

## **Post-Soviet Georgia: It's a Long, Long Way to "Modern" Social Protection...**

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*This paper 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 ultra-liberal social reforms. However, against the background of recurrent social tensions, one cannot exclude a shift towards a more democratic provision of social services.*

*L'approche ultra-libérale qui caractérise les politiques sociales en Géorgie résulte de l'attitude résolument pro-occidentale du président Saakachvili. Les règles du jeu en vigueur – privilégiant l'assurance privée et de modestes aides publiques destinées aux plus vulnérables d'un côté, perpétuant l'habitus familiariste de l'autre – confirment la segmentation du marché du travail. Cependant, compte tenu des tensions sociales récurrentes, le passage vers des prestations sociales plus démocratiques semble inévitable.*

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Post-Soviet Georgia, 2012: From the macro-economic point of view, the country's evolution since independence, more than twenty years ago, may be viewed as a success story. It is a far cry since the Shevardnadze period, when Georgia was slipping towards disintegration. Since the Rose Revolution, Tbilisi is deliberately "going West", which is viewed as the only panacea against breakaway trends within the national boundaries and military conflict with Russia, the Northern neighbour. Against the background of insecurity threat, a large number of reforms have been undertaken since Mikheil Saakashvili came to power in 2004, reforms aimed at adapting social and economic institutions to the standards which are deemed to be those of rich countries. Priority is being given to market mechanisms which are supposed to bring about growth and better living conditions. Georgia has even been labelled "top reformer" by the World Bank rating agency *Doing Business* [(2006), p. 2], and economic growth continues to be high, despite the current international economic crisis.

However, when asked about their satisfaction with the so-called "transition process", the Georgians are very sceptical about the outcome of the economic reforms which are being carried out by the national decision makers, with the active support of international agencies. They appear to be even more sceptical than their neighbours in the post-Soviet space and are asking especially for more public involvement in health and old age pensions [EBRD (2007), p. 48-49]. Dissatisfaction is particularly widespread among older adults, given their personal experience of the highly inclusive Soviet welfare model, characterized by top-down organised universal social security embedded in full-employment. Mikheil Saakashvili's economic course has neither generated decent employment nor given rise to redistribution. Compared to the Soviet period, current social provision is dramatically low. In order to cope with everyday hardship, Georgians rely on private solidarity and mechanisms having proved to be useful in Soviet times. In other words, the Rose Revolution has not been a decisive step towards democratisation in the sense of a development process allowing for egalitarian access to wealth... No wonder street protest is frequent, exacerbating social tensions and bringing to the forefront a new competitor for the 2013 presidential elections, the "good oligarch" Bidzina Ivanishvili [Steavenson W. (2010)].

This imbalance between positive macro-economic outcome and everyday 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 eco-

mony. These three elements of the transformation process are closely linked, but have their own logic and temporality and may therefore engender conflicts [Carothers Th. (2002), Diamond L. (2008)]. Whereas in-depth market reforms are being given priority, the concern for redistribution is lagging behind, a trend which also dramatically affects social policy.

Considering that social policy 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 L. (2007), Orenstein M. (2008), Pierson P. (2009)]. To start with, I will illustrate the problematic shift from centrally planned to market economy, which has disorganized the labour market, thus hampering the wage work based funding of social protection. The contrast between the Soviet system and current social protection will be worked out thereafter: the latter appears coherent with authoritarianism benefiting from the weakness of civil society. However and this will be discussed in a third stance, national decision makers seem to overestimate people's readiness to accept the new rules of the game.

## I. – OVERCOMING THE CENTRALLY PLANNED ECONOMY

### I.1. From Shevardnadze to Mikheil Saakashvili

Prior to independence in 1991, the country's economy was a relatively flourishing one.<sup>1</sup> Thanks to its tourist attractions, Georgia was highly sought after by the Muscovite *nomenklatura* and the general Soviet public. Within the Soviet Union, she was also a major foodstuff provider and her industrial products – especially aircraft, machine tools, and chemicals, etc. – were highly regarded. However, the principle of inter-republic division of labour and cooperation – taking advantage of cheap energy and raw material supply from other republics – suddenly vanished with the dissolution of the USSR, leading to a serious deterioration of trade activities. 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 infra-

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<sup>1</sup> For the data concerning the eighties and nineties, see World Bank (1993), International Center for Human Development *et al.* (2003). For recent data see the National Statistics Office of Georgia [<http://www.geostat.ge/>].

structure and inappropriate marketing. Most of the industrial capacity became irrelevant to the new challenges the country had to face, and the liberalisation of energy prices brought about a tremendous terms-of-trade shock.

