

Introduction

Georgia is an electoral democracy characterized by an effective and reform-minded parliament and political parties which generally operate without government intervention or repression. The country's independent media and NGO sectors have grown into influential political forces. Despite such positive developments, Georgia continues to face serious problems in both political rights and civil liberties. The status of the de facto independent territories of Abkhazia and South Ossetia remain unresolved, resulting in ongoing hardships for over two hundred thousand internally displaced persons. Serious violations of electoral process occur in various regions throughout the country, and current legislation gives very little authority to local self-governments. Political parties are weak, unstable, and center on specific personalities rather than political ideas. Widespread corruption undermines trust for both political institutions and law enforcement agencies.

Georgia suffered a dramatic economic collapse following independence due to political turmoil and mismanagement. However, the government embarked on a comprehensive structural reform program that brought significant achievements beginning in the mid-1990s: the national currency stabilized, inflation was brought under control, the fiscal deficit was reduced, a large-scale privatization program was initiated, and real GDP began to grow. However, further economic development is impeded by factors including ongoing corruption, low levels of tax collection, a continued energy crisis, and an inadequate infrastructure system.

During the last two years, Georgia has faced both positive and negative political and economic developments. Important first steps were made in the area of judicial reform, new legislation was adopted to improve freedom of information, and a de facto government monopoly in television broadcasting was broken. The 1998 municipal elections created local self-government bodies for the first time since 1992. As a result of the country's ambitious privatization program, most of the economy is now in private hands. However, due to the effects of the Russian economic

crisis of August 1998 and a lack of administrative efficiency, the government was struck by a deep fiscal crisis which it failed to overcome by mid-1999. The national currency, after it was allowed to float freely, was devalued by about 50 percent. There was little progress in such crucial issues as fighting corruption or human rights abuses by law-enforcement bodies.

Democratization

POLITICAL PROCESS 4.00/7

1. When did national legislative elections occur? Were they free and fair? How were they judged by domestic and international election monitoring organizations? Who composes the government?

Georgia's political process has been marred by civic strife and ethnic-territorial wars since the nation's independence. The first multi-party parliamentary elections were held in October 1990 and brought to power the nationalist Round Table bloc, led by Zviad Gamsakhurdia, which received 53 percent of the vote. A split in the leading coalition and violent opposition protests led to a coup in December 1991 and January 1992. Georgia's first democratically elected government was accused of instituting a dictatorship and overthrown. New elections were held in October 1992 against a backdrop of widespread disorder: secessionist conflicts in South Ossetia and Abkhazia, as well as insurgencies by Gamsakhurdia's supporters, left approximately 10 to 15 percent of the country's territory outside the control of the central government; the government in turn was under the influence of competing warlords. Twenty-six parties won seats in the new parliament, with the biggest winner—the Mshvidoba ("Peace") bloc—winning only 29 out of 234 parliamentary seats. Parliament proved fragmented and ineffective, though a loose majority coalition of approximately 125 members united through support for the then-Chairman of Parliament, Eduard Shevardnadze.

The most recent parliamentary and presidential elections, held on November 5, 1995, were the first held in a reasonably stable political situation. The elections were conducted under a new constitution that instituted an American-style separation of powers between

the president and the 235-seat parliament. The president appoints the government, but parliament confirms ministers. One-hundred and fifty MPs were elected by proportionate vote from the national party lists (with a 5 percent threshold for entering parliament); 85 were elected from single-member constituencies. Only 3 of the 54 participating parties and blocs won enough votes to cross the threshold: Shevardnadze's Citizens' Union of Georgia (CUG) won 109 seats (with 23.71 percent of the vote), the National Democratic Party won 35 seats (with 7.95 percent of the vote), and the All-Georgian Union for Revival, based in the autonomous region of Adjara, won 31 seats (with 6.84 percent of the vote). The rest of seats were divided between representatives of smaller parties and 29 independents elected from single-member districts. Over 60 percent of the vote went to parties that failed to beat the 5 percent threshold. CUG controls parliament in an informal coalition with smaller factions. Observers from the Organization for Security and Cooperation in Europe (OSCE) determined that the vote was generally free and fair, with the exception of Adjara. The domestic Fair Elections Society, working with the National Democratic Institute, detected more serious violations but did not contest the results of the elections.

The breakaway regions of South Ossetia and Abkhazia did not participate. The mandate of the 13 MPs elected from the region of Abkhazia in 1992 was extended for another term, and they have created an "Abkhazeti" faction in Parliament. The next parliamentary elections are scheduled for October 31, 1999.

2. When did presidential elections occur? Were they free and fair?

The first presidential elections were held on May 26, 1991. Zviad Gamsakhurdia, a nationalist dissident who had become chairman of parliament since November 1990, won with 87 percent of the vote. After he was overthrown in January 1992, a provisional military council assumed executive power and abolished the office of president, which had become a symbol of the alleged dictatorial style of Gamsakhurdia's governance. But the formula of the October 1992 elections restored a quasi-presidential system: the chairman of parliament was elected by a direct popular vote. Eduard Shevardnadze ran uncontested and won this position with 96 percent of the vote. Parliament empowered him with the authority of the head of the

executive to nominate the prime minister and an official title of Head of State.

The new 1995 constitution formally reinstated the office of president following the American model, with this difference: there is no office of vice president. Eduard Shevardnadze won the November 1995 presidential elections against 5 contestants with 74.32 percent of the vote. International observers characterized the vote as generally free and fair. The Domestic Fair Elections Society (working in co-operation with National Democratic Institute), however, detected more serious violations. The President's term in office is five years; the next elections are scheduled for April 2000. The Constitution gives Shevardnadze the right to run one more time.

3. Is the electoral system multiparty-based? Are there at least two viable political parties functioning at all levels of government?

The electoral system has been multiparty based since 1990. But while political parties are numerous and generally enjoy freedom to operate, they are weak, unstable, and the personalities of their leaders are often more important than their ideological orientations. The strongest and probably biggest political party, the Citizens' Union of Georgia (CUG), came together in 1993 in support of the then-head of state Eduard Shevardnadze. Although after the 1995 elections Shevardnadze became president and his party came to dominate parliament, he tried to position himself above party struggles and gave only a small number of ministerial positions to CUG members. As a result, CUG, though formally "ruling," is in reality a parliamentary party with relatively small representation in or even influence on the executive; the executive is mostly composed of non-partisan functionaries.

The party that is expected to be the main contestant of the CUG in October 1999 parliamentary elections — the Democratic Union of Revival (formerly, the All-Georgian Union for Revival) — was also created around the figure of Aslan Abashidze, the leader of the Adjarian Autonomous Republic. While this party dominates political life in Adjara, it is scarcely represented in government bodies outside of Adjara, though it does have branches throughout the country. The long-term viability of both parties is often questioned, since it is uncertain whether they will outlive their leaders. The National Democratic Party (NDP) was the only party created "from below," on the wave of mass political

enthusiasm during the period of national liberation from 1988 to 1991, that managed to obtain its own faction in a 1995 Parliament. Later it split into two parties (NDP and Popular).

Local elections in November 1998 boosted the party system, since voting was strictly for party lists on all levels of government save for small villages. Apart from the above-mentioned parties, several other parties such as Labor, Socialist, and Traditionalist proved their viability by gaining seats on local councils throughout the country. But this did not change the situation in the executive, since vertical subordination to the President is in force throughout Georgia, with the exception of villages and small towns.

4. How many parties have been legalized? Have any parties been banned or declared illegal?

By June 30, 1999, 119 political parties had been registered with the ministry of justice under the 1997 Law on Citizens' Political Associations. Only one political party was denied registration: Virk, a group based in an ethnically Armenian-populated region of Javakheti. Virk's charter violated Article 6 of the Law on Citizens' Political Associations, which bans the creation of parties based on a regional or territorial principle. Some followers of ousted president Gamsakhurdia consider the acting government illegal and refuse to register their parties. The police often disrupt their rallies and demonstrations and detain or imprison some of their activists on various charges. The United Communist Party, duly registered but with a leadership sometimes linked by the government to terrorist activity, claims that the police harass it. The party is led by the father of the former security chief, Igor Giorgadze, the chief suspect in two failed assassination attempts on President Shevardnadze. The central election commission denied their registration for the 1998 local elections because of the above-mentioned allegations. The court then restored the party's registration, but it did not participate in elections, claiming that its political campaign was jeopardized.

5. What proportion of the population belongs to political parties? What proportion of party membership is made up of women?

Party membership in Georgia is low; exact numbers, however, are unavailable. Membership figures provided by the parties themselves are wildly inflated. Accord-

ing to documents filed prior to the November 1995 elections, the 54 blocs and parties contesting the election claimed an aggregate membership of more than 500,000, or approximately 20 percent of the voting population. The ruling Citizens Union Party claimed a membership of 100,000. But in a survey conducted in 1997 by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development, only 3.1 percent of those polled said they belonged to a political party.

During a survey conducted by the International Center for Civic Culture in 1998, most political parties could not provide exact figures on female membership, though estimated it at approximately one-third of total membership. In the leading bodies of the parties, 9 percent of the members were women, while out of 73 parties, 4 had women leaders. In the same year, 16 of the 230 members of the national parliament were women.

6. What has been the trend of voter turnout at the municipal, provincial, and national levels in recent years? What are the data related to female voter participation?

Turnout for the first multiparty elections in October 1990 was approximately 70 percent, while in the May 1991 presidential elections it reached 83.4 percent. Approximately 86 percent cast ballots in the vote for Chairman of Parliament in October 1992. Since then, the turnout has tended to decrease: in the November 1995 presidential and parliamentary elections it was 68.9 percent; in the local elections in November 1998 it dropped to 41 percent, though the turnout varied considerably from one region to another. No separate data on female voter participation is available, but there is no reason to believe that it is significantly different from that of men.

