categories in general or preschool institutions, they are raised and educated in their own families according to their parents' will. Social provision for either the parent or the guardian is defined under the legislation of the Republic of Georgia. The corresponding educational institutions render assistance to parents or guardians (foster parents) in educating children in this category at home. The institutions mentioned above shall ensure sustainable education together with the social and labor adaptation for children who are undergoing long-term, but not permanent, in-patient treatment in hospitals.

Refugee children and those exposed to war

Today, an acute problem exists in the social protection of IDPs from Abkhazia and Samachablo. By the beginning of 1996, 288,764 persons were registered in this category, including 94,084 children, among whom were 12,714 children aged 0–2 years, 36,445 children aged 2–6 years, and 44,925 children aged 6–16 years (see Tables 19 and 20 above).

Of the refugees and IDPs, 40 percent are provided for by organizations (in tourist bases, in holiday hotels, etc.) and 60 percent live with private families. Since 1994 all categories of refugees have received monthly financial assistance, the volume of which was calculated with regard to the rate of inflation.

According to Resolution No. 701, dated November 1, 1995, all categories of refugees were rendered assistance of 6 laris (U.S. \$4.80). Every refugee settled by an organization is given 7 laris by the state to cover public utility expenses. In order to assist refugees, the state budget issued 28,628,000 rubles (U.S. \$23,557) in 1993; 7,226,163,630,000 coupons (U.S. \$3,803,244) in 1994; and 22,274,666 laris (U.S. \$17,819,732) in 1995. Food products and basic necessities received via humanitarian aid were distributed.

In order to improve this situation, some measures have been taken according to Resolution No. 900 of the Cabinet of Ministers, dated December 31, 1994. The state program for the improvement of the conditions of IDPs was founded, which embraces a plan of security, support, and normal life conditions for IDPs.

In spite of measures implemented by the government, the situation of IDPs remains difficult. Hundreds of thousands of those cut off from their homes lack basic living conditions. The economic situation is worsened by the unemployment of the majority of IDPs. The majority of self-employed persons are engaged in trade or have temporary jobs. The majority of IDPs' families found themselves in hardship due to the inadequacy of the social security system and living-material standards, and, accordingly, the possibilities of child care diminished. The problems of establishing basic living conditions for refugee children, children's health care, medical treatment

and pharmaceutical supply, and medical rehabilitation are especially acute. The issue of supplying refugee children with textbooks and teaching materials demands special attention.

The social protection of refugees and IDPs remains one of the critical problems for the country. Despite the fact that in six months of the current year the number of refugees decreased marginally (approximately 20,000 persons returned to the Gali district), the number of refugees is still high (see Table 35). According to the information, by July 1, 1996, 268,420 refugees were registered in the country, including 87,504 children. Of the total number of refugees, 13,890 are members of multichild families, 7,910 are orphans, and 1,730 are disabled children. During 1996, measures directed toward the improvement of the material conditions of refugees were carried out. Assistance was issued in financial and natural forms. In six months of 1996, 16,907 thousand laris was issued from the state budget in the form of monthly financial assistance and payments for public utilities. Humanitarian aid is being distributed among refugees.

The employment of refugees is one of the most critical social problems. In the future, the emphasis will be placed on the provision of refugee families with the means of production and their inclusion in the process of production. The government has raised the question of drafting a program for the employment of refugees.

Special attention is being given to medical-psychological research and to the implementation of rehabilitation measures for refugees, including refugee children. Systematic attention is being devoted to the development of treatment and rest (including abroad) for refugee children.

During 1995–96, the comparative share of financial assistance for children issued from the state budget was reduced from 2.5 percent to 1.5 percent, as a result of changes in the policy of financial assistance to children (during the past year, assistance for children aged 0–16 years was given only upon the birth of the second child; the difference between poverty in urban and rural

Table 35

Number of Internally Displaced Persons (IDPs) According to Categories, 1996 (six months)

Total number of refugees and IDPs	268,420
Of which:	
Number settled by organizations	107,368
Number settled privately	161,078
Of which:	
Females	147,362
Males	121,058
Total number of children	87,504
Of which:	
Ages 0–2 years	11,813
Ages 2–6 years	35,336
Ages 6–16 years	40,355
Total number of pensioners	31,136
Of which:	
Females	18,430
Males	12,706
Total number of able-bodied persons	143,149
Of which:	
Females	88,752
Males	54,397
Multichild families	13,890
Single persons	6,985
Widows	1,304
Disabled in conflicts	8,070
Invalids	8,242
Family members of those killed in war	4,255
Orphans	7,910
Disabled children	1,730

areas should be considered—in urban areas the volume of assistance is more than in rural areas).