Immediately after the breakdown of the Soviet empire, none of the post-communist countries could escape a serious deterioration of social and economic indicators. However, the situation was all the more dramatic in Georgia as the country also experienced civil war and a threat to its territorial integrity. 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, extreme 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 commonplace. All these phenomena were the ingredients contributing to the breakdown of the Georgian economy. As a consequence, 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. 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. From the very beginning of his presidency, Mikheil Saakashvili put the focus on the construction of a modern market economy with Western standards [Cordonnier Ch. (2007), ESI (2010a/b/c), Papava V. (2009), Samson Y. (2008)]. One of the most prominent hardliners of the neo-liberal reforms was Kakha Bendukidze who had made his fortune in Russia in the nineties. Holding important positions in Saakashvili's government, he deeply distrusted bureaucratic decision making. Not surprisingly, the "ideology of [the] reforms was making everything private, as much as possible, having small government, as much as possible..." [CATO Institute (2008)]. Lado Gurgeneidze, Prime Minister, following in Bendukidze's footsteps, put it this way: "we're libertarians" [Intriligator M. (2009)].

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 finan-

cial order and by conducting a successful fiscal policy with tax revenues making an impressive upward leap. Since 2004, the mean economic growth has been 6% per year. The decision makers' ability to attract foreign direct investment played a crucial role in this regard.<sup>2</sup> However, growth has mainly been linked to the short-term goals of the restructuring process which is meant to open the country to its partners in south Caucasus, in the Black Sea Region as well as in the European Union. Structural changes have concerned especially financial intermediation, communication, hotels and restaurants as well as trade. Conversely, the industrial production has decreased, contributing 16.1% to GDP in 2010 [National Statistics of Georgia (2011), p. 3], against 42% in 1991 [Word Bank, (1993), p. 4]. Agriculture did not perform much better and its contribution to GDP was not higher than 8.4% in 2010, against 33% in 1991, the biggest hurdle being the low productivity of the land plots which, in many cases, hardly provide a subsistence income to their owners.

Georgia's economic profile is quite typical for countries shifting from centrally planned to market economy, with economic growth being driven by market services and construction, as an outcome of high consumer demand and the decision makers' will to provide public goods in the field of transportation and communication. However, the precipitate shift to market economy, together with the lack of a clear vision with regard to the future of Georgia's economy – "we do not have any industrial policy of any kind in any sector..." as stated by Lado Gurgenedze [Intriligator M. (2009)] – have been detrimental to everyday living conditions.

## **I.2. A segmented "labour market", poor living conditions and high social demand**

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. Indeed, 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

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<sup>2</sup> However, trustworthy data on the origin of foreign investment are rare. To a large extent, so-called new investment mirrors regularisation.

employed in industry in 1990, but only one out of twenty in 2007 [State Department for Statistics of Georgia (1999), p. 46; Ministry of Economic Development of Georgia (2009), p. 18]. More recently, state employment has been reduced drastically, as a consequence of the neo-liberal approach concerning public administration. 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 [MacPhee C. (2005), p. 144].

The consequences of lay-offs in industry and public administration have been dampened with workers converting to agriculture on the one hand, to self-employment in small businesses (especially in the service sector) on the other. 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 workers out of ten are self-employed or family workers. Hired employment only concerns less than 40% 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, and vulnerable jobs attain by far the highest rate in the post-Soviet space,<sup>3</sup> fulfilling a well known contra-cyclical function.

However, the definition of self-employment is questionable, and so is the definition of unemployment, which is officially 16.3% (2010). 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 [Forkel B. (2009), UNDP (2008), p. 36].