CIVIL SOCIETY 3.75/7

1. How many nongovernmental organizations (NGOs) have come into existence since 1988? What is the number of charitable/nonprofit organizations? Are there locally led efforts to increase philanthropy and volunteerism? What proportion of the population is active in private voluntary activity (from polling data)? What are some of the

major women's nongovernmental organizations and what is the size of their membership?

The first independent associations in Georgia emerged in 1988, but at the time there was no strict line dividing NGOs from political parties. Since 1993, NGOs have proliferated dramatically. By 1997 the number of registered NGOs had reached 3,000 to 4,000. Since a new Civic Code was adopted in 1997, NGOs, with the exception of foundations, had to be registered anew by local courts rather than by the Ministry of Justice, so it has become more difficult to monitor their number. Moreover, many organizations initially registered as NGOs have developed into business entities (media, publishing houses). Today, the number of active NGOs is estimated at about 1,500, with only about 300 operating outside the capital; this number includes 346 foundations. NGOs are active in such areas as policy advocacy, legal reform, civic education, environment protection, social problems, health care, humanitarian assistance, youth and women's issues, etc.

Georgian NGOs for the most part depend on financial assistance from foreign foundations. They are much less developed outside the capital (though there is progress in some regions during the last 2 to 3 years), and tend to represent small elite groups rather than being rooted in the broader society. A 1997 survey conducted by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development showed that 1.2 percent of those polled belonged to an NGO. Volunteerism is not strongly developed in Georgia. Many Georgian businesses give money for charitable purposes quite generously, but they often choose not to publicise their philanthropic activities and (with few exceptions) do not work through private foundations or NGOs. The Cartu Foundation, established in late 1997 by a financial-industrial group of the same name, is the first notable exception. The Georgian tax code does not encourage charitable donations from businesses.

Women are active in many areas of the NGO movement, though there are no accurate data on the extent of their participation. Beginning in 1991, some 50 to 70 NGOs working specifically on women's issues were created in Georgia. Some of these groups claimed thousands of members, though the membership may be formal: the groups' strength lies more in the energy of their leaders and activists. A survey of 37 women NGOs in 1998 by the International Centre for Civic Culture

revealed that they had 711 active members—3 percent of their claimed membership.

2. What is the legal and regulatory environment for NGOs (i.e., ease of registration, legal rights, government regulation, taxation, procurement, and access-to-information issues)? To what extent is NGO activism focused on improving the legal and regulatory environment?

Article 26 of the constitution upholds an individual's right "to create and join any association." The 1997 civil code provides a legal category of "non-entrepreneurial legal entity" under which NGOs can be registered; within that category, they can choose between two sub-categories: that of a union (association), to be registered by courts, or of a foundation, to be registered with the Ministry of Justice. They also have an option of not being registered at all, but then they are not allowed to conduct financial transactions. There is no government regulation other than collecting registration fees or tax audits. Usually, the registration of NGOs is not difficult, though obstacles can loom up because of lack of professionalism and corruption in some courts.

Tax privileges for NGOs are defined by the 1996 Law on Grants. Money received as grants is exempt from all taxes except income tax. VAT for goods and services purchased by grant money is reimbursed by the treasury; in practice, however, obtaining reimbursements is often problematic. There are no tax incentives for local businesses to donate money for charitable purposes. In 1999, parliament passed in its first reading a bill on procurement, which would allow for NGOs contracted by the government to carry out certain functions on a competitive basis. However, the bill did not progress to a second reading.

The third chapter of the 1999 administrative code "On the Freedom of Information" provides for freedom of information for all citizens, including NGOs. According to the law on parliament and parliament regulations, NGOs may attend committee hearings on issues of interest. In practice, access to information may be difficult to obtain, particularly in the executive branch and local governments, and varies among state agencies and regions. Usually NGOs manage to obtain the information they need, though private channels may be more efficient than formal ones.

There is a small but conspicuous group of NGOs (including the Georgian Young Lawyers' Association

and the Liberty Institute, among others) that is quite active and aggressive in its efforts to influence the legal and regulatory environment. Legislation affecting NGOs and the media is the primary focus of NGO activism, but different issues of legal and economic reform—changes in law-enforcement, say—attract their attention as well.

3. What is the organizational capacity of NGOs? Do management structures clearly delineate authority and responsibility? Is information available on NGO management issues in the native language? Is there a core of experienced practitioners/trainers to serve as consultants or mentors to less developed organizations?

Most NGOs represent small groups and are often created in an ad hoc manner to carry out specific projects. Hence, their management structure is very amorphous. A relatively small number of NGOs have a more or less stable existence and developed management structures, though even successful NGOs grow up around the personalities of their founders and leaders.

Advisory materials for NGOs in the Georgian and Russian languages have been published by organizations including the Horizonti Foundation (formerly ISAR-Georgia) and the Georgian Young Lawyers' Association, though this is widely believed to be insufficient. The Horizonti Foundation has for several years conducted training programs on NGO management issues in Tbilisi and other regions throughout the country, and also publishes a monthly newsletter in Georgian, Russian, and English, on various issues of concern to NGOs.

4. Are NGOs financially viable? What is their tax status? Are they obliged to and do they typically disclose revenue sources? Do government procurement opportunities exist for private, not-for-profit providers of services? Are NGOs able to earn income or collect cost-recovery fees?

Most active and successful NGOs usually depend on financial support from foreign foundations, which makes their financial situation uncertain in the long run. Since genuine membership-based organizations are rare, membership dues are not a serious source of income. There is no special provision in the law obliging NGOs publicly to disclose their revenue sources, and this rarely happens in practice.

NGOs do not have the status of tax-exempt organizations, but, according to a 1996 law on grants, funds received as grants and donations are exempt from taxes. Businesses, however, have no tax incentives to donate to NGOs. Early in 1999, the Georgian parliament adopted a law that created a government-financed fund to assist civil society, but the law has not been implemented because of lack of funds in the state budget. There are a few NGOs who receive most of their income from membership dues or fee-based services, but they are in a minority. Government contracts are also rare.

5. Are there free trade unions? How many workers and what proportion of the workforce belong to these unions? Is the number of workers belonging to trade unions growing or decreasing? What is the numerical/proportional membership of farmers' groups, small business associations, etc.?

Descendants of Soviet-era sectoral trade unions still are the main trade unions in the country; while their leadership has struggled to reform the unions and gain publicity for defending employee rights, their political clout and social base is insignificant. According to the previously mentioned poll conducted by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development in 1997, 1.6 percent of respondents considered themselves members of unions. Union membership is decreasing, however, as traditional heavy industry collapses and those employed in new small businesses do not try to unionize. Despite occasional strike activities in certain economic areas (railway and subway workers, coal-miners)—usually to protest the non-payment of wages—they did not lead to creation of new independent trade unions. In early 1999, school-teachers in Georgia's two largest cities (Tbilisi and Kutaisi) started to organize independent unions, but they are only in their first stages. One of the most important trade union issues is the fight for the assets of Soviet-era trade unions; the old unions' descendants, new independent trade unions, and some state agencies claim the assets. The 1995 constitution and labor code do not create impediments for employees to create unions, except in certain areas (for instance, members of the security forces are not permitted to unionize). Farmers' groups and small business associations are not fully developed, and no information was available on their membership.

6. What forms of interest group participation in politics are legal? What types of interest groups are active in the political and policy process?

There are no restrictions on the participation of interest groups in politics other than prohibitions against advocating violence or overthrowing the government, secession, or ethnic hatred. Representatives of interest groups routinely take part in parliamentary hearings on draft bills. Many interest groups are organized into associations, such as the Industrialists' Union, the Bankers' Association, and the Union of the Disabled, and try to influence politics through lobbying or through the media. NGOs and the media also form aggressive interest groups that try to influence government politics. But "interest group participation" is often associated with the defense of narrow interests by small groups in corrupt and non-transparent ways.

7. How is the not-for-profit/NGO sector perceived by the public and government officials? What is the nature of media coverage of NGOs? To what extent do government officials engage with NGOs? Is the government receptive to NGO policy advocacy?

Over the last three to four years, different branches of government have expressed positive attitude toward NGOs and recognized their increased role. The leadership of parliament and its key committees regularly organize public or informal meetings with NGO representatives and take their advice on different political matters. The reform-minded and pro-western group within the parliamentary leadership considers the NGO community an important ally and stresses their closeness with NGOs. The executive branch was slower in acknowledging the importance of NGOs, but it has moved in that direction as well. In July 1998, the government created a permanent co-ordinating council of NGO representatives to foster regular contacts between the NGO community and the executive. Other state agencies look for their own ways to cooperate with NGOs. In regions outside of the capital, NGO initiatives to introduce greater openness and transparency into local governance often meet a hostile response.

Public awareness of NGOs is limited mostly to the educated urban population. While no quantitative data is available, the Institute for Polling and Marketing reported that most people, particularly residents outside of Tbilisi, have difficulty distinguishing between NGOs and government organizations. In media outlets such

as the newspaper *Resonansi* and the television channel *Rustavi-2*, NGOs are portrayed primarily as policy advocacy groups that have an impact on public opinion. Other media, including the newspapers *Alia* and *Akhali Taoba*, regard NGOs as tools of various political groups.

INDEPENDENT MEDIA 3.75/7

1. Are there legal protections for press freedom?

The 1995 constitution provides for a free press. Under article 24, "Every individual has the right to receive freely and to disseminate information and to express and disseminate his opinion orally, in written or any other form." Censorship is prohibited, and the establishment of media monopolies is illegal. The 1991 Law on the Press and Other Means of Mass Media also guarantees press freedom and regulates media activities.

