

**Post-Soviet Georgia: the Rocky Path towards Modern Social Protection**

Eveline BAUMANN<sup>1</sup>

**Revised draft, September 10, 2010**

**Abstract:**

This communication is about the ups and downs of setting up a social protection system in Georgia. Whereas in the aftermath of the dismantling of the USSR, a shock therapy was not feasible from a political and economic point of view, the Rose Revolution and the perspective of Georgia “going West” have given an impetus to social reforms. President Saakashvili’s team gives priority to market mechanisms, with state intervention being limited to the poorest and old age pensioners, as a simple means of poverty reduction.

I argue that Georgia is undergoing an ultra liberal modernisation process, which has fostered inequality instead of giving way to decent employment and to redistribution. The August 2008 war and the international economic crisis have exacerbated this tendency. Whereas the decision makers lack long term perspectives, the social reforms are widely determined by the political agenda. Beneficiaries are mostly considered as voters, which is detrimental to trust in public institutions and to social cohesion. This opportunistic approach does not allow for people’s appropriation of the “new” rules of the game. Therefore, they continue mobilising the personal ties which have proved effective in the past. However, the personalisation of ties — with petty bribes being widespread — contradicts market economy principles, putting at risk the system as a whole. Finally, in the current situation — i.e. strong concentration of power, elites disconnected from the people, weak civil society, limited freedom of speech, weak external guarantees for government commitments — institutional arrangements required for the success of the social reforms risk being hampered, with informal and formal rules evolving at increasingly different speeds.

The paper is based on published materials, quantitative data and in-depth interviews with Georgian and international stakeholders.

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<sup>1</sup> IRD (Institut de recherche pour le développement), UMR Développement et Sociétés (IRD / Université Paris I Sorbonne). Mail: [eveline.baumann@ird.fr](mailto:eveline.baumann@ird.fr). Website: <http://recherche-iedes.univ-paris1.fr/>. I am very grateful to Marina Muskhelishvili for her constructive comments on an earlier draft of this paper. I am also indebted to the numerous interviewees in Georgia, especially Devi Khechinashvili, David Gzirishvili, Vakhtang Megrelishvili, Victoria Vasileva, Gia Jorjoliani, and Frank Rijnders.

When asked about their satisfaction with the so-called “transition process”, fifteen years after independence, Georgians were very sceptical about the outcome of the economic reforms which were being carried out by the national decision makers, with the active support of international agencies. They appeared to be even more sceptical than their neighbours in the post-Soviet space and were asking especially for more public involvement in health and old age pensions (EBERD 2007: 48). Dissatisfaction was particularly widespread among the elderly.

This was in 2006, in the aftermath of the Rose Revolution. The perspective of Georgia “going West” had given an impetus to a large number of reforms in order to adapt social and economic institutions to the standards which were deemed to be those of rich countries. Priority was given to market mechanisms which are supposed to bring about growth. Indeed, economic growth was close to 10 % and Georgia was considered as a “top reformer” by the World Bank rating agency Doing Business.<sup>2</sup> The Shevardnadze period, when the country had “slithered towards disintegration” seemed far away. By that time, G.W.Bush called Georgia a “beacon of liberty”, giving Georgians the fallacious impression that the Rose Revolution had been a turning point concerning living conditions, a decisive step towards democratisation in the sense of a development process allowing for egalitarian access to wealth... There is little evidence that, by 2010, social needs and the people’s aspirations are more actively taken into account than before.

This imbalance between positive macro-economic outcome and people’s perception of living conditions prompts us to question the threefold challenge post-Soviet countries have had to face since their independence: state building, democratisation and the introduction of market economy. These three elements of the transformation process are closely linked, but have their own logic and temporality and may therefore give way to conflicts (Muskhelishvili 2008a, Carothers 2002, Diamond 2008, Grosjean and Senik 2007). As far as Georgia is concerned, after initial years of democratisation and broad, but nevertheless inconclusive market reforms, the Rose Revolution focused on economic liberalisation. However, despite overall growth, Mikheïl Saakashvili’s economic course has not given way to poverty reduction or to decent employment. On the contrary, the economic reforms have increased hardship. Moreover, the August 2008 war has generated new flows of refugees and the spill-over of the international crisis has exacerbated dissatisfaction with everyday life. The international concern for the little country situated on a highly strategic crossroads between Central Asia and Europe has even more fostered president Saakashvili’s economic options. Nowadays, Georgia has become a beacon of neoliberalism or even libertarianism (ESI 2010a/b/c), hastening the economic agenda in order to overcome the slow-down in foreign investment. Mikheïl Saakashvili considers the liberal economic course as irreversible and wants the country to become “like Dubai” in the near future.<sup>3</sup> Not surprisingly, market principles are also underlying the reforms of social protection.

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<sup>2</sup> For this paragraph, see Doing Business (2006); “Collapse of Georgia is Ignored by the World”, *The Independent*, January 14, 2002 [<http://www.counterpunch.org/pcockburngeorgia.html>]; “Bush: Georgia 'beacon of liberty””, *Cnn.com*, May 22, 2005 [<http://edition.cnn.com/2005/WORLD/europe/05/10/bush.tuesday/index.html>]. All links mentioned in this text were accessed in July and August 2010.

<sup>3</sup> See “President Mikheil Saakashvili's Annual Report to Parliament”, February 26, 2010 [[http://www.president.gov.ge/index.php?lang\\_id=ENG&sec\\_id=231&info\\_id=2482](http://www.president.gov.ge/index.php?lang_id=ENG&sec_id=231&info_id=2482)]; “Saakashvili : Georgia Will be Like Dubai in 5-7 Years”, *Civil.ge*, June 22, 2010 [[http://www.civil.ge/eng/\\_print.php?id=22438](http://www.civil.ge/eng/_print.php?id=22438)].

Considering that social protection is determined by manifold factors — including history, economic performance, demography, internal power relations, external pressure, etc. — it will be demonstrated that the ideology which is underpinning economic policy is of the utmost importance to the setting up and the successful implementation of welfare provision (Cook 2007, Orenstein 2008, Pierson 2009). To start with, the shift from centrally planned to market economy will be illustrated. It has given way to dramatic changes in the field of labour, with self-employment being the most common way of making a living in current Georgia, thus hampering a salaried labour-centred social protection according to the Bismarckian model. The contrast between the Soviet system and current social protection will be worked out thereafter, showing that high social demand is only very partially satisfied, whereas market mechanisms and individual responsibility are supposed to play a key role. The current system appears coherent with authoritarianism benefitting from the weakness of civil society. However, national decision makers seem to overestimate people's readiness to accept the new rules of the game.

## **1. The painful shift from centrally planned to market economy**

Immediately after the breakdown of the Soviet empire, none of the post-communist countries could escape a serious deterioration of social and economic indicators. In Georgia, the situation was all the more dramatic as the country also experienced civil war and a threat to its territorial integrity. From 2004 on, this situation hastened pro-market reforms and exacerbated the authorities' will to "go West", to the detriment of well balanced economic structures and a dynamic labour market. This approach was also detrimental to the citizen's expectations for a better life and a fairer society based on efficient distributive mechanisms.