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<sup>3</sup> 63% of the Georgian labour force are so-called own-account or family workers, against 36% in Armenia, 31% in Moldova, 6% in Russia. See ILO labour statistics data for 2008 [laborsta.ilo.org/, accessed in January 2012]. Accordingly, the contribution of the “shadow-economy” to GDP is in Georgia one of the highest in the world [Schneider *et al.* (2010), p. 29]. However, definitions are diverging, which does not allow for exact measurement.

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 2011, the country's human development index was still much lower than twenty years earlier, 0.733 against 0.829. There is no consensus on the level of poverty in Georgia – which is, among other reasons, due to the manifold definitions of poverty and the frequent changes of the national poverty line throughout recent history – but according to different estimations, one Georgian in three or four can be considered poor [UNDP (2008), p. 34]. It also clearly appears that low living conditions are particularly experienced by people living in small households, especially if they are over 65.<sup>4</sup> One of the aspects of poverty is the dramatic reduction of food consumption. Since 1990, the consumption of meat and fish has been divided by two; the consumption of eggs and fruit has decreased by one third [Ministry of Economic Development of Georgia (2004), p. 77-78; (2010), p. 50]. Another indicator of poverty is high health vulnerability. Indeed, infant mortality in Georgia is substantially higher than elsewhere in the post-Soviet space.<sup>5</sup>

Besides the above mentioned widespread vulnerable jobs, giving way to high exposure to risks with regard to income and health, legitimate expectations concerning social protection are fostered by issues linked to population ageing and internally displaced persons (IDPs). As regards population ageing, the median age is 39 years, which is close to Western European figures.<sup>6</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 Russians, as well as other ethnicities – have left the country. Poverty is particularly widespread among older people living alone and having no descendants. As far as IDPs are concerned, most of them were displaced during the civil war in the nineties, but a new wave of IDPs has emerged in the aftermath of the August 2008 conflict with Russia.<sup>7</sup> After having been accom-

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<sup>4</sup> See European Commission [(2011), p. 89]. In rural areas, this seems to be the case of 52% of the population. See "Rural poverty in Georgia", on the Rural Poverty Portal, linked to IFAD (International Fund for Agricultural Development) [[www.ruralpoverty-portal.org/web/guest/country/home/tags/georgia](http://www.ruralpoverty-portal.org/web/guest/country/home/tags/georgia), accessed in January 2012].

<sup>5</sup> 28 per thousand live births in Georgia, compared to 21 in Armenia, 16 in Moldova, 10 in Russia [World Health Organization, [apps.who.int/whosis/database/](http://apps.who.int/whosis/database/), data referring to 2006, accessed in January 2012].

<sup>6</sup> The median age is 40 years in France, 32 in Armenia, 29 in Azerbaijan and 35 in Moldova [[www.indexmundi.com](http://www.indexmundi.com), estimation for 2011].

<sup>7</sup> In June 2009, the number of IDPs totalled 228,000, *i.e.* 5% of the country's population. See the website of Ministry of internally displaced persons from the occupied territories, accommodation and refugees [[www.mra.gov.ge/](http://www.mra.gov.ge/)].

modated in places such as former hotels, schools, healthcare facilities, etc. – which has given rise to tremendous hardship [Zoidze A. and Djibuti M. (2004), Transparency International Georgia (2009), World Bank (2009)] –, a high percentage of IDPs have become owners of durable housing. However, given the geographic situation of the IDP villages, this does not fundamentally contribute to overcoming their social exclusion and poor living conditions...

From a purely technical point of view, the demographic structure of the Georgia population as well as the nature of the Georgian labour market – with only 38% of the labour force being hired and thus expected to pay taxes – are the major determinants of the social protection model. However, the ratio of 570,000 tax-paying workers to 836,000 pensioners – among four out of five are old age pensioners<sup>8</sup> – does not allow for a salary-based pay-as-you-go system, according to the Bismarckian model which (still) is the frame of reference for “modern” social protection in many Western European countries. As a consequence, other solutions have been worked out, driven by political internal circumstances, and external pressure.

## II. – SOVIET WELFARE IS DEAD, LONG LIVE POVERTY REDUCTION

### II.1. The Soviet legacy: lifetime security provided by the state

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, Eurasian countries were unable to engage in immediate radical reforms. They thus became sheer laboratories for social protection experiment, giving finally way to divergent models.