In fall 1997, parliament amended the 1991 law to bring it into conformity with the 1995 constitution. However, the law was not adopted after journalists' organizations criticized it for limiting press freedoms. Since January 1999, a new administrative code has been in effect that includes the Law of Freedom of Information. In June 1999, parliament passed a law governing freedom of speech. Both bills, which were initiated by journalists' groups and NGOs, provide for greater accessibility to public information and enhance the legal protections for press freedom.

While there are few restrictions on establishing and running independent media outlets in many parts of Georgia, particularly in Tbilisi, the situation varies considerably from region to region. In 1996, the independent television station *Rustavi-2* had its license revoked by the ministry of justice, although it was reinstated by court order later that year. In the Autonomous Republic of Ajaria, where central government control is almost nonexistent, there is virtually no independent media. Although a few formally independent media outlets exist, they are not allowed to criticize the local authorities. In Abkhazia and South Ossetia, almost all media are controlled, often formally or sometimes informally, by different government bodies. The situation in Abkhazia showed some signs of improvement during the last two years, with an independent Russian-language newspaper, *Nuzhnaya Gazeta*, providing a forum for diverse opinions.

2. Are there legal penalties for libeling officials? Are there legal penalties for “irresponsible” journalism? Have these laws been enforced to harass journalists?

The 1991 press law forbids the media from revealing state secrets, calling for an overthrow or a change of the existing state and public order, propagandizing for war, promoting brutality and racial, ethnic, or religious intolerance, spreading information that fosters crime, invading the privacy of citizens and insulting their honor or dignity, and propagating pornography and immorality. There are also clauses against libel and defamation in the criminal code, and an anti-defamation clause in the civil code. Government officials sue journalists more frequently for defamation than for libel. In 1998 and 1999, there were several cases of journalists sued by government officials on these charges. All of the cases, however, dragged on in the courts and no final decisions were reached as of mid-1999.

Journalist Avtandil Meskheli was harassed by the defense ministry, which drafted him into military service after he published an interview with soldiers in May 1998 which exposed brutal hazing in the army. Later that year, the court found that Meskheli was drafted in violation of the law.

3. What proportion of media is privatized? What are the major private newspapers, television stations, and radio stations?

Almost all of the print media are formally private, though descendants of major official newspapers from the Communist period (such as the Georgian-language *Sakartvelos Respublika*, or the Russian-language *Svobodnaya Gruzija*) receive government subsidies and serve as its propaganda outlets. While independent newspapers dominate the market, they suffer from small circulations and a generally low level of professionalism. Major dailies are *Alia* (approximately 12,000 copies), *Akhali Taoba* (9,000), and *Resonansi* (6,000). *Kviris Palitra* is the most popular weekly digest (35,000), followed by the weekly tabloid *Asaval-Dasavali* (23,000). There are many registered independent newspapers outside the capital (exact numbers are unavailable), although few manage to appear regularly and maintain genuine independence.

The State Television Company controls both television channels that broadcast nationally, as well as the only nation-wide radio network. *Rustavi-2*, which began

operating in the small town of Rustavi, has become Georgia’s major independent television station. After having begun broadcasting in Tbilisi in 1996, *Rustavi-2* has been expanding its reach to other parts of the country. The station’s success has cleared the way for other privately owned television channels, eight of which broadcast in Tbilisi. According to the Internews Tbilisi office, 37 independent television stations operate outside of the capital, although many of them broadcast irregularly.

Internews Tbilisi reports that there are 17 independent radio stations in the country, with approximately half located in the capital. Radio “Fortuna” and its Russian twin “Era” (in which the American company Metromedia holds shares) broadcast throughout almost the entire country.

4. Are the private media financially viable?

The circulation of most newspapers is small, largely because the price of \$0.25 or more per issue is too high for most readers. As the advertising market is not well developed, despite some progress over the last three to four years, sales continue to be the major source of income for most newspapers. However, a number independent newspapers, including *Alia*, *Akhali Taoba*, *Resonansi*, *Kviris Palitra*, and *Asaval-Dasavali*, have been financially viable for several years, and are even able to pay their employees above-average salaries. Like most businesses in Georgia, newspapers are involved in tax evasion (they insist they have no other option under current economic circumstances), which makes them potentially susceptible to government pressure. An audit of *Resonansi* finances by the Tax Inspection just before the 1995 elections is often regarded as an example of indirect governmental pressure.

The television station *Rustavi-2* and several radio stations have thus far proven to be financially successful: advertisers prefer electronic media since they enjoy wider reach. However, television and radio stations do not have the funds to diversify their programming. Most television and radio stations produce primarily news and talk shows; almost all other programming consists of frequently pirated films and soap operas (on television) and music (on the radio).

Outside Tbilisi, both print and electronic media are less financially viable. Most depend on grants from foreign foundations or the patronage of local businesses.

5. Are the media editorially independent? Are the media's news gathering functions affected by interference from government or private owners?

The state-controlled media, which are widely understood to express the views of the government, cannot be considered editorially independent. During the last year, competition from *Rustavi-2* and other independent channels has pushed state television in the direction of greater openness and diversity. Most of the country's independent media are not subject to government censorship. While general allegations that newspapers are secretly linked to powerful individuals or political parties abound, there is no credible evidence that major newspapers have such ties. A number of newspapers emerged under the patronage of powerful groups, but these publications have not been successful in the long term. Many independent media outlets express an indiscriminately cynical attitude toward all political groups. The absence of a clear dividing line between fact and opinion is a characteristic of almost all independent media.

Journalists frequently exercise self-censorship on certain topics, including particular politically sensitive matters and issues which are perceived to enjoy widespread popular support. For example, it is relatively difficult to publish articles critical of the Georgian role in ethnic conflicts in Abkhazia or South Ossetia. The level of editorial independence of the media is considerably lower outside Tbilisi than in the capital. In particular, the more repressive local regimes of Abkhazia, South Ossetia, and Ajaria impose greater restrictions on media freedoms. In 1998 and 1999, there were several occasions when journalists in Georgia were beaten by policemen (in some instances by senior officers) while attempting to gather information, with the offenders not held legally responsible.

6. Is the distribution system for newspapers privately or governmentally controlled?

Both state and private agencies are active in the distribution market, with the share of private agencies increasing. "PGS Ltd." (Press Distribution Service), established by four independent newspapers (*Alia*, *Akhali Taoba*, *Resonansi*, and *Shvidi Dghe*) in 1996, is the largest distributor in Tbilisi (some 50 percent of the market), followed by the government-controlled *Matsne* and smaller private agencies. The state agency *Sakpresa* dominates distribution outside of Tbilisi, but the private *Presinfo* has gained a foothold there as well.

7. What proportion of the population is connected to the Internet? Are there any restrictions on Internet access to private citizens?

The percentage of the population connected to the Internet is quite small, although it increased rapidly last year. No exact data is available, but expert estimates claim 7,000 to 8,000 accounts, with about 5,000 of them in Tbilisi. The actual number of users is probably several times greater, as several people, even a computer network, are often hooked up to a single account. While no detailed statistics are available, the percentage of the population connected to the Internet is estimated at less than one percent. The relative normalization of electricity supplies, the development of new digital telephone stations, and the slashing of prices because of the emergence of new Internet service providers will all help to increase the number of people connected to the Internet. With prices still high (\$0.8 per hour), the Internet is currently accessible mainly to NGOs (thanks to grants from various foundations), the government, wealthy private organizations, and a small group of relatively affluent individuals. In most regions outside Tbilisi, the Internet is still a rare luxury. Sanet and ICN are the two leading firms in the providers' market.

8. What are the major press and journalists' associations? What proportion of their membership is made up of women?

The major press and journalists' associations are the Free Journalists' Club, the Association "Free Press," the Tbilisi Press Club, and the Media Institute. The Liberty Institute, whose activities are not limited to media issues, is the most visible group promoting media rights. The Federation of Journalists, a successor to a Soviet-era organization, is also active. No figures on the number of women members of these associations are available. In the journalistic community itself, however, women are quite active and may constitute more than 50 percent of all reporters (thought not all editors).

9. What has been the trend in press freedom as measured by Freedom House's *Survey of Press Freedom*?

According to Freedom House's annual *Survey of Press Freedom*, Georgia was rated "Partly Free" in 1992 and 1993, "Not Free" from 1994 through 1996, and "Partly Free" from 1997 through 1999.

GOVERNANCE AND
PUBLIC ADMINISTRATION 4.50/7

1. Is the legislature the effective rule-making institution?

The parliament is the effective rule-making institution. Under the 1995 constitution, the president cannot dissolve parliament and must secure its agreement to the “main principles” of his budget before submission. Under Article 73 of the constitution, the president issues decrees and orders on the basis of the constitution and other legislation. According to the 1996 Law on Normative Acts, laws adopted by parliament take precedence over presidential decrees. The parliament elected in 1995 was much more efficient than its predecessor because it featured a stable majority and a reform-minded leadership. There have been 685 bills passed since its election, including a civil code, a tax code, an administrative code, and other important pieces of legislation. It thus completed its task of putting Georgian legislation in accordance with the new 1995 constitution and created a legislative basis for a democratic political system in Georgia. However, the implementation of the new legislation was often less successful as many key ministers did not share parliament’s orientation toward reform. The parliament was also less than successful in exercising its function of overseeing the executive. There were instances when ministers defied parliament by refusing to attend its sessions after being summoned.

2. Is substantial power decentralized to subnational levels of government? What specific authority do subnational levels have?