### **1.1. From the Shevardnadze period to the Rose Revolution**

Prior to independence in 1991, the country's economy was a relatively flourishing one.<sup>4</sup> Thanks to its tourist potentialities and its cultural resources, Georgia was an attractive place not only for the moscovite nomenklatura, but also for the general Soviet public. The primary sector provided wine, tea, citrus fruit, etc.; its output represented a third of the country's material production. Over the years, the Georgian economy had turned away from an agriculture centred system and fostered industrial production, with new branches (steel, aircraft, machine tools, chemicals, energy, etc.) being developed. In 1991, 42 % of the national output were related to industry which employed one active person out of five. Georgia was also widely involved in the network of inter-republic trade within the USSR. This also meant that the country's production and export capacity heavily relied on energy and raw material supply from other republics, usually at lower price levels than international ones. At the moment of independence, Georgian agriculture, employing one Georgian out of four, provided up to 10 % of the inter-republic food trade, more than 67 % of Georgia's exports went to Russia, 60 % of its imports came from Russia.

However, the principle of inter-republic division of labour and cooperation suddenly vanished with the dissolution of the Soviet Union, leading to a serious deterioration of the country's international trade activities. Under the new conditions, traditionally exported goods were not competitive on markets outside the former USSR, due to a lack of adequate technology, high cost of imported inputs, poor infrastructure and inappropriate marketing. Most of the industrial capacity became irrelevant to the new challenges the country had to face. The

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<sup>4</sup> For the data concerning the eighties and nineties, see World Bank (1993), International Center for Human Development (Yerevan) / Areat Center (Baku) / Stratégic Research Institute (Tbilisi) (2003). For recent data see the National Statistics Office of Georgia: <http://www.geostat.ge/>.

liberalisation of energy prices brought about a very severe terms-of-trade shock. This evolution had tremendous consequences in the field of labour.

The Shevardnadze period — 1992 to 2003 — was, to a great extent, characterised by economic practices legated from the communist past, with oligarchs and rent-seekers managing to optimise their personal benefits and to stop further reforms. Political unrest and civil war, dramatic insecurity, ineffectiveness of many core state institutions, including the police and the tax authorities, and one of the highest rates of corruption in the world were part of everyday life. All these phenomena were the ingredients contributing to the breakdown of the Georgian economy. The international financial institutions lost confidence in Georgia's political leaders and in their ability to conduct efficient economic reforms.

The Rose Revolution and Mikheil Saakashvili's access to power in 2004 were to put an end to this tragic situation. Not surprisingly, the first velvet revolution in the post-Soviet space raised many expectations in Georgia as well as abroad, be it among potential investors or international donors. Not only did these expectations focus on democratic breakthrough, state building and the restoration of Georgian sovereignty over its whole territory, but also on the revival of the country's economy. Concerning the latter, from the very beginning of his presidency on, Mikheil Saakashvili was determined to build up a modern market economy with Western standards.<sup>5</sup> Whereas Georgians simply hoped for a better life, the international community was more ambitious and considered the Rose Revolution as a promise for market economy and democracy. Little by little, however, it became clear that market economy and democracy building do not automatically go hand in hand, especially if the latter is equated to a dynamic process towards a more egalitarian society (Carothers 2009).

One of the most prominent hardliners of the neoliberal reforms was Kakha Bendukidze who had made his fortune in Russia in the nineties (ESI 2010a/b/c). Holding important positions in Saakashvili's government — Minister of Economy, State Minister for Reform Coordination and Head of the Chancellery — he deeply distrusted bureaucratic decision making, including in the European Union. Not surprisingly, the “ideology of [the] reforms was making everything private, as much as possible, having small government, as much as possible...”<sup>6</sup> Lado Gurgенidze, Prime Minister, following in Bendukidze's footsteps, puts it this way: “we're libertarians”, “we do not have any industrial policy of any kind in any sector...”, and “we take any legal activity... it does not matter where the growth comes from”.<sup>7</sup>

The achievements of the reforms should not be underestimated. Indeed, the young president's team succeeded in securing macroeconomic stabilisation by creating market institutions, by imposing financial order and by conducting a successful fiscal policy with tax revenues making an impressive upward leap. Georgia has the reputation of being one of the most investment friendly countries of the world, a global success story of ultra-liberal economic governance.

Prior to the August 2008 war and the recent international crisis, the Georgian economy has registered high growth rate, ranging from 6 % (2004) to more than 12 % (2007). The decision makers' ability to attract foreign direct investment played a crucial role in this regard.

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<sup>5</sup> For this paragraph, see Coordonnier (2007), ESI (2010a/b/c), Papava (2009) and Samson (2008).

<sup>6</sup> CATO Institute, “Georgia's Transformation into a Modern Market Democracy”, *Policy Forum*, May 13, 2008 [<http://www.cato.org/event.php?eventid=4646>].

<sup>7</sup> “A Conversation with Lado Gurgенidze, Former Prime Minister of Georgia”, *Milken Institute Global Conference 2009*, April 27-29 [<http://www.milkeninstitute.org/>].

However, growth was mainly linked to the short-term goals of the restructuring process which was meant to adapt the country to a globalised world and to open it to its partners in South Caucasus, in the Black Sea Region as well as in the European Union. The focus was on developing energy routes, the railway and roads, thus leading to the boom in the construction industry. The structural changes also concerned financial intermediation, communication, hotels and restaurants as well as trade. These sectors registered an impressive increase, too. Conversely, the industrial production decreased, contributing not more than 13,2 % to GDP in 2009 (GEPLAC 2009), compared to three times as much in Soviet times (World Bank 1993). Agriculture did not perform much better and its contribution to GDP was not higher than 8,3 % in 2009, against 33 % in 1991; value added by the sector was 15 % lower than six years earlier. The biggest hurdle in agriculture is the low productivity of the land plots. In many cases, their output is insufficient and only provides a subsistence income to their owners. At the same time, construction had grown by 62 %, transport and communications by 50 % (GEPLAC 2009).

Georgia's economic profile is quite typical for countries shifting from centrally planned to market economy. Economic growth is being driven by market services and construction, which is due to high consumer demand and to public actors focussing on the provision of public goods in the form of infrastructure and communication. However, in Georgia, the shift to market economy has disorganised the labour market to a much greater extent than in other post-Soviet countries, a substantial difference worth being highlighted.

## **1.2. Self-employment, poor living conditions and high social demand**

It goes without saying that the breakdown of the centrally planned economy has brought about profound changes in the field of labour, exposing an unprepared population to the ups and downs of the market and fostering social demand for protection against the risks going hand in hand with unemployment, bad health, old age, and poverty.