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 category-targeted, focusing on those who had special needs such as orphans, the disabled, and families with many children [Cook L. (2007), McAuley A. (1979), World Bank (2000)]. Full employment – which could go as far as over-

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<sup>8</sup> See the website of the Social Service Agency [[www.ssa.gov.ge/](http://www.ssa.gov.ge/), accessed in January 2012].



staffing – was the foundation of the communist welfare state. 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, subsidized food and energy, education, cultural activities, vacation resorts, etc. The health care system was 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. Trade Unions and state-owned enterprises were part of the welfare system and as such also played a vital role. The strength of the Soviet system undoubtedly resided in the broad public health measures and in 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.

Despite these undoubtedly positive aspects, the Soviet system is nowadays often overestimated and its numerous drawbacks seem to be overlooked [Cook L. (2007), Rose R. (2006)]. Health coverage was underdeveloped in rural areas, living condition in retirement homes and orphanages were appalling, and corruption was widespread. The health care system was efficient in administering broad public health measures, but it was unable to modernize and to provide more sophisticated measures required for complex diseases. It also goes without saying that the Soviet welfare state had a highly political function. Indeed, although welfare provision was supposed to favour equality among workers, benefits were in fact stratified, which allowed for punishing opponents and for rewarding “meritorious” citizens [McAuley A. (1979), p. 88-98].

In other words, 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 M. (2008, p. 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 regards Georgia, these “shadow-economy” practices which circumvented the constraints of the Soviet system were particularly widespread [Mars G. and Altman Y. (1987a and b), UNDP (2000), Chapter 5, UNDP (2002), Annex 1]. 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.

## II.2. New categories of assistance beneficiaries

Georgians became aware of poverty at the beginning of the nineties, 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. It was by that time that massive lay-offs were initiated. Shortages of basic food and electricity were common. The population's bank savings were frozen and not given back to the depositors, and 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, more than 6% of the 1991 GDP, sparking off a tremendous increase of poverty [Tvalchrelidze A. (2003), World Bank (1993), p. 67-81].

Needless to say, a profound reform of the entire health system was unavoidable [Chanturidze T. *et al.* (2009), p. 14-20]. The Soviet-style health system, overstuffed and characterized by an extremely low occupancy rate, turned out to be incompatible with the market economy. Downsizing appeared therefore the unique solution.<sup>9</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 dollars to less than one dollar. No wonder the health status indicators experienced a dramatic deterioration.

As regards social protection, for several years, health care continued to be free and the category-targeted Soviet pension system was continued, the state had gradually to take into account new categories of beneficiaries, such as the victims of the 1991 earthquake and the internally displaced persons, which lead to the creation of the Fund for

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<sup>9</sup> The number of hospital beds decreased from 60,000 in 1989 to 18,000 in 2003, physicians from 32,000 to 21,000 during the same period [Ministry of Economic Development of Georgia (2004), p. 76]. There are currently 45 physicians per 10,000 inhabitants in Georgia, against 35 in France and Germany [WHO (2011), p. 118].

Social Affairs. As unemployment increased dramatically, the Labour Fund was set up in order to secure the jobless. Initially, the Labour Fund's main resource was a 3% tax wage paid by state-owned and private companies. Unemployment compensations were theoretically generous, with an average replacement rate of 65%, a figure as high as in Germany [World Bank (1993), p. 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 [UNDP (2000), p. 39]. Concomitantly, 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 [World Bank (1993), p. 10-11, Papava V. (2011)], 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), p. 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 Bank (1993), p. 69; Gugushvili (2009)]. Old-age pensions were still differentiated alike in the Soviet period, taking into account the former 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 whereas fiscal resources were low – 11% of GDP in 1992 –, 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 "modern" health insurance, compatible with market rules. 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 health provision 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-pocket-payments (OPP), insolvent patients, lower demand for health care, bad health indicators, etc. OPPs deserve our special interest, not only because they are extremely high, but also because of a substantial unrecorded share. Indeed, "it is estimated that almost half of the total revenue from OPPs is informally paid" [Belli P. *et al.* (2004), p. 111]. Generally speaking, OPPs drastically diminish the demand for health care, making downsizing even more inevitable, in spite of its contradiction with humanitarian and political considerations [Rose R. (2006)]. As a consequence, 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. Since that period, pensions have progressively become a simple means of poverty reduction. In 2001, the monthly old age pension represented only 14% of the minimum basket of basic goods [Tvalchrelidze A. (2003), p. 19]. For many years, the pension system and the public health insurance alike had to cope with tremendous arrears, but it was politically inevitable to maintain at least a minimum level.