The 1995 constitution does not define a territorial arrangement of the country, since the required two-thirds majority of parliament could not be reached on this issue. It was postponed until the territorial integrity of the country was restored. The law on administrative-territorial arrangement, enacted in February 1997, filled that void, at least in part. There are three levels of subnational government in Georgia. The territory of the country is divided into 12 regions or *mkhares*, which include the capital Tbilisi and the autonomous republics of Abkhazia and Adjara. This subnational level of government was introduced after independence in 1993 when the president appointed

“authorized representatives” to respective regions; it was written into law in 1997. The functions of this level of government are still vaguely defined—both in legislation and in practice. The subnational level overlaps with the Soviet legacy of autonomous units, of which there were three in the Soviet Georgia: the Abkhazian and Adjarian autonomous republics and the South Ossetian Autonomous oblast. The Georgian Supreme Soviet abolished the latter in 1990 during the conflict over secession. In fact, territories of Abkhazia and approximately 15 percent of South Ossetia are outside the government’s control. Ajaria is not trying to secede but its leadership often defies Georgian legislation and the division of authorities between the center and autonomy remains to be explicitly defined. Lower levels of administrative-territorial arrangement have not changed since the Soviet era; they comprise the district (*rayon*) level, towns, community, settlement, and village.

Executive power on the regional and district level belongs to the president’s appointees (called, respectively, governors and *gamebeli*). The mayors of the seven most important cities are also appointed by the president (though in three of them: Sukhumi, Tskhinvali, and Batumi—respectively, the capitals of Abkhazia, Ossetia, and Ajaria—this right is not enforced in practice). This arrangement makes the system highly centralized in those areas where the central authority is not openly defied. Local elected bodies were first created in March 1991, but most of them ceased to exist after the coup in January 1992, and their term expired in 1994. New elected bodies (*sakrebulo*s) were only created on the level of districts and towns after the November 1998 elections. Their competence, as defined by legislation, is very limited: local councils approve budgets submitted by *gamebeli*, but if they fail to do so in the first two months of the year, they may be dismissed by president. In practice, however, some *sakrebulo*s (especially those that the opposition controls) challenge the authority of appointed administrators, and their election has significantly changed the political dynamics in many regions.

3. Are subnational officials chosen in free and fair elections?

The first elections to local district-level councils (*sakrebulo*s) were held on March 31, 1991. Gamsakhurdia’s Round Table bloc failed to win majorities in

most sakrebulo. The next elections did not take place until November 1998. At that time, members of local councils (sakrebulo), as well as administrators of the primary level of the local government (villages, communities, settlements, and small towns) were chosen. The elections were considered by most international and local observers and journalists as mainly free and fair throughout most of the country's territory. The ruling party, Citizen's Union of Georgia (CUG), received a plurality of votes in most districts, but opposition parties created majority coalitions in many essential areas (including largest cities such as Tbilisi, Kutaisi, and Rustavi). Elections on the territory of the Autonomous Republic of Ajaria were an exception: the locally dominant Democratic Union for Revival (DUR) carried 97 to 98 percent of the vote, and gained all the seats on all levels of local government.

In September 1996, legislative elections were held for the Supreme Council of the Ajarian Autonomous republic. No international observers or Georgian NGOs were admitted to monitor the elections. The DUR won almost all of the seats. Presidential and parliamentary elections have been held over the past few years in the self-proclaimed independent territories of Abkhazia and South Ossetia, but the elections were not considered legal by either the Georgian government or the international community, and they were not monitored by international observers.

4. Do the executive and legislative bodies operate openly and with transparency? Is draft legislation easily accessible to the media and the public?

Parliament operates with increasing transparency and openness. The media and public are advised of upcoming debates and legislation, and parliamentary proceedings are televised. According to parliamentary protocol, MPs, government representatives and other invited people may participate in meetings of parliamentary committees, and different lobbying groups as well as journalists widely take advantage of that ruling. The executive continues to be relatively closed, although some ministries have become more accessible. In practice, many ministries still give precedence to their own regulations over laws, though this is illegal. Lack of transparency is especially characteristic of the subnational levels of governments functioning outside Tbilisi, as civil society is much weaker there and exerts lesser pressure on the government.

5. Do municipal governments have sufficient revenues to carry out their duties? Do municipal governments have control of their own local budgets? Do they raise revenue autonomously or from the central state budget?

Municipal governments are subject to the same economic privation as other levels of the Georgian government. By law, they have revenues from managing municipal property and local taxes, but in practice, they remain heavily dependent on transfers from the state budget. This increases the power of the centrally appointed gamsbelis, since the timeliness of the transfers depends on their activities. Tbilisi and Kutaisi, the two major municipalities, are exempt from laws that require the mkhare to contribute a fixed percentage of their revenues to the central budget.

6. Do the elected local leaders and local civil servants know how to manage municipal governments effectively?

As a result of November 1998 elections, many politically inexperienced people became deputies of local councils of different levels. The National Democratic Institute of the United States conducted seminars for chairpersons of local councils in December 1998. Local civil servants are more experienced but reputedly corrupt, and political loyalty and family connections are often more important in securing civil service appointments than professional competence. The Office of Regional Management with the President's Chancellery has a training center for local civil servants.

7. When did the constitutional/legislative changes on local power come into effect? Has there been reform of the civil service code/system? Are local civil servants employees of the local or central government?

The 1995 Constitution left a void on questions of territorial arrangement and local power until the territorial integrity of the country is restored. It states only a general principle that "the citizens of Georgia regulate matters of local importance through local self-government as long as it does not encroach upon national sovereignty" (Article 2). A package of laws was adopted in the period from 1997 to 1999 that introduced considerable changes. Most notably, the laws defined the powers of the newly created regional level of administration and of elected local assemblies, and they regulated the eco-

conomic activities of local power suppliers. An October 1997 bill introduced a legal basis for the civil service. This law distinguishes between state service and local self-government service: according to Article Four, a civil servant who works for the state is defined as a state servant, while one working for a unit of local self-government is a local self-government servant.

Rule of Law

CONSTITUTIONAL, LEGISLATIVE, AND JUDICIAL FRAMEWORK 4.00/7

1. Is there a post-Communist constitution? How does the judicial system interpret and enforce the constitution? Are there specific examples of judicial enforcement of the constitution in the last year?

On August 24, 1995, parliament adopted a new constitution after lengthy discussions between the pro-government coalition and the opposition. It instituted an American-style separation of powers between president, parliament, and the judiciary. The national legislature is unicameral, though it is supposed to be divided into the Council of the Republic and the Senate after the territorial integrity of the country is restored (that is, when the conflicts with the breakaway regions of Abkhazia and South Ossetia are finally resolved). A constitutional definition of the territorial arrangement of the country is postponed until the same period. A separate constitutional court was created in 1996 as a legal body for constitutional supervision. Its nine members are nominated for ten-year terms by the president, parliament and the supreme court (three by each branch of power). As of June 30, 1999 the state (in most cases represented by the president and parliament) lost 10 cases to individual citizens and organizations; in 15 other cases the court ruled in favor of defendants (41 more claims were not accepted for consideration, 13 were dropped because contested normative acts had lost force, and 6 were withdrawn by plaintiffs).

2. Does the constitutional framework provide for human rights? Do the human rights include business and property rights?

Chapter two of the 1995 constitution provides for basic human rights and freedoms. It guarantees freedom of speech, movement, and assembly, as well as freedom from torture, inhuman punishment, and discrimination based on race, language, religion, or sex. Article 21 of the constitution guarantees the right to own and inherit property. Article 30 requires that the state foster conditions conducive to the development of free enterprise. Business rights are further elaborated in the 1994 Law on Entrepreneurs, the 1996 Law on the Promotion and Guarantees of Investing Activities, the 1997 Civil Code, and other legislation. Individual citizens have the right to appeal to the constitutional court directly on claims of human rights violations. Article 43 creates the post of public defender, who is nominated by president and elected by parliament for a five-year term and is not accountable to the president or the parliament. The public defender is authorized to report on human rights violations to the appropriate authorities and to recommend criminal or other disciplinary procedures. However, most human rights groups have criticized the public defender's office as inactive, inefficient, and lacking independence. A number of laws passed in the period from 1996 to 1999 were supposed to create more specific mechanisms of protection of these freedoms. In some cases, however, they actually added restrictions to rights provided by constitution: for instance, the Law on Meetings and Manifestations requires special sanction for protests on streets and near government offices.

3. Has there been basic reform of the criminal code/criminal law? Who authorizes searches and issues warrants? Are suspects and prisoners beaten or abused? Are there excessive delays in the criminal justice system?

Reform of the criminal justice system was one of the priorities of 1995 Parliament. A package of new laws (including the Criminal Procedures Code and laws on Common Courts, on Procuracy, and others) sought to create a legal system with adversarial trials by reducing the pervasive powers of the procuracy, increasing the rights of defense attorneys, and enhancing the independence and authority of the judiciary. Only courts may now issue search and arrest warrants. The death penalty was abolished in November 1997. But these reforms met strong resistance from the procuracy and the police, so concessions were made to their

demands. In particular, the reform of the procuracy was postponed until 2000. A project of creating a separate investigative department was abandoned so that both police and procuracy could retain functions of investigation.