Massive lay-offs during the period following independence completely altered the structure of the labour market. Since 1990, the proportion of industrial workers has been divided by four, with one active Georgian out of five being employed in industry in 1990, but only one out of twenty in 2007.<sup>8</sup> More recently, state employment has been reduced drastically, as a consequence of the neoliberal approach concerning public administration.<sup>9</sup>

Agriculture has undergone an adverse evolution. 53 % of all active Georgians live on their own home-grown vegetables and fruit, twice as many people as during Soviet times. However, they are unable to convert to modern, technology based standards, which is due to the overall disarticulation of the production system:

“ [...] There is not much to do in the villages, partly because they do not know how to get the capital for seed, fertilizers, pesticides, irrigation maintenance and repairs, farm tools and machinery. Those who can raise crops do not know where to sell them. All of these things were provided for them in Soviet times. ”<sup>10</sup>

The consequences of lay-offs in industry and public administration have not only been dampened with workers converting to agriculture. Many jobless have started their own

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<sup>8</sup> State Department for Statistics of Georgia (1999: 46), Ministry of Economic Development of Georgia (2009a: 18).

<sup>9</sup> Between 2004 and 2007, the category “Public administration, defence and compulsory social security” decreased by 26 %. See Ministry of Economic Development of Georgia (2007a and 2009a).

<sup>10</sup> MacPhee (2005: 144).

business in the service sector. This also explains the deep modification concerning the type of jobs and the emergence of new social risks. In the centrally planned economy, the labour market was relatively homogenous, salaried lifetime jobs were the rule and self-employment was practically inexistent. Now the latter is the most widespread way of earning a living: six to seven workers out of ten are self-employed. Hired employment only concerns a third of the total labour force, with the public sector still being the main employer in the country. The Georgian labour market is thus highly segmented.<sup>11</sup> Self-employment attains by far the highest rate in the post-Soviet space<sup>12</sup> and is fulfilling a well known contra-cyclical function, as can be observed in poor countries all over the world.

However, the definition of self-employment is questionable, and so is the definition of unemployment, officially 16,5 % in 2008. This is five points more than in 2003 (Ministry of Economic Development of Georgia 2009a: 9). In reality, self-employment is often equated with hidden unemployment, which is particularly the case in agriculture. Indeed, in this sector, the status of self-employment is pre-defined, since one hectare of agricultural land in the possession of a family means its members are self-employed by definition. Whether one hectare of land is enough to earn a minimum subsistence is debatable insofar as the productivity of these small-scale farms is so low that in numerous cases their production is insufficient to be sold on the market.<sup>13</sup>

Given the current labour situation in Georgia, no wonder living conditions have dramatically worsened since independence, which may give way to nostalgia for Soviet times. In 2007, the country's human development index was still 10 % lower than in 1991. Although there is no consensus on the level of poverty in Georgia (UNDP 2008) — which is, among others, due to the manifold definitions of poverty and the frequent changes of the national poverty line throughout recent history — one Georgian out of three or four can be considered as poor. One of the aspects of poverty is the dramatic reduction of food consumption. Since 1990, Georgians consume 53 % less meat and fish, 35 % fewer eggs, and 22 % less fruit.<sup>14</sup> Another indicator of poverty is high health vulnerability. Indeed, infant mortality in Georgia is more than three times as high as in Latvia and Lithuania, two countries serving as a model in many aspects.<sup>15</sup> Moreover, many Georgians forego medical consultations because of financial problems.<sup>16</sup> Alternatively, whether it is expressed publicly or simply perceived by the population, social demand for protection against risks linked to labour market failures, bad health, and poverty is high.

Legitimate expectations concerning social protection in Georgia are also high among internally displaced persons (IDPs). According to official sources, they were 228,000 in June

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<sup>11</sup> Insofar, the term of labour market is debatable, which contributes to the difficulty of efficient public policy.

<sup>12</sup> 63 % of the Georgian labour force are own-account or family workers, against 57 % in Kazakhstan, 31 % in Moldova, 6 % in Russia. See ILO labour statistics [<http://laborsta.ilo.org/>]. Accordingly, the contribution of the “shadow-economy” to GDP is in Georgia one of the highest in the world. See Schneider *et al.* (2010). However, definitions are diverging, which does not allow for exact measurement. According to Georgian statistics, this contribution has decreased between 2003 and 2007. See Ministry of Economic Development of Georgia (2007b).

<sup>13</sup> See: Forkel (2009), UNDP (2008), and “Rural poverty in Georgia”, on the Rural Poverty Portal, [<http://www.ruralpovertyportal.org/web/guest/country/home/tags/georgia>], linked to IFAD (International Fund for Agricultural Development).

<sup>14</sup> Ministry of Economic Development of Georgia (2004: 77-78; 2009b: 61).

<sup>15</sup> 32 per thousand live births in Georgia, compared to 9 in the Baltics (2006). See the World Health Organization website : <http://apps.who.int/whosis/database/>.

<sup>16</sup> Georgia Primary Health Care Development Project *et al.* (2007: 12).

2009, which is equivalent to 5 % of the country's population.<sup>17</sup> Most of them were displaced during the civil war in the nineties, whereas a new wave of IDPs has emerged in the aftermath of the August 2008 conflict with Russia. To a great extent, they are accommodated in inadequate places, such as former hotels, schools, healthcare facilities, etc. Among them, poverty is widespread, health conditions are dramatic and the unemployment rate is two or three times as high as among the local population (Zoidze and Djibuti 2004, Transparency International Georgia 2009a, World Bank 2009).

As in other countries with similar population structure, demography is undoubtedly one of the most important aspects to be taken into account for the successful implementation and financial sustainability of social provision. The Georgian society is an ageing one: the median age is 38 years, which is close to Western European figures.<sup>18</sup> The natural ageing of the Georgian society is accelerated by intense out-migration of young demographically dynamic generations. Since independence, approximately one million residents — Georgians, but also Russian, as well as other ethnicities — have left the country. From a purely technical point of view, together with the nature of the Georgian labour market — with only 35 % of the labour force being hired and thus supposed to pay taxes —, the demographic structure is a major determinant of the social protection model. Indeed, the ratio of 570,000 tax-paying workers to 860,000 pensioners — among whom 660,000 old age pensioners<sup>19</sup> — does not allow for a salary-based pay-as-you-go system. As a consequence, other solutions have to be worked out. This has been a long process with numerous ups and downs, driven by political internal circumstances and external pressure.

## **2. Soviet welfare is dead, long live poverty reduction**

The shift to a social welfare system compatible with the market economy is undoubtedly one of the most painful aspects of the economic process which post-Soviet countries have been undergoing since the beginning of the nineties. In contrast with Eastern European countries, where the economic and social context, together with the perspective of EU membership, permitted aggressive restructuring in a relatively short period (World Bank 2000), Eurasian countries could not engage in immediate radical reforms. They thus became sheer laboratories for social protection experiment, giving finally way to divergent models.

### **2.1. The Soviet legacy: lifetime security provided by the state**

During Soviet times, guaranteed employment for the working age population and pensions for retired workers provided lifetime security to the whole population. Social assistance was focussed on those who had special needs such as orphans, the disabled, and families with many children (Cook 2007, McAuley 1979, Orenstein 2008, World Bank 2000). Put in another way, it was category-targeted.