Family assistance, child protection, and youth policies: options for reform

The crisis of the family as a provider of care, welfare, and education

Against the background of the difficulties during the transition period, the crisis of the family as a provider of care and welfare,

education and partnership is intensifying. This was caused, first of all, by economic factors, specifically by the drastic reduction of family income. If we take as a starting point the payment received for labor, the amount of social assistance, and allowances, it is clear that the role of primary incomes is diminishing and being displaced by other (sometimes accidental) sources. Among such sources of income, which represent the means of survival of the entire society, including families, the natural forms of incomes received from the rural population, together with financial resources from relatives, play a large role. Nearly half the population of Georgia (44 percent) lives in rural areas. The rural population (in many cases the urban population as well) has small land plots from which the rural and urban populations are supplied with food products. The cultivation of land is obstructed by the very low levels of mechanization and transport services and by the shortage of fuel, fertilizers, and chemicals. A comparatively high level of income is received from such (small) spheres, where payment is higher than the minimum. These spheres include transport, trade, communication and postal services, and banking. Other additional sources are self-employment (primarily speculation) and incomes received from humanitarian aid and sent to families by Georgians working abroad (mainly in Russia).

Charity and incomes received from friends and relatives play a growing role in the formation of incomes of poor families. Those with comparatively high sources of income distribute this to relatives and friends in the form of financial, as well as natural means. A potential source of assistance may also be neighbors (who support categories of the population such as IDPs from the Abkhazia and Samachablo regions, orphans, single pensioners, and invalids).

Families try to cover the part of consumer basket by means of the above-mentioned incomes, which are used for food, fuel, and health care. Families try to postpone purchases of clothing, footwear, personal articles, and household appliances until better times in the future (see Table 36).

The reduction of state expenditure and the transition of the majority of preschool institutions to self-financing created dif-

Table 36

Structure of Expenses of Households, 1994-95 (%)

	1994 (first half)	1994 (second half)	1995 (first half)
Financial expenses, total	100.0	100.0	100.0
Including for food	63.5	58.1	53.3
Non-foodstuff products	20.2	25.2	15.7
Service	8.0	9.3	8.6
Payments	0.8	1.5	2.2
Other expenses	7.5	5.9	20.2

ficult conditions for children's schools and preschool institutions.

The shortage of funds necessary for organization of the study process, the low level of wages and qualifications, and the insufficiency of heating, food, and construction materials hinder the organization of normal teaching processes. Hence, despite low payments (which actually have nominal value) the state service grows increasingly imperfect and less attractive daily. In the future, the inability of the state to render services of the same quality may cause the total privatization of preschool institutions.

Difficult problems exist in the sphere of school training and higher education (the majority of the latter is on a payable basis). The shortage of school textbooks, the low quality of teaching, the absence of heating and of school supplies, and poor discipline in the schools determine the formal character of school education, thus forcing the majority of families to embrace the practice of private training, which is clearly linked with additional expenses and available only to a small number of high-income families.

The weakness of civil society and the power of local government in providing assistance

Against the background of a shortage of republic-wide means for providing the population's social security, the possibilities of local authorities were insignificant.

Of the 61 administrative budgets in Georgia, 40 were running deficits (see Table 37), which caused a low level of expenditures from local authorities on the social security system and miserable conditions for socially vulnerable groups. The local budget deficit was covered at the expense of the republic budget. The same situation exists in nearly all districts of Georgia.

The only exceptions are Tbilisi, Kutaisi, and Poti, where as a result of measures implemented by the local authorities, the living conditions of socially vulnerable groups have improved significantly.

From social security to social assistance: a range or a shift in policy tools

As we have seen above, the principal deficiency of the Georgian social protection system is its extensive character. It manages to provide the majority of the population with only insignificant social assistance; thus it lacks targeting and actually cannot fulfill the social protection function for the most vulnerable groups. For the purpose of the social security system's adequate response to the tasks it confronts, it is necessary to provide it with a targeted character, on the one hand, and to increase the amount of assistance, on the other hand. The given policy was initiated beginning in 1995, when there was a drastic reduction in the number of the children receiving assistance (since July 1, 1995, assistance is rendered only for the second child under the age of 0–16 years), and the amount of assistance increased.