The new Criminal Code is modeled on the old Soviet one and many feared that it would restrict freedoms. (The final version was improved.) Moreover, new legislation is not always observed. The police operate with relative impunity and frequently violate the constitution. Police carry out searches without warrant and make unregistered arrests, often to extort money. Police have gradually begun to observe the constitutionally defined time limits on detaining suspects (suspects can be held no longer than 72 hours without being charged), but another constitutional requirement – that “the accused cannot be held on remand for more than 9 months” (Article 18)—is often violated. Prison conditions are grim and have been the subject of criticism by prisoners and international human rights groups. Prisoners are frequently beaten and abused by the police, and defendants routinely state during court proceedings that they admitted to crimes that they had never committed because of physical and psychological pressure. The constitutional right to an attorney at the time of arrest is often ignored. There have been several publicized cases in which suspects “dropped” to their death from detention wards of procurator’s office—all of these cases were officially written off as suicides.

4. Do most judges rule fairly and impartially? Do many remain from the Communist era?

Since May 1999, a new judiciary system has been in place. New judges had to pass exams conducted by the Council of Justice (with help from international organizations). Some Soviet-era judges passed the exams and retained their offices, but most of them were replaced by former defense lawyers, employees of the procuracy, and others. Separate arbitration that existed in the Soviet period to resolve economic disputes was abolished while its functions were transferred to common courts. The territorial structure of the judicial system was simplified. The judicial reform is seen by many as one of the most important achievements of the Georgian parliament, but its real results remain to be seen.

5. Are the courts free of political control and influence? Are the courts linked directly to the Ministry of Justice or any other executive body?

According to the constitution, the judiciary is independent from any other branch of power. The constitution also prohibits judges from joining political parties or participating in political activities. After the judicial reform, the judges have been appointed by the president after being presented by the Council of Justice, a 12-member consultative body that includes nominees of the president (four members), parliament (four members), and the supreme court (one member), with the chairman of the supreme court and the chairmen of the supreme courts of the Abkhazian and Ajarian autonomous republics as *ex officio* members. It is widely believed that new judges will be politically independent, though as of June 1999 it was still too early to evaluate this. Until the reform, the judges were vulnerable to political pressure, particularly from the executive branch.

6. What proportion of lawyers is in private practice? How does this compare with previous years? How many new lawyers are produced by the country’s system of higher education? What proportion of lawyers and judges are women?

While no exact data is available, according to the Georgian Young Lawyers’ Association, approximately 30 percent of active lawyers are in private practice, and their number is increasing. During the last two years, the most qualified lawyers have been moving to private practice, since there is growing demand for them and government can offer only small salaries. The exceptions are the new judges, whose wages are relatively high by the Georgian standards (the equivalent of S250 to S300).

7. Does the state provide public defenders?

The state is required to furnish legal counsel if the defendant cannot afford his or her own attorney. The constitution and the Criminal Process Code grant access to a lawyer from the moment of arrest. But though police stations are supposed to have public defenders, the salary is so small that the position often remains vacant. Bureaucratic complications and a lack of legal education on the part of citizens hinder actual access to public defenders.

8. Are there effective anti-bias/discrimination laws, including protection of ethnic minority rights?

Article 38 of the 1995 constitution mandates equal treatment of all citizens regardless of ethnic, linguistic, or religious identity. There exists no special legislation on protection of ethnic, linguistic, or religious minority rights, but many other laws (e.g., on citizenship, on education, on healthcare) include special anti-discriminatory clauses. For instance, Article Four of the law on education guarantees education in one's native language. In May 1999, Georgia joined the UN Covenant on Elimination of All Forms of Racial Discrimination.

9. Are judicial decisions effectively enforced?

The poor enforcement of judicial decisions is one of the major problems of the Georgian law-enforcement system. This is especially true in civil law, when a state agency loses a case in court.

CORRUPTION 5.00/7

1. What is the magnitude of official corruption in the civil service? Must an average citizen pay a bribe to a bureaucrat in order to receive a service? What services are subject to bribe requests – for example, university entrance, hospital admission, telephone installation, obtaining a license to operate a business, applying for a passport or other official documents? What is the average salary of civil servants at various levels?

Assessments of the business climate in Georgia consistently rate official corruption as one of the major impediments to doing business in the country. Police, the procurator's office, tax inspection, and customs have the worst reputations for corruption. The deep corruption of the last two agencies is usually considered responsible for the extremely low level of tax collection. Small bribes are routinely requested for different services in state agencies, though they may be avoided. For instance, to obtain a passport or other ID requires bribes only if they are needed fast. University entry procedures in the most prestigious schools are widely believed to be corrupt as well. Some services that were corrupt in Soviet times (such as hospital admission or telephone installation) have been commer-

cialized, replacing bribes with official fees. Nevertheless, additional payments are still often extorted for telephone installation. In 1998, the average monthly wage for public sector employees was 35 to 40 lari (\$27 to \$31), but after currency depreciation in December 1998, its dollar equivalent dropped to \$17 to \$20. However, the rates of salaries are different from one state agency to another. For instance, the salary of a civil servant in the ministry of finance exceeds the salary of an employee holding an equivalent position in the ministry of education by 50 to 70 percent. Salaries in customs and tax offices are the highest in the executive.

2. Do top policy-makers (the president, ministers, vice ministers, top court justices, and heads of agencies and commissions) have direct ties to businesses? What are the legal and ethical standards for boundaries between public and private sector activity? Are they observed in practice?

A number of high-ranking officials have been accused of having ties with various legal and illegal businesses. The case of Minister of Communications Pridon Injia was the most notorious, as he used his position to create a network of powerful companies, owned by himself, his family members, and his associates, that controlled most communications' business in Georgia. Under severe criticism from NGOs and parliament, he was forced to resign in September 1998 and a criminal case was opened against him, though it did not reach the court. In June 1997, the Minister of State Security was accused of controlling the illegal trade in cigarettes (he was also forced to resign, but illegally wiretapping journalists, not his business connections, was the main reason). A scandal in the Adjar Autonomous Republic in 1999 was tied to the near collapse of Georgia's merchant fleet. The Georgian prosecutor, Djamlet Babilashvili, accused the mayor of Batume, Aslan Simirba, of misappropriating at least \$370,000 from the fleet funds, including \$250,000 transferred from a London bank to a special fund controlled by the chairman of the Adjar Supreme Council, whose name is Aslan Abashidze. Abashidze, a presidential candidate, has other unsavory connections, including Grigory Louchansky, a Russian businessman and alleged mobster who surfaced as a campaign donor to the Democratic Party in the U.S.

Allegations against other high ranking officials who are still in office were discussed in the media and in the anticorruption commission of parliament, but the allegations led nowhere. There have been no corruption trials of high-ranking officials and, in many cases, it is difficult to determine whether the allegations are true or politically motivated. Most corrupt activities involving high-ranking government officials involve illegal trade in commodities — including electricity, oil, and manufactured goods — that are regulated by the ministry in which the official is employed. A second category of corruption involves the evasion of customs and excise duties on imported goods that are intended for use within Georgia or for reexport to Russia, Azerbaijan, Armenia, and Iran. Several close relatives of president Shevardnadze run successful businesses and are widely believed to enjoy unfair advantages over their competitors.

3. Do laws requiring financial disclosure and disallowing conflict of interest exist? Have publicized anticorruption cases been pursued? To what conclusion? Are there laws against racketeering? Do executive and legislative bodies operate under audit and investigative rules?

According to a law “on Corruption and the Incompatibility or Interests in the Public Service” enacted in October 1997, high-ranking public officials (including parliament members, ministers, and their deputies) or members of their families cannot hold a position in a commercial agency whose activities are supervised by the government agency that he or she works for. He or she must also submit a declaration on property and income that is open to the media. Later, by presidential decree, this requirement was extended to all civil servants. Public officials mostly complied with the requirement to submit declarations but the measure did not have any effect, since the information provided was not checked. As for conflict of interest per se, some high-ranking officials complied by giving up their positions in different businesses, while others ignored the law without repercussions. Although many cases of high-level corruption have been discussed in the media and in parliament, none of them have reached the court, though there were cases in which corruption allegations led to resignations and firings. According to Article 97 of the constitution, financial and economic oversight of state revenues and other state ex-

penditures is the responsibility of the chamber of control of Georgia. It has a reputation of being an honest agency and its audits of many state agencies have been reportedly critical. Details of its reports are not made public, but according to various leaks, serious allegations were revealed and the information passed to the procuracy; there have been no repercussions for anybody. No other independent audits of state agencies have been conducted. While the term “racketeering” is not included in the country’s 1999 criminal code, Article 1818 establishes the punishment for extortion from a monetary fine to up to six years in prison.

4. Have there been public opinion surveys of perception of public sector corruption conducted with the support of reputable monitoring organizations? What are the principal findings and year-to-year trends?

The public perception is that corruption is extensive. In a survey conducted in 1997 by the Arnold Bergstraesser Institute and the Caucasian Institute for Peace, Democracy, and Development, only 1.5 percent of those surveyed said that they expected a fair procedure in the tax office; only 1.7 percent expected police investigations to be fair (the court received a relatively high rating of 12.1 percent). In May 1998, the World Bank surveyed the general population, the business community, and public officials in Georgia and also discovered a high level of public concern about corruption. Traffic police, ordinary police, and customs and tax authorities had the worst ratings of corruption.

5. What major anticorruption initiatives have been implemented? How often are anticorruption laws and decrees adopted? Have leading government officials at the national and local levels been investigated and prosecuted in the past year? Have such prosecutions been conducted without prejudice or have they targeted political opponents?

Several anticorruption amendments to the Soviet-era code have been adopted, but with little effect. In 1995, parliament created a special anticorruption commission that raised corruption charges against high-ranking officials in the executive. Its pressure has led to some resignations: for instance, in the spring of 1998, the minister of energy, Davit Zubitashvili, was removed because of pressure from

the commission. A project of setting up a special anticorruption commission within the executive was discussed and promoted by President Shevardnadze. The World Bank and IMF have also supported the idea, but it has yet to be put into practice. Other measures aimed at curbing the shadow economy include stricter fiscal regulation and new laws and the establishment of regional anticorruption groups.