Full employment — which could go as far as over-staffing, among others in the medical sector — was the foundation of the communist welfare state insofar as it gave way to a wide payroll-tax base and thus enabled the state to keep the cost of welfare provision low (Orenstein 2008). Social provision was not only concerned with universal medical care, old-age and disability pensions, maternity and family benefits, it also included cheap housing,

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<sup>17</sup> See the website of Ministry of internally displaced persons from the occupied territories, accommodation and refugees [<http://www.mra.gov.ge/>].

<sup>18</sup> The median age is 39 years in France, but only 28 in Azerbaijan and 30 in Kazakhstan [<http://www.indexmundi.com>, estimation for 2009].

<sup>19</sup> See the website of the Social Service Agency [<http://www.ssa.gov.ge/>].

subsidized food and energy, education, cultural activities, vacation resorts, etc. The health care system was managed by the health ministries and financed from state and enterprise budgets. Paid holidays for employees, sick leave, disability pensions, as well as retirement pensions for employees were covered by Gosstrakh, the USSR State Insurance Company, which ran departments in each Soviet republic depending on a centralised budget. Trade Unions and state-owned enterprises were part of the welfare system and as such also played a vital role, because the market could not guarantee access to certain goods and services. The strength of the Soviet system was undoubtedly due to the broad public health measures and to the provision of a basic standard of living for all. It was a comprehensive system which was far more generous than protection mechanisms in non-communist countries with an equivalent level of development. Social indicators were similar if not better than in Western Europe.

However, the Soviet system is nowadays often overestimated and its defenders seem to overlook its numerous drawbacks (Cook 2007, Rose 2006). Indeed, health coverage was underdeveloped in rural areas, living condition in retirement homes and orphanages were appalling, and corruption was widespread. Although the health care system was efficient in administering broad public health measures, it was unable to modernize and to provide more sophisticated measures required for complex diseases. It goes without saying that the Soviet welfare state also had a highly political function. Indeed, although welfare provision was supposed to favour equality among workers, benefits were in fact stratified (McAuley 1979: 88-98). In this way, opponents could be punished, whereas “meritorious” citizens were given rewards in the form of better services. The communist welfare state was part of a social contract intended to secure people’s acquiescence to authoritarianism, a “finely tuned mechanism for differential distribution” (Orenstein 2008: 83). Therefore, it was of vital interest to create personal ties with decision makers, medical staff, teachers, etc. which compensated for the shortcomings of the system.

As far as Georgia is concerned, all these well-known “shadow-economy” practices which circumvented the constraints of the Soviet system were particularly widespread.<sup>20</sup> Personal networks are by nature strong in this country and they were systematically activated in order not only to benefit from amenities such as holidays, but also to facilitate access to fruit and vegetables grown on family owned plots. This may explain the relatively high living standard of the Georgian population in Soviet times.

## **2.2. New categories of assistance beneficiaries**

Georgians became aware of poverty at the beginning of the nineties. This was during the Gamsakhurdia period. From a formal point of view, the country was independent, but the regime was lacking legitimacy and had no autonomous budget at its disposal. It was by that time that massive lay-offswere launched. Shortages of basic food and electricity were common. The population’s bank savings were frozen and not given back to the depositors. Financial pyramid schemes contributed to the disaster. Whereas employees received a “symbolic”, nominal salary in form of coupons, the 1991 earthquake and civil unrest seriously triggered awareness of poverty. Moreover, Russia had seized the Georgian share of Gosstrakh’s funds, and according to the so-called zero option of interstate debt restructuring with Russia, Tbilisi could not help but give up on recovering the amount at stake, 550 million US\$, i.e. more than 6 % of the 1991 GDP (Tvalchrelidze 2003). According to World Bank

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<sup>20</sup> Mars and Altman (1987a and b). Useful insight is also provided by UNDP (2000, Chapter 5) and UNDP (2002, Annex 1).

estimations, the poverty gap was close to 13,3 % of GDP in 1993, which was three to four times as high as two years earlier.<sup>21</sup>

Needless to say, a profound reform of the entire health system was unavoidable (Chanturidze *et al.* 2009). The Soviet-style health system turned out to be incompatible with the market economy. It was overstaffed and the occupancy rate of infrastructures was extremely low. Besides, during the immediate post-independence era, the health system was severely damaged by war and the economic collapse, with IDPs being housed in hospitals. Downsizing appeared therefore the unique solution.<sup>22</sup> These conditions, together with the drastic reduction of public revenue, led to the breakdown of the health system. Between 1990 and 1994, real *per capita* public expenditure on health declined from roughly 13 US \$ to less than one dollar. One of the outcomes was the dramatic deterioration of health status indicators.

Concerning health protection, for several years, the category-targeted Soviet system was continued, but little by little it had to take into account new categories of beneficiaries. The first step in this direction was the setting up of the Fund for Social Affairs which was primarily supposed to shield the victims of the earthquake. When civil war led to thousands becoming homeless, its functions were expanded to securing refugees fleeing the conflict areas and to distributing new specific allowances. However, the Fund's resources consisted in foreign donations and some government grants, but they were limited.

As unemployment increased dramatically, the Fund for Social Affairs proved unable to assist the jobless who had emerged as another new beneficiary category. This situation gave way to the creation of the Labour Fund,<sup>23</sup> whose task was to disburse unemployment benefits, provide in-kind assistance to the jobless and help companies to preserve jobs. Initially, the Labour Fund's main resource was a 3 % tax wage paid by state-owned and private enterprise. Unemployment compensations were theoretically generous. Indeed, benefits were due for one year, with an average replacement rate of 65 %, a figure as high as in Germany (World Bank 1993: 74). The Labour Fund's inflows however decreased rapidly, which was due to under-reporting of wages, concealment of workers, and contribution evasion. Mismanagement was tremendous. Indeed, in 1999 for instance, administrative expenses were as high as the subsidies given to the unemployed (UNDP 2000: 39). At the same time, lack of information concerning their rights and dramatically decreasing allowances prevented many jobless from registering. In 1999, only 3 % of the unemployed had registered.

Reduced tax contribution base, cash shortage as long as Georgia was member of the rouble zone,<sup>24</sup> the lack of fiscal civility, poor managerial capacity, deficiency of information, etc. were also responsible for the shortcomings of the core institution for social protection, labelled Unified Pension and Medical Insurance Fund (World Bank 1993: 68). The latter administered pensions, family allowances and sick pay and was financed by a 37 percent payroll tax paid by both state-owned and private enterprises, plus one percent paid by the employees. Considering this rate, it was in line with Western European practices. The Fund's provisions totalled 12 % of GDP in 1991, with pensions running to 90 % of its budget (World

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<sup>21</sup> The poverty gap corresponds to the amount of income that would be required to bring every poor person exactly up to the poverty line, thereby eliminating poverty in the country. For data, see (World Bank (1993: 68).

<sup>22</sup> Hospital beds diminished from 60,000 in 1989 to 18,000 in 2003, physicians from 32,000 to 21,000 during the same period. Source: Ministry of Economic Development of Georgia (2004: 76).