Changes in child-protection policy occurred during the first half of the year. Among the measures implemented in this direction are the following: the development of a child- and family-assistance system and the reduction of risk factors affecting families with children on the basis of family income and poverty analysis; the implementation of institutionalization, normal upbringing, and development; the creation of family conditions for orphans and unprotected children; as well as the implementation of measures to combat crime and violations of the law among

Table 37

Districts Running on a Deficit Budget

	Planned deficit	Actual remittance
Abkhazia	500,000	466,900
Gori	400,000	400,000
Tkibuli	60,000	60,000
Tskhaltubo	50,000	50,000
Abasha	50,100	50,100
Adigeni	100,000	100,000
Ambrolauri	100,000	100,000
Aspindza	100,000	100,000
Akhalgori	100,000	100,000
Akhalkalaki	100,000	100,000
Akhaltzikhe	100,000	100,000
Akhmeta	80,000	74,000
Bagdati	100,000	69,500
Dedoplistskaro	100,000	100,000
Dmanisi	100,000	100,000
Dusheti	100,000	100,000
Vani	80,000	80,000
Tetritskaro	80,000	80,000
Telavi	200,000	170,000
Tianeti	60,000	60,000
Lagodekhi	70,000	70,000
Lanchkhuti	100,000	80,000
Lentekhi	100,000	100,000
Martvili	60,000	60,000
Mestia	100,000	84,200
Ninotsminda	100,000	83,000
Oni	100,000	100,000
Sachkhere	80,000	80,000
Senaki	100,000	100,000
Signakhi	80,000	65,000
Kareli	100,000	85,000
Kvareli	80,000	80,000
Chokhatauri	83,000	69,000
Chkhorotsku	70,000	70,000
Tsagveri	100,000	100,000
Tsalendzhikha	80,000	80,000
Tsalka	50,000	50,000
Kharagauli	100,000	100,000
Khobi	50,000	50,000
Khoni	100,000	100,000
Total	4,263,100	4,066,700

adolescents and the perfection of the relevant legal basis.

Orders of the Ministries of Finance, Economy, Social Protection, Labor and Employment, Agriculture, and Foodstuff No. 21-4-25-2/12, dated January 31, 1996, and No. 33//122///2-96, dated May 21, 1996, envisaged assistance, first of all, for urban poor children. According to these orders, financial assistance for children and single mothers in the country was increased. Despite certain steps that were taken toward the protection of poor families, the lack of detailed information on family incomes and on socially less-protected people hinders the implementation of a targeted social protection system for poor families. Work on the implementation of a system of declaration of the population's income is being carried out and in this way the study of the population's income will be the basis for defining the category of helpless citizens and developing a targeted assistance system.

According to Decree No. 332 of the President of Georgia, dated May 19, 1995, "On the Measures Necessary for the Implementation of State Youth Policy," a four-year state program was adopted. This program envisages the establishment of research on youth problems and a youth information center, the development of a system of guarantees in the field of labor and employment, the establishment of new jobs for youth, the legal and economic support of youth entrepreneurship, the enhancement of society's intellectual potential, support for talented youth, the creation of conditions for youths' physical development, the creation of a social-service system for youth, and the improvement of the activities of children's and youth organizations with the development of financial and economic support mechanisms for them.

The government decision "On Improvement of Educational, Upbringing, and Material Provision Measures for Orphans and Unprotected Children" has been made. This decision envisages the provision of foodstuff, footwear, clothing, school equipment, medicines, items of hygiene, and economic goods for pupils in children's homes and boarding schools. The issue has been raised of transferring children's homes and boarding schools for orphans and unprotected children from the local to the central budget.

According to Order No. 501 of the Cabinet of Ministers of Georgia, dated August 13, 1995, a unified pass is to be provided to all types of educational and upbringing institutions; the pass allows orphans to attend movies, sports events, exhibitions, and museums, as well to travel free of charge on suburban trains and buses, which are state property, at the expense of the budget of the relevant administrative-territorial unit.

The draft of a regulation "On the Foster Family for Orphans and Unprotected Children" is currently being considered by the government. The main goal of this regulation is to eradicate the syndrome of hospitalization of children, to further strengthen state assistance to orphans and unprotected children, to coordinate public and family forms of upbringing, and to create a family atmosphere for raising these children. The regulation defines the legislative-organizational basis for the raising of children in foster families and the benefits of its financing at the expenses of local authorities.

In the second half of 1996, the "SOS-Kinderdorf" children's village will start functioning in Tbilisi; up to 100 girls and boys will live there, including those who have no parents or no home due to reasons independent of themselves. Here they will find a home and, what is most important, a mother.

The basis for building this village was established by an agreement between the Children's Fund of Georgia and the international organization "SOS-Kinderdorf." According to the contract, construction activities had to be finished within two years. Construction activities actually took five years. Living in the village are 12 families, each with 6-7 children. The staff consists of 12 mothers, 6 aunts, a teacher, and a psychologist; technical personnel include a cleaning lady, a guard, and a driver.