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. In accordance with its philosophy, the World Bank suggested a three-pillar system [World Bank (1994), p. 233-254; Gugushvili A. (2009)], opening the market for private insurance companies. The national decision makers even envisaged the introduction of mandatory social and old age pensions and a package of bills was drawn up in this sense,<sup>10</sup> but when Mikheil Saakashvili came to power, this

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<sup>10</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* [GEPLAC (2005)].

reform was withdrawn and a less ambitious, but undoubtedly more feasible solution was adopted.

### **II.3. Poverty-targeted assistance**

The first velvet revolution in the post-Soviet space led to new donor support. 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. Besides, this was also in phase with the Millenium Development Goals. The new team's neo-liberal course was presented as a guarantee in this regard. Further, "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.

Saakashvili's access to power was decisive for the evolution of social protection. The system of social provisions as such has been completely revised, with the new core institution being the Social Service Agency [European Commission (2011)]. The philosophy of the reforms may be summarized as follows: fostering individual responsibility and the expansion of private insurance, setting up poverty targeting instruments (including free medical insurance), distributing allowances to clearly defined categories (such as IDPs) and in case of major events linked to the life course, providing a universal basic level of free health care in case of specific diseases (oncology, cardiology, diabetes). According to this approach, the public health insurance which had operated since 1995 was abolished, and so were unemployment allowances. As regards funding, the personal income and social taxes were merged into a 25% income tax to be paid by employees, which means that in current Georgia, there is no specific, ear-marked social contribution.

Although social transfers currently reach roughly six Georgians out of ten – to diverse degrees though [World Bank (2009), p. 92] – the contrast with social protection in the past is noticeable. In 2011, 7% of GDP go to 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, against 12% of GDP 1991 [IMF (2011), p. 14; World Bank (1993), p. 69]. This is not only low compared to the Georgian past, but also to EU ratios, as EU members usually spend more than 20% of their GDP on social protection.

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. Since the beginning of the Saakashvili regime, pensions have been increasing at an impressive speed, mirroring undoubtedly the political challenge they represent: 18 GEL (8.40 €) in May 2004, 100 GEL (46.50 €) in September 2011, 125 GEL (58.10 €) in September 2012, which is still much lower than the "100 USD" (77.70 €) the current president has promised during the electoral campaign in 2008...<sup>11</sup> With expenditure for pensions making up for roughly 3% of GDP, Georgia's pensions/GDP ratio is one of the lowest in Europe and Central Asia [Falkingham J. and Vlachantoni A. (2010), p. 23]. 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 granted monthly housing allowances. A punctual cash allowance of 600 GEL (247 €) is offered for maternity leave.

Concerning health care, although the share of public resources has increased dramatically, private spending still represents 69% of total health expenditure. Out-of-pocket payments concern 96% of private expenditure, a situation which may ensnare health care consumers in the poverty trap [WHO (2011), p. 130]. Unsurprisingly, one of the key challenges for the government is reducing these out-of-pocket payments, by fostering health insurance. Currently, one Georgian in three has medical insurance, but in many cases – such as the free insurance given to beneficiaries of the Social Service Agency – only basic risks are covered. Consequently, many middle class Georgians are still reluctant to take out a private health insurance.

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 September 2011, four Georgians in ten had been registered in this data bank; two were beneficiaries of the MAP. In addition, one in ten got a cash allowance, a mean amount of 27 GEL (11 €) per month.

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<sup>11</sup> See: Social Service Agency [ssa.gov.ge/index.php?id=37&lang=2°]; GEPLAC (2005), p.11; "Pensions Package' Plan Discriminatory?", *Georgia Today*, Issue 589, 25.11.-01.12.2011 [Georgiatoday.ge]. However, only persons of 67 and above are supposed to receive the increased pension of 125 GEL.