<sup>23</sup> Later on, it was transformed into the United Employment Fund. We do not go into detail concerning the different denominations and mergers of the welfare institutions. See Chanturidze *et al.* (2009).

<sup>24</sup> Until 1993. See World Bank (1993: 10-11).

Bank 1993: 69).<sup>25</sup> Old-age pensions were still differentiated alike in the Soviet period by taking into account the salary and the period of contribution. Replacement rates were as high as 70%, thus even exceeding Western European figures. This generous system however turned out to be unsustainable, because fiscal resources were low — 11 % of GDP in 1992 — whereas the primary budget deficit reached a record high of 35 % of GDP.

In 1995/96, the time appeared ripe for abolishing all Soviet laws which were still effective. This also meant introducing social health insurance. New welfare institutions were created, such as the State Health Fund (later State Medical Insurance Company and State United Social Insurance Fund, SUSIF), which pooled employers' and employees' contributions and central budget transfers. People were no longer entitled to free health care and this rule was enacted in the Georgian constitution. Whereas public insurance coverage was limited to the so-called basic benefit package, co-payment became more and more usual. Erratic guidelines concerning beneficiaries, definition of provided benefits, fees, etc. introduced a series of biases which were detrimental to ensuring smooth functioning. Very soon the system's sustainability was in jeopardy, with a vicious circle of over-equipped and over-staffed health services, expenditure cuts and chronic under-funding, accumulation of reimbursement arrears concerning health facilities, increasing out-of-the-pocket-payments (OPP), insolvent patients, lower demand for health care, bad health indicators, etc. High OPPs deserve our special interest not only because of their large extent, but also because of a substantial unrecorded share.<sup>26</sup> Generally speaking, OPPs drastically diminish the demand for health care, making down-sizing even more inevitable, in spite of its contradiction with humanitarian and political considerations (Rose 2006). In the eyes of the national decision makers and international experts, privatisation appeared to be the only way out of this bottleneck (Transparency International Georgia 2007). Therefore, after less than a decade's existence, the social health insurance system was abandoned.

The difficulties faced by the pension system during the Shevardnadze period were similar. In the middle of the nineties, a flat rate pension system had been introduced. The shift from differentiated to flat rate pensions represented a radical change concerning the conception of social welfare and, to a certain extent, prefigured later instruments of poverty alleviation. Indeed, since that period pensions have progressively become a simple means of poverty reduction, and in 2001, the monthly old age pension represented only 14 % of the minimum basket of basic goods (Tvalchrelidze 2003: 19). For many years, the pension system, too, had to cope with tremendous arrears, but it was politically inevitable to maintain a certain standard.

Not surprisingly, after the Rose Revolution, the pension system, too, was concerned with the privatisation trend. Pensions being the most powerful driving force for social spending, international agencies and numerous experts recommended solutions to the Georgian pension debacle. This is why in accordance with its philosophy, the World Bank suggested a three-pillar system (World Bank 1994, Gugushvili 2009), opening the market for private insurance companies. The national decision makers envisaged the introduction of mandatory social and old age pensions and a package of bills was drawn up in this sense.<sup>27</sup> However, when Mikheil

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<sup>25</sup> For the pension reforms, see Gugushvili (2009).

<sup>26</sup> According to Bell *et al.* (2004 : 111), "it is estimated that almost half of the total revenue from OPPs is informally paid".

<sup>27</sup> *Law on Mandatory Social Insurance, Law on Mandatory Insurance Pensions, Law on Introducing Individual Registration and Individual Accounts in the System of Mandatory Social Insurance.* See GEPLAC (2005).

Saakashvili came to power, this reform was withdrawn and a less ambitious, but undoubtedly more feasible solution was adopted.

### 2.3. Poverty-targeted assistance

The first velvet revolution in the post-Soviet space had led to new donor support. Indeed, the international community considered the young Georgian president a precious ally in the fight against international terrorism and political and ethnic extremism jeopardizing peace and stability in the Europe-Caucasus-Asia corridor. Poverty alleviation was considered as the major issue in this combat. What is more, this was also in phase with the Millennium Development Goals. The new team's neoliberal course was presented as a guarantee in this regard. Moreover, "going West" — equivalent to closer cooperation with the EU, or even access, as well as NATO membership — was a strong motivation for adapting Georgian institutions to Western standards, including in the field of welfare.

2005, the year after Saakashvili's access to power was decisive for the evolution of the social protection in Georgia. The social health insurance system which had operated since 1995 was abolished and poverty-targeted instruments were called upon to progressively replace the existing category-targeted means of social protection. Unemployment allowances were abolished, too. Public funding of social provisions was completely revised. High payroll taxes and social contributions had fostered employment in the shadow economy. This is why, in a first step, personal income tax was transformed into a flat rate tax of 12 %, without any income threshold. In 2009, personal income and social taxes were merged into a 20 % income tax, which meant it contributed to 25 % of the total tax revenues (GEPLAC 2009: 11).

Although social transfers currently reach roughly six Georgians out of ten, the contrast with social protection in the past is noticeable. Indeed, in 2007, 4,1 % of GDP go social transfers such as pensions, allowances for IDPs, targeted social assistance for the poor, and subsidized energy consumption provided to certain categories of the population (World Bank 2009: 92), against in 12 % of GDP 1991 (World Bank 1993: 69). The social protection expenditure is not only low compared to the past, but also to that of the EU countries because the latter spend usually more than 20 % of their GDP on such programmes. Consequently and as far as health care in Georgia is concerned, out-of-the-pocket payments represent the highest percentage out of the 53 European region countries, 71 % in 2007.<sup>28</sup> At the same time, private insurances have not yet met considerable success. Indeed, less than 2 % of total expenditure on health is linked to voluntary health insurance (Chanturidze *et al.* 2009: 39).

It comes as no surprise that given Georgia's demography, pensions still represent the bulk of the total social transfers. The flat rate pension system has been maintained; the mean pension is 80 GEL (33 €) in 2010, which corresponds to 15 % of the average wage.<sup>29</sup> Expenditure for pensions make up for roughly 3 % of GDP. Georgia's pensions/GDP ratio is thus one of the lowest in Europe and Central Asia. It is also worth mentioning that records on former contributions to the social protection system have been abolished, which makes it technically impossible to come back to a differentiated pension system (Gugushvili 2009: 380). Besides pensions, the second category-based transfer concerns IDPs, irrespective of their well-being. Furthermore, some categories of the population, such as WWII veterans and the disabled are

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<sup>28</sup> See Chanturidze *et al.* (2009: 39). Out-of-pocket payments correspond to 16 % of total health expenditure in EU-15 (Western Europe), 27 % in EU-12 (Eastern Europe) and 37 % in CIS countries (World Bank 2009: 101).

<sup>29</sup> See the website of the Social Service Agency [<http://ssa.gov.ge/index.php?id=37&lang=2>].

granted monthly housing allowances (44 GEL maximum, which is 18 €). A punctual cash allowance of 600 GEL (247 €) is offered for maternity leave.