6. Is there growing public intolerance of official corruption as measured in polls? Are there effective anticorruption public education efforts?

There has been no serious effort to educate the public about corruption. There has been no specialized research on the level of public intolerance of official corruption. Anticorruption slogans are widely used by the political parties, and there is a strong consensus in the media, with the NGOs, and among politicians and commentators that corruption has become one of the central problems impeding Georgia's development.

7. How do major corruption-ranking organizations like Transparency International rate this country?

Georgia was rated 84th out of 99 countries by Transparency International in its 1999 Corruption Perceptions Index, and it received a score of 2.3 (where 10 is least corrupt and 0 is most corrupt).

Economic Liberalization

PRIVATIZATION 3.00/7

1. What percentage of the GDP comes from private ownership? What percentage of the labor force is employed in the private sector? How large is the informal sector of the economy?

According to the State Department of Statistics of Georgia (SDS), private ownership provided for 74 percent of GDP in 1998. Approximately 66 per cent of the labor force is employed in the private sector. According to the SDS, the informal sector of the economy accounts for 40 percent of GDP, while the Ministry of Economy assesses it at 70 percent. The first number is used as official.

2. What major privatization legislation has been passed? What were its substantive features?

The Law on State Property Privatization enacted on May 30, 1997, currently regulates the privatization process and three subsequent amendments to it. This law invalidated 29 legal documents regulating the privatization process since 1991. It does not, however, cover land and housing privatization. Housing was largely privatized back at the beginning of the decade under the appropriate Soviet law, which allowed anyone to privatize housing that they occupied at a nominal price and with a minimum of bureaucratic procedures. The Law on the Ownership of Agricultural Land, passed in March 1996, regulates the privatization of agricultural land. This law also legalized whatever agricultural land privatization had taken place since 1992, following the appropriate decree of the cabinet of ministers. On November 12, 1998, the Law on Urban and Industrial Land Privatization was enacted, which declared the land allocated to privatized enterprises, private legal entities, and citizens to be private, based on existing drafts and documents. Privatized land is being registered rapidly without additional surveying, after payment of a one-time fee. Under the new law, future privatization will include land as an integral part of enterprise assets being sold. In the first half of 1999 about 2,500 companies have registered their land.

Although enterprise privatization began in 1993, the official large-scale privatization program introducing privatization vouchers was launched on April 27, 1994. Though the vouchers were distributed to all citizens of Georgia, only 1 in 17 or 18 families actually participated in the process, while most people sold their vouchers well below the nominal price, and the more affluent simply kept them as souvenirs. Special voucher auctions lasted from June 1995 until July 1996; 13,148 small enterprises were privatized from 1993 until early 1999, 36 percent of them being sold in 1995. This constituted almost all of the nation's small enterprises. The plurality (36.6 percent) of these privatized small enterprises represented commercial outlets. Medium and large enterprises were transformed into joint stock companies with a subsequent sale of shares. As of mid-1999, 1,149 such JSCs were established, out of which approximately 990 were privatized as a whole or in part. Foreign capital is encouraged to participate in the privatization process. Im-

portant acquisitions (most of them taking place in the last three years) include the sale of Tchiatura manganese mines, once a backbone of Georgian industry, to a major Czech metallurgic company; Poti fishing to a British Ocean Sea Products LTD, Ksani Glass Factory to Turkish owners, Poti Ship Building Factory to a subsidiary of Hyundai Group, Tbilisi electricity distribution company "Telasi" to the American firm AES. Following World Bank recommendations, 59 more medium and large enterprises were set aside for privatization in two tires (28 and 31, respectively) in early 1999. The Georgian government considers reforming three crucial sectors of the economy—energy, telecommunications, and transportation—to be the priority for the coming years. However, the strategy is to transfer controlling packages of enterprises through international tenders for long-term (about 20 to 25 years) right of management, without the right of purchase. Transportation is especially important, since Georgia considers its transit capacities as the key for its economic future. This sector is mostly concerned with upgrading the efficiency of the strategically important Poti seaport, creating a variety of privately controlled operational enterprises.

3. What proportion of agriculture, housing and land, industry, and small business and services is in private hands?

Eighty percent of the agricultural production is in private hands. According to the IMF, by June 1999 over three-quarters of the enterprise sector equity as measured by book value remained in government's hands. Government retains control over most large enterprises, but many of them stand idle or use only a fraction of their capacity. About 75 percent of housing has been privatized, as well as 24.9 percent of agricultural lands. More than 95 percent of services are private. There is no official information on small businesses, although SDS estimates private sector participation in small industry at 87 per cent.

4. What has been the extent of insider (management, labor, and nomenklatura) participation in the privatization process? What explicit and implicit preferences have been awarded to insiders?

The staff of privatized enterprises had special privileges in the privatization process, enjoying a right to buy shares directly, at a minimum price, after present-

ing a proper business plan. Only if employees failed to bid did an enterprise become subject to other forms of privatization, like competition, auction, or lease-redemption. In small enterprises, employees could pay between 50 and 65 per cent of the "striking price" in cash, and the remainder in vouchers. In some sectors of economy, this was the major form of privatization. For instance, in health care, 415 out of 474 privatized enterprises were directly sold to employees; the same held for 52 of 99 bakeries, etc. However, with regard to almost all valuable enterprises thus privatized, ownership by employees was only formal, with Soviet-time managers or people with nomenklatura connections exercising real control. For instance, its former manager owns Amalthea, the most successful dairy factory in Georgia, which was transformed into a JSC. In some cases, top managers of enterprises set aside for privatization were keeping outsiders from bidding (often using force or the threat of it) until the privatization took place at a starting price of 1 lari.

5. How much public awareness of and support for privatization has there been? What is the nature of support and opposition to privatization by major interest groups?

At the initial stage of the privatization process the general public was well aware of it and even enthusiastic about it. This enthusiasm disappeared, however, as soon as it turned out that owning shares of privatized enterprises brought them very little or no benefit at all. Today the issue is almost forgotten, save for the people whose well being would be directly affected by privatization in the near future. In particular, employees of hospitals that are to be privatized in the near future have been in open conflict with the Ministry of Health: they do not want to buy their hospitals, even if they are in the financial position to do this, fearing that they will not survive without state support. The Maternity Home N3 of Tbilisi even appealed to the Georgian Orthodox Church in order to change ownership from state to church with appropriate guarantees of future employment and direct financing (though it is uncertain how such a transaction could be implemented under existing law). There is also strong opposition to privatization among employees of large industries (supported by the left-wing political parties) that appears to be provoked by the local managerial nomenklatura.

MACROECONOMIC POLICY 4.00/7

1. Has the taxation system been reformed? What areas have and have not been overhauled? To what degree are taxpayers complying? Is tax compliance difficult to achieve? Has the level of revenues increased? Is the revenue-collection body overburdened? What is the overall tax burden?

In June 1997, parliament passed a new tax code supplanting or incorporating all previous laws and amendments. This document heavily relies on Western models; some clauses even appear to be simply translated from German law. International organizations generally consider this document to be acceptable, although some articles are subject to conflicting interpretations. The state tax service is the only body authorized to assess the tax liability of enterprises. The formal tax burden is approximately 40 to 55 percent on average, with a banking sector subject to less than 20 percent. As of today, the corporate tax rate was set at 20 percent. Personal income tax ranges from 12 to 20 percent. In addition, there is a 20 percent value-added tax. Since 1998, the government increased excise tax on liquid fuel up to 60 per cent and introduced excise stamps on cigarettes and alcohol. Tax privileges were canceled for most previously tax-exempt organizations and income tax for private individuals on inheritance and gifts was reinstated. In 1996, a new tax-collecting body for the big taxpayers that provide about 50 percent of total tax revenue was established. It limits the number of inspections by municipal, regional, and federal tax services, which previously had overlapping authority.

In spite of tax reforms, evasion remains endemic. The government finds it difficult to collect more than ten percent of the country's GDP in taxes. The best year of tax collection was 1997, but the situation has been deteriorating since, though some progress was formally achieved in the second quarter of 1999. Tax collection increasingly resembles an emergency campaign rather than a normal, orderly procedure, and state authorities may be reverting to means of questionable legality. For instance, many believe that the fiscal targets for the second quarter of 1999 were only reached because the tax authorities wrote off the necessary sums from the bank accounts of companies that maintained sizeable deposits. A large share of the shadow economy, insufficient punishment mechanisms for nonpayment, and the financial difficulties of many of the country's

largest enterprises are among the reasons for low tax collection. The vast majority of tax service inspectors has only superficial knowledge of tax legislation, is poorly and irregularly paid, and is widely considered corrupt. On the enterprises' end, qualified accountants are also rare, especially with the introduction of a new accounting system based on international standards. This invariably leads to conflicts on ascertaining proper tax rates or establishing facts of tax evasion. Corruption in the local government and law enforcement bodies is also a big factor: almost all entrepreneurs have to pay "protection money" to the latter before they can take care of official taxes.

2. Does fiscal policy encourage private savings, investment, and earnings? Has there been any reform/alteration of revenue and budget policies? How large are budget deficits and overall debt? Is the financing of the social insurance/pension system sustainable? What proportion of the budget is taken up by subsidies to firms and individuals?