"SOS Children's Village of Georgia" will consist of 12 residence cottages, a director's house, an administrative building, technical buildings, and a workshop.

The families of the "SOS Children's Village of Georgia" will usually consist of a mother and 5 to 9 girls and boys of different ages. In the village children will live as they would in an ordinary

family. They will have a home, a loving mother, and sisters and brothers. Children will be taken care of until they become independent, study some speciality, and become self-sufficient.

As mentioned above, 100 children will live in the village, which will have a staff of 26 persons; expenditure on food is calculated based on the level of average family expenditure; mothers are presently paid 300 laris per month.

The increase in adolescent crime created a need to implement urgent measures for the social protection of adolescents, professional preparation, and prevention of violations of the law.

The State Program on Social Protection, Professional Preparation of Underage Children and Prevention of Breaches of the Law for 1996–99 has been adopted in accordance with Decree No. 431 of the President of Georgia, dated July 1, 1996, on “Adoption of the State Program of Social Protection, Professional Preparation of Underage Children, and Prevention of Breaches of the Law.” Within the scope of the decree, the implementation of preventive measures directed toward violations of the law by adolescents, the resolution of problems of professional studies and social adaptation among adolescents, refugees, orphans, and unprotected children, and the inclusion of adolescents in art and sports is considered.

The number of stray adolescents and the crimes committed by them caused a need for the implementation of preventive measures. In the current year, a shelter for stray children was established in Tbilisi, where up to 300 children have been placed. The children are taken care of for one month while their parents are sought. After one month (if the parents have not been found) the children go to a children’s home.

In accordance with the national program on the protection of mothers and children up to the year 2000, the “Law of Georgia on Children’s Protection” has been developed and is in the process of being considered.

At the initiative of the UNICEF representative to Georgia, research on children’s institutionalization was carried out in Georgia and will be the basis of a reform policy. A seminar that was

organized in Tbilisi at the initiative of UNICEF on April 24, 1996, was devoted to this problem.

The acting plan for the measures to be implemented in the future for children's institutionalization in Georgia contains the following items: an increase in the reliability of information received from children's institutions; the perfection of the identification of families with at-risk children; the improvement of the system for monitoring children's conditions; the development of a child-care teaching program; the preparation of instructors for the raising of children on the national and subnational levels; the redefinition of the social and medical criteria of orphans, disabled children, children who violate the law, and other categories; the training of the relevant child-care staff; the establishment of research and services in the form of partnership relations between specific institutions and a competent, relevant international research body, which will contribute to the exchange of professionals, prepare inspectors, and develop study programs and tests; and fundamental research on the forms of child care for the purpose of defining models, such as the existing practice of child care in families and developing a new model for child care.

Beginning in 1996, there are plans to give the social security system a more targeted character by broadening the categories of those having the right to receive assistance per child (assistance will be eliminated for categories of IDPs who are employed or who receive other kinds of social assistance).

The economic crises and the abolition of different types of social protection have placed the majority of poor families in especially difficult conditions. Many poor families have lost the right to receive assistance. Such families include those with one child who are not eligible for assistance targeted to children (in the same hardship category are older persons who have not yet reached the age of retirement, but who may be unemployed and turn out to be without any assistance).

In order to overcome the difficulties confronted by these groups of the population, the government is mindful of the decision to reduce the sphere of family assistance coverage in order

to embrace only the most vulnerable part of the population that does not receive assistance within the scope of any program.

Within the framework of the new program, permission to obtain assistance will be issued only to families that are not eligible for any other kinds of financial assistance and that are able to confirm their miserable living conditions.

Today, the main obstructing factor in the development of such programs is the inaccessibility of detailed data on the country-wide demand of households and the possibilities of its coverage by governmental services. The government is taking measures toward the gradual improvement of the mechanism for collecting data on poverty. For this purpose, in 1996, with the assistance of the World Bank, several surveys of Tbilisi households were carried out. A nationwide survey is planned for 1996, within the scope of the World Bank institutional building credit program.

The results of the conducted research will be used for a detailed assessment of data. In determining the right to family assistance, the assets and incomes of the family will be considered, and attention will be paid to the existence of at least one helpless person (i.e., a child under the age of 16 years, an older person more than 60 years of age, or an invalid). The families must present a document confirming that they have the right to receive assistance within the scope of the program at least once per three months. Permission for assistance is issued in such a way that the share of recipients throughout the country will be only 3–5 percent of the population.

The social security system and approaches implemented in the new policies represent a step from social security to social assistance, from family and children's assistance to measures of poverty prevention for the most at-risk groups of the population.