However, the core instrument of the current social protection is a proxy means-tested data bank operated by the Social Service Agency. Every household is entitled to registration and according to their living conditions, different benefits are granted, including cash allowances and health insurance giving access to the so-called Medical Assistance Programme (MAP). By April 2010, four Georgians out of ten were registered in this data bank, two were beneficiaries of the MAP. In addition, one got a cash allowance, a mean amount of 27 GEL (11 €) per month. It clearly appears that low living conditions are particularly experienced by people living in small households, especially if they are over 65.

The current Georgian social allowance distribution, linked to the new data bank, appears to be strongly pro-poor insofar as it diminishes the poverty incidence of the beneficiaries from 71 % to 51 %.<sup>30</sup> However, although the World Bank argues that the Georgian data bank gives way to one of the “best-performing similar programs in the world”,<sup>31</sup> there are numerous shortcomings. It is well-known that, compared to other countries, the high out-of-the-pocket-payments significantly foster poverty in Georgia, but the MAP’s pro-poor impact is limited. This is due to the fact that pharmaceutical drugs, which contribute to a substantial part to out-of-the-pocket payments, are not included in the programme (World Bank 2009: 109-115). Given the modest resources allocated to cash allowances, only a third of the extreme poor are covered. Generally speaking, cash allowances are not differentiated according to poverty depth, which hampers the redistribution effects of the system. What is more, certain points are systematically eluded due to their politically explosive nature. What about the pensions and especially the old-age pensions in the future? What about the non-poor experiencing hardship, but not registered in the data bank? What about the self-employed? Alternatively, the current system is all the more perfectible as the needs-driven social assistance is aimed at gradually doing away with the communist legacy of category-targeted allowances.

### **3. In search of the new rules of the game**

According to the Georgian leaders, the underlying rules of the reforms analysed above are the prerequisite for what people simply call a better life, compared to that of Soviet times and the first decade following independence. The population’s post-revolutionary enthusiasm concerning in-depth reforms has eroded quickly though, as people’s expectations are far from being met. The current regime’s “economy first” approach fosters even more neoliberal reforms which can only be implemented by increasing authoritarian means, thus leaving behind the concerns with a more equal society. In this way, the legacy of the past is reinterpreted — by decision makers as well as by the population — in order to implement the announced reforms and to render the living conditions more acceptable.

#### **3.1. Politics matter**

Let us briefly go back to the authorities’ economic ideology. There is evidence that the current social protections are coherent with the economic policy engaged since the Rose Revolution. According to “new public management” methods, neither social protection nor health care are supposed to diverge from overall political options:

“The new government strongly believed that the overall development directions chosen had to be undertaken in all sectors to be consistent with the country’s overall development. Thus, health care reform was considered a continuation of changes already undertaken in other sectors as part of the

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<sup>30</sup> Poverty incidence measures the percentage of families with a *p.c.* income below the poverty threshold.

<sup>31</sup> In spite of inclusion errors of 30 %. See World Bank (2009: 97).

national development policy, rather than separate or specific reforms, calling for particular planning and considering of specific characteristics of health care and health care markets.”<sup>32</sup>

One of the major aims of the post-revolutionary transformation process is the downsizing of the state. This means implementing deregulation, simplifying procedures, and reducing human resources. Concerning welfare, this means limiting the range of social provisions — with the Social Service Agency data bank progressively becoming the core instrument — , but also facilitating their calculation — flat rate instead of differentiated allowances adapted to the specific needs of the beneficiaries — . From a technical point of view, this system is undoubtedly less labour-intensive than the former one and may explain the substantial lay-offs in the Ministry of Labour Health and Social Affairs. The same approach is also adopted at the fiscal revenue level. The number of taxes has been reduced and tax rates have been cut, which does not only diminish labour-intensity and hopefully combat corruption in the public service, but is also supposed to attract foreign investment. In other words, the motto is “not funding the institutions, but funding the consumers” and “empowering citizens to exercise free choice”.<sup>33</sup> In this sense, the new tax code which came into effect in 2005 transformed the fiscal landscape. There are only six taxes left and Georgia is one of the countries in the world with the lowest tax obligations. Nevertheless, due to a broader tax base and better tax administration — or, as some put it, due to “excesses and intimidation of the Financial Police” (Transparency International Georgia 2010c: 3)—, fiscal revenues increased substantially, from 14 % of GDP in 2003 to 25 % in 2009 (GEPLAC 2009: 11), a rate which is however extremely low compared to Western European countries.<sup>34</sup> Undoubtedly, from the purely mathematical point of view, the authorities’ approach to downsizing the state has produced positive results and has contributed to the idea of the Georgian success story. However, as far as redistribution of wealth is concerned, the outcome is more than debatable.

The in-depth reforms carried out since the Rose Revolution were generally undertaken in a “top-down” manner and external threat is regularly used to justify authoritarianism. Weak trade unions, low civil society mobilisation, and strong concentration of power facilitated this approach. Let us consider first of all the trade unions. Their current practices are deeply rooted in the communist legacy. During Soviet times, rather than being organisations supposed to defend the employees’ interests against employers, trade unions were part of the social welfare system and controlled by the central state. Their leaders were generally members of the Communist Party. Long after the breakdown of the USSR, trade unions’ main preoccupation was managing with — or “privatising” — their property. It was only in 2005 that a major change took place, thanks to a new leadership (Transparency International Georgia 2010a). There is undoubtedly higher transparency and accountability to members — roughly 42 % of the salaried workers are unionised — and outside observers. Nevertheless, “stuck between the need to send out a populist message to boost the unions’ popularity and the weight of its own responsibility as a party to (nascent) social dialogue, the union leadership sometimes appears to have a split personality” (*ibid.*: 5). A healthy social dialogue seems also difficult because of the “ideological distaste for unions within the government which sees them as ‘enemies of economic development’”. Changing mentalities is a long-drawn process, for union leaders as well as for the population. Considering the latter, distrust against trade unions is widespread. Only 25 % of the population have a favourable impression

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<sup>32</sup> Chanturidze *et al.* (2009: 86).

<sup>33</sup> “A Conversation with Lado Gurgenzidze, Former Prime Minister of Georgia”, *Milken Institute Global Conference 2009*, April 27-29 [<http://www.milkeninstitute.org/>].

<sup>34</sup> See “2009 Tax Misery & Reform Index”, *Forbes Magazine*, April 13, 2009 [<http://www.forbes.com/global/2009/0413/034-tax-misery-reform-index.html>].

of the work of trade unions, 34 % an unfavourable one, 41 % have no opinion at all...<sup>35</sup> For all these reasons, trade unions have only played a very marginal role in the setting up of the current social protection. It was only very recently that they have gained better visibility and creditworthiness thanks to their efforts to bring the Georgian Labour Code — which was elaborated without them being consulted and adopted in 2006 — in line with ILO standards.