Formally, fiscal policy encourages savings through its emphasis on fighting inflation. However, many aspects of the system, as it operates in practice, discourage legal earnings, savings, and investments. With widespread corruption in place, declaring both corporate and private earnings is tantamount to inviting numerous "tax collectors"—mainly illegal—to prey on these earnings. There have been no major alterations of revenue and budget policies recently, since the administration is preoccupied with reducing budgetary spending and maximizing tax returns using straightforward fiscal and administrative measures.

The share of social security spending in GDP more than doubled over the last three years (to about 3 percent of GDP). This made it the single largest consumer of public money in Georgia (21.5 percent of consolidated budget expenditures in 1998). The IMF has evaluated the Georgian social support system as "unsustainable" in its current form.

Georgia's national debt is very large as compared with the size of its economy and population. In June 1999 it amounted to about \$ 2.2 billion, of which state debt and debts guaranteed by the state run as high as \$ 1.668 billion. Only one debt is overdue and unsettled so far, namely \$118,8 million to Turkmenistan for the supply of natural gas. In some cases, debts are accumulated for political reasons: for instance, the local

energy sector owes Russia \$44.8 million, out of which only .8 million comes to the local consumer proper; the rest is for electricity consumed by Abkhazia and South Ossetia, breakaway regions that are not controlled by the central government.

While Georgian budget deficits have actually fallen from 4.4 percent of GDP to 2.5 percent in 1998, this was achieved at the expense of stringent spending controls and deliberate non-payment of public sector expenses rather than an improvement in revenue collection. Subsidies and direct credits to firms have been almost completely eliminated since the autumn of 1994. The remaining subsidies to firms are indirect, such as tolerance of payment arrears on energy or other kinds of bills. During the last two years, the government indirectly subsidized the energy sector by deducting electricity payments from every payment to the population (1.8 lari from every social payment and 2.5 lari from the salaries of public employees).

3. Has there been banking reform? Is the central bank independent? What are its responsibilities? Is it effective in setting and/or implementing monetary policy? What is the actual state of the private banking sector? Does it conform to international standards? Are depositors protected?

The National Bank of Georgia (NBG) was created in August 1991, even before the final collapse of the Soviet Union. Although supervised by parliament, the NBG is independent of other government controls and is responsible for government liabilities only when such responsibility is initiated by the NBG. Its primary functions are to provide national monetary policy and licensing; to possess, save, and dispose of NBG official international reserves; and to issue regulations and instructions for commercial banks, as well as to provide supervision over their legal activities. A new national bank law enacted in June 1995 strengthened the NBG's authority to implement anti-inflationary monetary policy and supervise the banking system. The NBG is credited with successfully organizing and implementing the monetary reform of 1995, including the introduction of the lari, and with maintaining the stability of the national currency from 1996 to 1999. In February 1996, parliament adopted an IMF-recommended commercial banking law, which strengthened the provisions for scrutinizing new private banks, developed capital provisions more fully, and increased

the NBG's power to liquidate banks and regulate mergers and monopolies in the financial markets. The NBG keeps tight control over banks' solvency, liquidity, and stability, including the increase of charter capital. As of June 30, 1999, the minimum capital requirement for commercial banks is 2 million Lari. A further increase up to 5 million is planned by the end of 2000 – a change intended to encourage mergers between small banks. The NBG is obliged to revoke licenses and start the liquidation procedures of all banks with CAMEL 5 ratings and limiting the activities of all CAMEL 4 rated banks. As of May 1999, some 75 percent of the banks had a CAMEL 3 rating or better (CAMEL is an international system of rating banks by measuring their capital, assets, management, earnings, and liquidity). The number of banks declined from 247 in 1995 to 70 in early 1998. As mandated by the February 1, 1999, banking law, the NBG requires banks to carry out annual external audits by international auditors. It is also tightening loan-loss provisions. International Accounting Standards are also being developed and implemented for domestic commercial banks, with December 31, 2000, as a target date for full conversion of banks to these standards.

Since the beginning of 1996, commercial bank deposits have increased threefold, in part thanks to the public's growing trust in banking institutions and the national currency. Bank lending, however, remains problematic. Banks tend to hold their deposits rather than make new loans, and, when they do lend, they charge high interest rates. Interest rates range from 2 percent per month, at best, to the most common rate of 3 to 5 percent, while rates of 6 to 7 percent per month are not unknown as well. Attaining credit more often than not depends on personal contacts inside the bank, rather than on a sound credit plan and guaranties. Although Georgian law does not limit the free flow of financial resources, the flow is restrained in practice because of the lack of financial resources in commercial banks, widespread cash settlements, and a lack of trust that resulted from the early-1990s scandals involving local financial companies. According to several surveys conducted since December 1998 by SDS, only approximately 4 percent of the population trusts local banks enough to deposit their money there. Most banks issue three- to six- month credits, which function as money market instruments and are used for commercial operations.

4. How sound is the national currency? Is the value of the currency fixed or does it float? How convertible is the currency? How large are the hard currency reserves? Has exchange rate policy been stable and predictable?

The stability of the local currency was guaranteed by a strict monetary policy, manifested in a restriction of the amount of cash in circulation and interventions of the National Bank of Georgia (chiefly using money provided by international donors). A constant shortage of cash for salaries and other payments and the reversal of the major part of the countryside to a barter economy represented the reverse side of this policy. The lari is fully convertible. Until the end of 1998, the NBG maintained a “managed float” policy and the exchange rate of the lari to the dollar remained more or less stable, changing from 1.23 in 1995 to 1.29 in 1997. Starting from mid-August 1998, however, the lari depreciated against the dollar. This depreciation was triggered by the Russian economic crisis as well as by widespread publicity of the nation’s budgetary problems—though the overall weakness of the local economy and poor fiscal policy are root causes. The NGB intervened through December 7 in a vain attempt to save the lari and stopped intervening only after losing \$65 million and draining gross reserves to a low \$64 million — the equivalent of 3 weeks of import. The lari has floated since then. Its exchange rate dropped from 1.73 immediately prior to the cessation of intervention to 2 to 2.2. After a period of violent swings, the rate stabilized by March and started slowly to improve, reaching the rate of about 1.9 per dollar by the summer of 1999. Gross international reserves were in the best shape back in 1995 when they amounted to 2.7 months of the import of goods, or \$157 million. Average 1998 reserves were equivalent to 1.2 month’s imports. By April of 1999, they reached \$95.8 million or 4.3 weeks’ imports, and they continued to recover later.

5. Is there a functioning capital market infrastructure? Are there existing or planned commodities, bond, and stock markets? What are the mechanisms for investment and lending? What government bodies have authority to regulate capital markets?

The capital market infrastructure in Georgia is in a very early state of development. The only available money market instruments are the NBG’s credit facilities and

interbank funds. The investment regulatory system is underdeveloped. Some regulations, however, have been adopted. These include a presidential decree on specialized investment funds, a licensing procedure for participants of securities markets, and NGB regulations on futures trading. Although special investment funds established in connection with the voucher privatization program were intended to promote the development of an equities market, they failed to perform adequately. The ministry of finance regulates securities markets in the country. There is no stock exchange, nor is there equities trade. Shares of enterprises are sold during privatization, but this is a one-off procedure and these shares are hardly ever resold.

MICROECONOMIC POLICY 4.00/7

1. Are property rights guaranteed? Are there both formal and de facto protections of private real estate and intellectual property? Is there a land registry with the authority and capability to ensure accurate recording of who owns what? What are the procedures for expropriation, including measures for compensation and challenge? Have any seizures taken place?

According to Article 21 of the constitution, the right to property and inheritance is guaranteed. Article 23 guarantees intellectual property rights. Protection of the latter are also guaranteed by other legal acts: the Patent Law of Georgia (in effect since May 24, 1999) protects inventions, utility models, and industrial designs; the law on Trademarks (May 24, 1999) protects trademarks (service marks), while the copyright and neighboring rights come under the Copyright Law (November 1997) and book IV of the Civil Code of Georgia. Georgia has also joined the Paris convention for the Protection of Industrial Property, the Patent Cooperation Treaty (PCT), the Madrid Agreement Concerning the International Registration of Marks, and the Bern Convention for the Protection of Literary and Artistic Works.

The constitution permits the expropriation of property for “necessary social need” in cases determined by law or a decision of the court or through “urgent necessity.” In all cases, however, full compensation must be made. No expropriations took place in reality. The Law on Ownership of Agricultural Land was passed

in March 1996. Under the new law, land can now be bought, sold, leased, and inherited freely. There is a formal land registry dating from the Soviet era, but it is inaccurate. Currently a new land registry is being developed with the help of the German government.

2. To what extent have prices been liberalized? What subsidies remain?

The prices of more than 90 percent of consumer goods and services were liberalized in 1994. Many of the remaining prices were freed from control in 1995 and 1996. As of early 1999, only prices for energy and urban electric transport remained controlled. The special independent board that set the 1 kWh price at 0.09 lari controls the price of electricity. The price of natural gas is also controlled.

3. Is it possible to own and operate a business? Has there been legislation regarding the formation, dissolution, and transfer of businesses, and is the law respected? Do there exist overly cumbersome bureaucratic hurdles that effectively hinder the ability to own and dispose of a business? Are citizens given access to information on commercial law? Is the law applied fairly? Does regulation or do licensing requirements impose significant costs on business and consumers? Do they create significant barriers to entry and seriously hamper competition?

The Law on Entrepreneurial Activity, enacted on October 28, 1994, and becoming effective for the most part on March 1, 1995 was one of most significant steps in economic reform. It codified and fundamentally changed many corporate laws and regulations. It authorized six forms of business entities, including the joint-stock company and the sole proprietorship, and required that all companies introduce internationally acknowledged accounting methods, a process due to be completed by January 1, 2001. Other crucial legislation includes a lease law, a bankruptcy law, a law on ownership rights, law on investment activity (providing Georgian and foreign investors similar rights and guarantees), and a law on monopoly activity and competition.