The current Georgian social allowance distribution, linked to the Social Service Agency data bank, appears to be strongly pro-poor, as it diminishes the poverty incidence of the beneficiaries from 71% to 51%.<sup>12</sup> However, although the World Bank argues that, despite inclusion errors of 30%, the Georgian data bank has given rise to one of the “best-performing similar programs in the world” [World Bank (2009), p. 97], there are numerous shortcomings. Only a very limited number of pharmaceutical drugs are included in the MAP, thus perpetuating high out-of-pocket payments. 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?

### III. – IN SEARCH OF THE NEW RULES OF THE GAME

#### III.1. New public management versus democratisation

The Georgian leaders are convinced that, according to “new public management” methods, neither social protection nor health care are allowed to diverge from overall political options. The reforms analysed above are thus supposed to be the prerequisite for what decision makers label growth and Western standards. As regards the bulk of the population, those who simply wanted a better life compared to that of Soviet times and the first decade following independence, their expectations are far from being met and their post-revolutionary enthusiasm concerning in-depth reforms is eroded. However, the regime’s “economy first” approach fosters even more neo-liberal reforms which can only be implemented by increasing authoritarian means, thus leaving behind concerns for a more egalitarian society.

One of the major aims of the post-revolutionary transformation process is the downsizing of the state, which equals deregulation, the simplification of procedures, and the reduction of human resources. Concerning welfare, this means limiting the range of allowances and

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<sup>12</sup> Poverty incidence measures the percentage of families with a *p.c.* income below the poverty threshold.

facilitating their calculation, thus giving priority to flat rates. From a technical standpoint, 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 has also been adopted as regards fiscal revenues: the number of taxes has been reduced and tax rates have been cut, which does not only diminish labour-intensity and, it is hoped, may combat corruption in the public service, but is also supposed to attract foreign investment. 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 (2010), p. 3] –, fiscal revenues increased substantially, from 14% of GDP in 2003 to 27% in 2011 [Anderson J. (2009)]. Undoubtedly, 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 highly debatable.

The in-depth reforms carried out since the Rose Revolution have generally been undertaken from top to bottom, and external threat has regularly been instrumentalized in order to justify authoritarianism. Weak trade unions, low civil society mobilisation, and strong concentration of power have 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, the main preoccupation of Georgian trade unions’ leadership was managing with their property. To a certain degree, they are still “stuck between the need to send out a populist message to boost the unions’ popularity and the weight of [their] responsibility as a party to (nascent) social dialogue” [Transparency International Georgia (2010a), p. 5]. A healthy social dialogue is also difficult because, while being considered remnants of the Soviet Union, trade unions are still striving for independence from the government [Muskhelishvili (2012), p. 45-55]. Changing mentalities is a long-drawn process, for union leaders as well as for the population. Considering the latter, distrust against trade unions is still widespread. Only 25 % of the population have a favourable impression



of the work of trade unions, 34% an unfavourable one, 41% have no opinion at all... [IRI (2009), p. 47].<sup>13</sup> For all these reasons, trade unions have only played a very marginal role in the setting up of social protection. Only very recently have they gained better visibility and creditworthiness thanks to their efforts to bring the Georgian Labour Code (which was elaborated without their being consulted) in line with ILO standards, and there is undoubtedly higher transparency and accountability to members – roughly 42% of the salaried workers are unionised – and outside observers.

The implementation of ultra-liberal reforms is also favoured by the organisational ineffectiveness of the opposition and the weak representativity of civic institutions. As in other post-Soviet countries, the emergence of a specific NGO sector in Georgia is closely linked to the transformation process in the nineties [Muskhelishvili M. (2008a)]. As a result of ideological globalisation, NGOs claimed to promote inclusive social actions and protect 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 M. and Jorjoliani G. (2009), p. 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.* p. 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 [Katsitadze K. (2010)]. This situation, together with the population’s limited trust in organised communities has contributed to the weakening of the NGO sector. 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 J. (2010), p. 6], lacking powerful links with the international community.

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<sup>13</sup> Interestingly, people have a very high opinion of the church (93% favourable).