The implementation of ultra-liberal reforms is also favoured by the weak representativity of civic institutions such as NGOs and the organisational ineffectiveness of the opposition. As in other CIS countries, the emergence of a specific NGO sector in Georgia is closely linked to the transformation process in the nineties (Muskhelishvili 2008a). As a result of ideological globalisation, NGOs claimed to promote inclusive social actions, protect human rights, and universal values, in short to be the vanguard of the democratisation process in the post-Soviet space, a process which was supposed to be irreversible. Interestingly, this is to a certain degree reminiscent of the communist party leadership which, in Soviet times, was also considered a vanguard... (Muskhelishvili and Jorjoliani 2009: 687). Very soon, tough competition between increasingly professional NGOs, backed by the international community on the one hand, and local, less competitive grass-root organisations on the other, led to the marginalisation of the latter, whereas the former turned increasingly to think tank activities and legal drafting. Being increasingly “knowledge-based, exclusive and politically active” (*ibid.*:178), they had turned into a reservoir of qualified, urban labour resource. At the same time, less innovative organisations, such as universities, churches, research institutions etc. which had actively participated in the perestroika movement were implicitly excluded from democracy promotion.<sup>36</sup> This situation, together with people’s limited trust in organised communities has contributed to the weakening of the NGO sector.<sup>37</sup> As far as the emergence of a representative and inclusive civil society is concerned, the opposition, which has largely given up being represented in parliament does not play a very constructive role either. Mass protests are haphazard and not supported by institutionalised networks. They are simply “spontaneous and disorganised movements, led by more or less charismatic leaders” (Wheatley 2010: 6), lacking powerful links with the international community.

It therefore comes as no surprise that since the Rose Revolution the quality of democracy has decreased, especially with regard to equal access to resources. Concentration of power is currently stronger than before, and whereas the elites are disconnected from the people, public policy is to a large extent designed by foreign experts whose responsibility is not subject to the ballot. The concentration of power is a multi-faceted phenomenon in Georgia. Firstly, a series of amendments to the constitution were voted, shifting the balance of power from parliament towards the president (Bertelsmann 2009, Diamond 2009: 200-202, Khutsishvili 2009, Lansky and Areshidze 2008). In other words, super-presidentialism is the price Georgians have to pay for Saakashvili’s state-building programme. Moreover, the ruling National Movement is virtually merged with the state, since the state’s symbols are used for party’s concern (Muskhelishvili 2008). This also reminds the party-state system of the past. Secondly, not surprisingly, the regime is constantly suspected of exercising influence over judges, which hampers the independence of the judiciary. Thirdly, independence of the media is also at stake. Whereas the TV channel Rustavi 2 played a crucial role during the Rose

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<sup>35</sup> See IRI (2009 : 47). Interestingly, people have a very high opinion of the church (93 % favorable).

<sup>36</sup> See also Katsitadze (2010).

<sup>37</sup> Among the NGOs particularly concerned with IDPs, the poor, and health care consumers, one can mention Human Rights [<http://www.humanrights.ge/>].

Revolution and Imedi was the opposition's "loudspeaker" until 2007, plurality of the media has vanished since then.

As in other post-Soviet countries, the "democratic rollback" (Diamond 2008) in Georgia frequently gives way to populist measures which are backed by shock discourses. Mythical numbers play a crucial role in these discourses,<sup>38</sup> and so do mythical places, for instance when president Saakashvili claims that "Switzerland will meet Singapore in Tbilisi".<sup>39</sup> Populist attitudes can also be illustrated by several "pension reforms" which simply consisted in increasing the monthly pensions, without tackling the problem with all its complexity and overall implications. Another series of "reforms" was announced in the "50-day Programme". Impressive initiatives are often taken immediately before elections, from a purely political stance rather than to improve the living conditions of the most fragile social strata (Transparency International Georgia 2010b). Considering the beneficiaries primarily as voters is however detrimental to political participation beyond voting and, more generally speaking, to having faith in public institutions. Democracy thus remains shallow.

### 3.2. Matching potentially divergent institutions

Finally, it is also instructive to consider the population's reaction towards the new rules of the game — or institutions in the sense of Douglas North (1990) — going hand in hand with the transformation process. Concerning the social sector, these rules can be summed up as follows: universal monetarisation, commodification of social services, individualisation of decision making, personal responsibility concerning risks. One could imagine that they are easy to implement because, on the one hand, changes are vividly clamoured for by the population and institutional stakeholders and, on the other, the international agencies have at their disposal global models which are supposedly adaptable to various situations. However, these new formal rules can give rise to deep anxiety because they might contradict informal rules. The latter include norms, conventions, models of behaviour, beliefs and constraints which are worked out and accepted by the population, according to social values. They are linked to the collective memory and are deep-rooted in long term history. Adapting them to the new constellation and making them blend with the formal institutions can provoke resistance, especially if decision makers do not succeed in meeting people's expectations. In other words, the successful shift towards post-Sovietism needs institutional arrangements which can be accepted by all the stakeholders. This condition is not as yet fulfilled in the case of Georgia.

Trust is a crucial element in this context. Indeed, formal institutions are supposed to be a source of trust in a country's organisations and in its decision makers. Their main role is to guarantee to the population a certain degree of stability. If one looks at recent Georgia history though, quite the contrary can be observed. Since the very first reforms, instability and confusion are widespread. This is due to the numerous organisations which are supposed to define and manage the social protection system. These organisations — United Social Welfare Fund, State Medical Insurance Company, United Fund, United Social Insurance Fund (SUSIF), Social Assistance and Employment State Agency (SAESA), etc. — had to fulfil various changing functions; their autonomy from the different ministries was

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<sup>38</sup> "100 hospitals", "100 new agricultural enterprises", pensions as high as "100 \$", loan programme for the "100 best businesses", etc. See also "Government's Five-Year Program", *Civil Georgia*, January 31, 2008 [<http://www.civil.ge/eng/article.php?id=17030>]; Lashkhi *et al.* (2008) and the Georgian president's website [<http://www.president.gov.ge/>, link "speeches"].

<sup>39</sup> "Georgia : Saakashvili Says Switzerland Will Meet Singapore in Tbilisi", *Georgia News*, March 9, 1010 [<http://www.euriasianet.org/print/60058>].

insufficient and they usually were short lived. Instability is also linked to hesitations in the field of legislation. Let us just remind the bills on mandatory social insurance which were adopted at the end of the Shevardnadze era. They have never been implemented, because their ambitions were incompatible with the local realities.

The impression of instability may also follow sudden changes concerning technical aspects. For instance, the taxation techniques and the collection of social contributions have been modified several times during the last fifteen years, especially after a new tax code was passed in 2005. Moreover, it happened that public and private services fulfilling comparable tasks existed side by side, which also destabilised the population. This was the case when microfinance institutions supplied microinsurance at a moment when the central government decided to offer free health care services in the form of the Basic Benefit Package. Another recent modification concerns the poverty threshold for the Social Service Agency data bank. In the future, the households' assets will continue to be taken into account for assessing poverty, conforming to the proxy means testing. Nevertheless, the ownership of some items — such as cars — is considered incompatible with poverty allowances. This means that poverty assessment will have to be redefined according to somewhat modified criteria, probably excluding certain former beneficiaries.