It therefore comes as no surprise that since the Rose Revolution the quality of democracy has decreased, especially with regard to egalitarian access to resources. Whereas public policy is to a large extent devised by foreign experts whose responsibility is not subject to the ballot, the elites are disconnected from the people. The concentration of power is currently stronger than before. It is a multi-faceted phenomenon. Firstly, a series of amendments to the constitution were voted, shifting the balance of power from parliament towards the president [Bertelsmann (2009), p. 5-12; Diamond L. (2009), p. 200-202; Khutishvili G. (2009), Lansky M. and Areshidze G. (2008)]. In other words, super-presidentialism is the price Georgians have to pay for Saakashvili's state-building programme. Further, the ruling National Movement is virtually merged with the state, since the state's symbols are used for party concerns [Muskhelishvili M. (2008b), p. 9]. This also reminds the party-state system of the past. Thirdly and not surprisingly, the regime is constantly suspected of exercising influence over judges, thus hampering the independence of the judiciary. Lastly, independence of the media is also at stake. Whereas the TV channel Rustavi 2 played a crucial role during the Rose Revolution and Imedi had been the opposition's "loudspeaker" until 2007, plurality of the media has vanished since then.

As in other post-Soviet countries, the "democratic rollback" [Diamond L. (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>14</sup> and so do mythical places, for instance when president Saakashvili claims that "Switzerland will meet Singapore in Tbilisi" [Georgia News (2010)]. Populist attitudes can also be illustrated by several "pension reforms" which simply consisted in increasing the monthly pensions, without tackling the problem in all its complexity and overall implications. Another series of "reforms" was announced in the "50-day Programme" [Lashkhi I. *et al.* (2008)]. Impressive initiatives are often taken from a purely political stance rather than to improve the living conditions of the most fragile social strata. The 'Pension Package' decided in November 2011 may also be considered with regard to president Saakashvili's competitor Bidzina Ivanishvili, who is known for his generosity as regards Georgians in

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<sup>14</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 [[www.civil.ge/eng/article.php?id=17030](http://www.civil.ge/eng/article.php?id=17030)]; Lashkhi I. *et al.* (2008) and the Georgian president's website [[www.president.gov.ge/](http://www.president.gov.ge/), link "speeches"].

need. 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.

### **III.2. Matching potentially divergent institutions**

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 – 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 ostensibly adaptable to various situations. However, these new formal rules may give rise to deep anxiety because they might contradict informal rules which are linked to the collective memory and deep-rooted in long term history. Adapting them to the new constellation and making them blend with the formal institutions may provoke resistance. In other words, the successful shift towards post-Sovietism needs institutional arrangements which are deemed to be acceptable by all the stakeholders. This condition is not as yet fulfilled in the case of Georgia.

Stability and trust are crucial elements in this context. Indeed, formal institutions are meant to be stable, which makes them become a source of trust in the country's future. If one looks at recent Georgia history though, almost the exact opposite can be observed. Since the very first reforms, instability and confusion have been widespread because of the plurality of organisations charged with managing the social protection system. These organisations were lacking autonomy from the different ministries and had to fulfil various changing functions. Instability may also be linked to hesitations in the field of legislation. Let us just bear in mind the bills on mandatory social insurance which were adopted at the end of the Shevardnadze era, without being implemented, because of their inadequacy regarding local realities. Frequent (and sudden) changes concerning technical aspects may also be counterproductive, which can be demonstrated by the numerous modifications concerning the collection of taxes and social contributions. Moreover, public and private services fulfilling comparable tasks

did occasionally exist side by side. This was the case when microfinance institutions supplied microinsurance, whereas the central government decided to offer free health care services in the form of the Basic Benefit Package. The impression of instability may further be fostered by ambiguous signals. Indeed, whereas the insurance sector is currently booming, some insurance companies try to attract customers by handing out gifts to new subscribers, thus giving rise to rivalry which may affect the whole industry. *Ad hoc* measures are frequent, but Georgia is lacking a political long term vision and a seriously worked out linkage between public policies and specific social measures. This is, among others, the case in the field of training. Indeed, the universal insurance coverage has come into sharp focus, but institutions offering training for the middle management of insurance companies are practically nonexistent, echoing the problem of professional training in Georgia, and more generally speaking, the country's education policies.

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 are all 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 M. (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 the population's current practices. In other words, informal, local rules are frequently neglected and their importance is underestimated. However, approaches do not only differ because actors are transnational or national by origin. Dividing lines can also be found within the different communities, such as donors, national decision makers, private partners and experts, and the civil society, as a consequence of the actors' specific "culture", their professional and personal trajectories, their compliance with the former system or their infatuation with the neo-liberal approach. In this regard, generation conflicts must not be underestimated, for instance when civil servants consider the reforms to be undertaken too rapidly, hindering full comprehension of the innovation process [Samson Y. (2008), p. 70]. Undoubtedly, this has also to do

with president Saakashvili's tendency to rely on young graduates, a trend which contributes to fostering cleavages. All these different elements create conflicts between formal and informal, so-called modern institutions and those transmitted from the past and may explain why some reforms simply did not fit the local situation and have thus remained a dead letter.

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 out of gratitude or because they hoped to get better service [Belli P. *et al.* (2004), Gotadze G. *et al.* (2005), Allin S. *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 insurance simply "does not make sense", because payments are part and parcel of informal rules [Georgia News (2009a) and (2009b)]. 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 length of time.

## CONCLUSION

Georgia appears to be standing at a new crossroads. In the aftermath of the Rose Revolution, Mikheil Saakashvili's regime hastened a powerful modernisation process of public institutions, with ultra-libe-

ralism, privatisation and downsizing of the state being considered the “best practices” for economic development. This approach is in line with New Public Management methods which consider competitiveness as the key feature of any organisation. Not surprisingly, social policy, too, has been affected by the fervent belief in market mechanisms and the imperative of competitiveness. Consequently, the health care system was privatized and social protection is now focusing on private insurance which is believed to progressively become the core of the system. In addition, people with a very low purchasing power – who might be considered undesirable customers for insurance companies – are being awarded subsidized health insurance providing access to basic services. At the same time, older people are benefiting from universal pensions and the poorest are being granted public assistance. However, pensions and social assistance may, at the best, be considered as a simple means of poverty alleviation. Concomitantly, the decision makers seem to be fully aware of the limits of market mechanisms, particularly as regards old age related concerns. Indeed, given not only widespread poverty, but also people’s basic understanding and scepticism concerning funded old age pensions, individual accounts for the bulk of the population are no longer a matter of debate... This situation implicitly calls for “informal” private risk coping mechanisms. These mechanisms meet the family centred *habitus* of Georgian society, thus fostering solidarity based on kinship relations and personal ties. Social networks therefore continue being activated in order to overcome the shortcomings of the public protection system. In this respect, the Soviet legacy of risk coping in everyday life turns out to be useful.

There is evidence that the modernisation process in post-Soviet Georgia has not given rise to democratisation in the sense of efficient measures allowing for egalitarian access to wealth and respect of individual rights. On the contrary, the August 2008 war and the current world-wide crisis have 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 widespread unemployment, underemployment, and the proliferation of vulnerable jobs. What is more, whereas market mechanisms continue being highly valued – or even overvalued –, some reforms may be considered rather reforms *per se* (allowing for meeting the short-term objectives of global decision makers) than trustworthy elements preparing for the country’s future. Undoubtedly, while advocating ultra-liberal methods, the decision makers could be

underestimating the fact that regulated markets, rigorous standards and democratic accountability may be vital for Georgia's "European choice" [De Waal (2011)].

The imbalance between positive macro-economic outcome and everyday living conditions in Georgia 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 engender conflicts [Carothers (2002)]. As Georgia'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. However, given Georgia's responsibility in the August 2008 war, recurrent repression of public protest and restrictions as regards personal rights, international stakeholders (such as the European Commission, the European Council and the ILO) have become increasingly aware of the Tbilisi based authorities' loose interpretation of civil rights. This context might bring to the forefront new political competitors who are more willing than Mikheil Saakashvili to take the population's aspirations into account. In other words, the series of reforms of the Georgian social protection might thus be far from being closed, and the elections scheduled for 2012 and 2013 might bring about a decisive turn in this regard.

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