Furthermore, the insurance sector is booming, with about fourteen insurance companies operating on the Georgian market and offering a range of packages.<sup>40</sup> Some of these companies try to attract customers by handing out gifts to new subscribers. This situation in a sector with strong potentialities is detrimental to objective product information. It might disconcert the public and give way to rivalry affecting the whole insurance industry.

Whereas ad hoc measures are frequent, Georgia is lacking a political long term vision and a seriously worked out linkage between public policies and specific social measures. This can be demonstrated by the following example. The universal insurance coverage has come into sharp focus, but there are no institutions offering training for the middle management of insurance companies. This lack echoes the problem of professional training in Georgia, and more generally speaking, the politics of education (Muskhelishvili 2007).

It is finally also useful to take into consideration the actors of institutional change and the plurality characterising them. International agencies, donors, experts, as well as potential investors, the members of civil society and their representatives, they all are stakeholders. When promoting the new rules of the game, they first of all pursue their own interests, partially or entirely. Whereas the citizens hardly take part in the working out of the new rules, power relations favour international agencies, especially the World Bank, USAID, and the European Commission. They are global actors insofar as they bring together experts who will develop global “best practices” and replicate models in different national states (Orenstein 2005). While emphasizing formal and operational reforms, these global actors do not necessarily have the sufficient in-depth knowledge of the local situation and of people's current practices. In other words, informal rules are frequently neglected and their importance is underestimated. This may explain why some reforms turned out they simply did not fit the local situation and thus have remained a dead letter.

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<sup>40</sup> See “Newcomer Insurer Sparks Discontent among Rivals”, *Georgia Today*, n° 495, January 29 – February 4, 2010; “Insurance Boom in Georgia”, *Georgia Today*, n° 493, January 15 – 21, 2010 [<http://www.georgiatoday.ge>].

Approaches do not only differ because actors are transnational or national by origin. Dividing lines can also be found between and within the different communities, such as donors, national decision makers, private partners and experts, and the civil society. Although every entity has its own rationale and its specific “culture”, generation conflicts may foster internal tensions. This is due to the professional trajectories of decision makers and executors, their compliance with the former system or the neoliberal approach. Many of them consider the reforms to be undertaken too rapidly, hindering full comprehension of the innovation process (Samson 2008: 70). This has also to do with the generation gap. President Saakashvili’s tendency to rely on young graduates contributes to fostering these cleavages.

All these different elements create conflicts between formal and informal, so-called modern institutions and those transmitted from the past. What about the population who, as a key stakeholder, is supposed to benefit from the reforms and who, in the end, decides if the reforms are successful or not? For the vast majority of the Georgian population, the shift to market economy and to new protection has brought about institutional changes which are difficult to accept. The widespread impression is that the state is not able to assume its responsibility, especially in the field of welfare. The deficiencies of the system have thus to be overcome by practices which have already proved beneficial in the past. This explains why personal ties are (re)activated. Indeed, Georgians favour personal contacts and face-to-face communication, be it with the medical staff, civil servants or simply shopkeepers. Despite free health care in Soviet times, patients were accustomed to giving gifts to their doctor, in cash or in kind, be it for cultural reasons and out of gratitude or because they hoped to get better service (Belli *et al.* 2004, Gotsadze *et al.* 2005, Allin *et al.* 2006). This attitude became even more widespread after the collapse of the health system in the nineties, when payments were the only way of getting access to medication. Nowadays, any doubt about the legitimacy of the fees is automatically cut short because of the very personal relationship with the medical staff. At the same time, the deep rooted habit of paying for health care hampers the successful introduction of health insurance, whether it is cheap or not. Indeed, to many Georgians, subscribing to an insurance simply “does not make sense”, because payments are part and parcel of informal rules.<sup>41</sup> Alternatively, the smooth functioning of market economy calls for a neutral relationship between atomised customers and suppliers. This condition however is currently not entirely met in the Georgian health sector, which might jeopardize the reforms, at least for a certain time.

## Conclusion

Seven years after the Rose Revolution, Georgia seems to stand at a new crossroads. In the aftermath of Mikheil Saakashvili’s access to power, the new regime undertook in-depth reforms which led to the country’s reputation of being one of the most investment-friendly places in the world. The achievements of these reforms — in terms of GDP growth, setting up market institutions, downsizing public administration, privatisation, etc. — should not be underestimated. Nevertheless, growth was also fostered by the normal catching up process which was — and still is — characteristic for post-Soviet countries. A certain number of these reforms turned out to be rather reforms *per se* than constructive elements of a global and long-term vision of the country’s future. The August 2008 war and the international crisis have profoundly jeopardised the Georgian economy. They have also revealed the fragility of a development process primarily based on foreign investment while neglecting not only the economic structures inherited from the Soviet past and the central role of agriculture, but also

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<sup>41</sup> See “5 GEL Insurance Plans: Expectations and Reality”, *Georgia Today*, February 20 – 26, 2009 and “The New GEL 5 Health Insurance Plan is Now in Effect”, *Georgia Today*, March 6 – 12, 2009.

widespread unemployment, underemployment, and the proliferation of informal jobs. It comes therefore as no surprise that poverty and hardship are widespread in post-revolutionary Georgia.

As the country's evolution in the 2000s was considered a success story, international donors used to turn a blind eye to the deficiencies of the democratisation process in the sense of efficient distribution mechanisms allowing for egalitarian access to wealth. Nevertheless, driven by the pressure of the Millennium Development Goals and the New European Neighbourhood Policy, social policy became a vital concern for the national decision makers and their foreign counterparts. After a period of experimentation, social protection currently seems to be heading towards stabilisation. Not surprisingly, social risks and material hardship are supposed to be combated essentially by market mechanisms. The population is thus incited to subscribe health insurance. Public distribution mechanisms only concern the poorest and pensioners. Given Georgia's demography, old age pensioners represent the vast majority of welfare beneficiaries, but their flat rate pension can at best be viewed as an instrument of poverty alleviation. In other words, social protection seems to a large extent to be linked to better Georgia's position in international benchmarking. The contrast to the Soviet-style social protection is tremendous: extensive protection based on life-time income security has given way to poverty-targeted allowances for only a part of those living under the poverty threshold. Collective concern with welfare is increasingly supposed to give way to individual responsibility. Although the current social protection system is in line with neoliberal principles, it has not done away with the Soviet legacy which consists among others in circumventing obstacles with informal practices. Therefore personal ties continue to be activated in order to overcome dissatisfaction with the new system. This approach however may create a conflict with the generalisation of market principles in the highly sensitive field of social welfare and foster even more radical reforms.

**Contact:**

Eveline BAUMANN  
UMR 201 Développement et Sociétés  
IRD France Nord  
32 avenue Henri Varagnat  
F 93143 Bondy Cedex — France  
Tel/fax: 00 33 1 48 43 21 37  
Mail: eveline.baumann@ird.fr

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