Local courts must register new companies (including the company's charter and other required documents), assess the adequacy of the papers in meeting legal requirements, and record them. In reality, this procedure is relatively easy to implement. There are

numerous local firms that undertake registration of new businesses for small sums in three to five days at most. Two steps that were not required by the law have been eliminated in the first half of 1999. These are the requirements to obtain a stamp or seal from the local police and the regulation of the NBG prohibiting commercial banks to open accounts for new businesses without a seal. A reform of the licensing regime is being prepared, including such measures as restricting licensing to a limited number of specified areas (e.g. where there is a direct, immediate and significant danger to the population) and simplifying the licensing process. Sometimes there are serious problems with starting business activities, but these are caused mainly by pressure of local administrations, the tax service, and law enforcing bodies that demand from potentially profitable enterprises more than these firms are able to pay.

The existing legal base for owning and operating a business is mostly sound, and citizens have full access to information on commercial law. However, government officials frequently interfere in business activities, usually by imposing informal taxes.

4. Are courts effective, transparent, efficient, and quick in reaching decisions on property and contract disputes? What alternative mechanisms for adjudicating disputes exist?

Until the spring of 1999, property and contract disputes were supposed to be adjudicated in a court of arbitration. The court was widely reputed to be corrupt, inefficient, and incompetent. With judicial reform coming into effect, the separate court of arbitration was abolished and all disputes have to be judicially settled in common law courts. The results of this reform remain unclear, though it is not expected to improve the traditionally poor level of enforcing court decisions. Hence, contract enforcement is still highly reliant upon informal negotiation and the support of powerful patrons and political contacts.

5. Is business competition encouraged? Are monopolistic practices limited in law and in practice? If so, how? To what degree is "insider" dealing a hindrance to open competition? Are government procurement policies open and unbiased?

Under Article 30 of the constitution, the state is required to foster conditions for the development of free

enterprise and competition, and the monopolization of activity is prohibited except in cases envisaged by law. The Law on Monopoly Activity and Competition was adopted on September 26, 1996. The agency charged with anti-monopoly enforcement has the responsibility for all goods markets, while the NBG regulates the securities and financial markets. Business competition is hindered, however, by the continuation of Soviet-era patronage networks and by bureaucrats who create conflicts of interest by combining their official and private business activities. These patronage networks further hinder competition through their practice of "insider" dealing among preferred economic actors. Government-granted monopolies exist in such sectors as rail, air, and sea transport, and telecommunications and energy. Illegal monopolies exist in the most profitable liquid fuel and cigarette markets, protected by top state officials and often owned by close relatives of those in power. Although the comprehensive legal and institutional framework to regulate and manage state procurement is being established, in practice government procurement is far from being transparent and unbiased and is considered to be one of the channels of corruption.

6. To what extent has international trade been liberalized? To what degree has there been simplification/overhaul of customs and tariff procedures, and are these applied fairly? What informal trade barriers exist?

Since Georgia was actively seeking an access to the WTO, all international trade procedures were brought into compliance with the standards of this organization. The trade regime is relatively liberal, with a maximum import tariff of 12 percent. The elimination of the export tax on scrap metal and the permission to export logs were the last acts by the government opening the way to the WTO. Here again corruption and illegal activities remain the major problem. According to existing assessments, the Georgian government loses at least 460 million lari in revenue because of smuggling through official customs. Authorities of Adjara simply use the major customs at the Turkish boundary for their own profit, withholding from the central government even those sums it is officially entitled to. De facto existing borderlines with Abkhazia and South Ossetia are not formally recognized as such and no customs regime is established there. As a result they (especially Ossetia) are

wide open for smuggling as well. Cigarettes, petrol, alcohol, and flour remain the main and the most profitable objects of the off-the-books trade.

7. To what extent have foreign investment and capital flow been encouraged or constrained?

In an effort to attract more foreign investment, parliament adopted a Law on Investment Activity in November 1996. The law abolishes a licensing procedure, which many foreign investors considered burdensome, and replaces it with more automatic registration. The law does not require foreign investors to reinvest profits locally. It also abolishes the previous tax-withholding requirement of ten percent on repatriated profits or capital. Extensive corruption and fears of political instability arising from the unsettled conflict in Abkhazia, as well as violent incidents (among them an attempt on president Shevardnadze's life in 1998) are major factors discouraging investments. Direct foreign investments from 1995 to 1998 had reached 579.3 million lari (approx. \$416.2 million) cumulatively, of which 53 percent were placed in the oil transit pipeline from the Caspian to Black Sea. Another 14 percent were invested into attempts to find marketable oil deposits. In industry, only food processing received a relatively significant (by Georgian standards) amount of investment, namely \$21.6 million.

8. Has there been reform of the energy sector? To what degree has the energy sector been restructured? Is the energy sector more varied, and is it open to private competition? Is the country overly dependent on one or two other countries for energy, including whether exported fuels must pass through one or more countries to reach markets?

One of the most precarious areas of Georgia's economy has been the energy sector. It was drastically affected by economic crisis. Disrepair, civil war, financial collapse and improper operation have all taken their toll. Serious blackouts occur as a result. In the winter of 1998 and early 1999, Tbilisi enjoyed only 4 to 6 hours of electricity per day, and the rest of the country averaged 3 to 4 hours (with some parts of the country receiving only negligible amounts). In combination with the near-suspension of the gas supply these shortages cause severe hardship and economic dislocation.

Since 1995, there have been efforts to restructure the sector. It was divided into independent entities

responsible for generation, transmission, dispatch, and distribution. Six percent of smaller plants were either privatized or leased to employees; 51 percent of capacity comes from state-owned corporate plants. The *Sakenergogeneratsia* company owns and operates 38 percent of capacity and manages all corporatized plants (save for the thermal power station Tbilisresi), as well as idle plants. The distribution sector was broken up into more than 70 municipally owned companies. The regulatory framework of the sector was considerably strengthened in 1997 by the passage of the Electricity Law, which created the independent Georgian National Electricity Regulatory Commission. It adopted a transparent tariff methodology and issued licenses to sector enterprises. As a key element of the reform of the power sector, some elements of a competitive wholesale electricity market are being introduced. The government considers the implementation of a comprehensive privatization program in the distribution and generation of power as the best way to improve the situation. The first large enterprise to be privatized in December 1998 was Telasi, the Tbilisi distribution company. Tbilisresi, the largest generation facility, is set for privatization in 1999. So far, the results of reforming efforts have been mixed. The power sector's financial performance has been improving gradually since 1994. End-user tariffs have increased by 200 percent or so to their present level of approximately \$.45 per kWh. Collections have increased from 20 to 65 percent of billings, but appear to have stagnated at this level. Since the spring of 1999, power supplies in the capital have improved. But in general, the situation in the power sector continues to be dire.

In 1998, domestic consumption of natural gas dropped to approximately 14.7 percent of the 1990 level. All consumed gas is imported from Russia. Most of the gas received is consumed in power generation and by a few large industries, with households receiving only a small fraction (though gas supplies to individual consumers are gradually expanding). Gas transmission and distribution in Georgia is carried out by a state-owned company, Saktransgasmretsvi, about 30 gas distribution companies, a number of wholesale suppliers, and a single supplier at the Russian border - Itera Russia, an affiliate of RAO Gasprom. The transmission network itself is owned by the state Gas International Corporation of Georgia. Six of the distribution companies were privatized during 1998. Still, this

process was conducted in a less than fully competitive manner, and the new companies may not be adequately capitalized.

The gas-sector reform program seeks to establish a framework within which private operation and investment will be encouraged to restore gas supply to consumers, while protecting them from abuse of monopoly power. The authority of Georgian National Electricity Regulatory Commission has been extended to include regulation of monopolistic gas supply. The remaining municipal gas distribution companies will be privatized as soon as the new gas regulatory framework is firmly established.

Georgia is serving as a transit country for the western export pipeline, which is operated by the Azerbaijan International Oil Consortium, and for the flow of Azerbaijani oil to European markets. The major hopes of solving the pressing energy problems lay in proposed projects of major oil and gas pipelines from Central Asia to the Mediterranean through Georgia that are currently being negotiated. Georgia hopes to keep part of transported fuel as a payment in kind to ensure reliable energy supply.

Social Sector Indicators

1. What is the size of the national workforce? What proportion of the workforce is employed on a full time basis? What are the labor force participation rates for adult non-retirement age women and men? What is the overall official and unofficial unemployment rate and what is the unemployment rate for men and women? Does the state provide unemployment compensation; if so, how is it calculated and how long is it paid? What proportion of the median wage does unemployment compensation constitute?

In the second quarter of 1999, the national workforce amounted to 2,052,100. Georgian statistics does not differentiate between full and part-time employment, but there is information on secondary employment - 6.2 percent. 1,784,400, or 87 per cent of the workforce are employed. The major problem with these statistical data is that a large, though formally unaccounted for, part of this population is under-

employed, which means limited employment and low remuneration. The adult participation rate for women (15 to 59 years) is 84.5 percent, for men (15 to 64 years) – 84.0. The overall unemployment rate is 13 percent; for women it is 11.7 percent, for men, 14.3 percent. The labor exchange, however, officially estimates unemployment at 5.4 percent. Unemployment compensation provided by the state is 63.20 Lari (approx. \$32), paid over the period of 6 months – 9 to 12 Lari per month (from this, 1.8 Lari were deducted monthly for electricity payments). Instead of a median wage, the SDS calculates a “normative minimum wage”, i.e. the amount that may provide minimum subsistence for a family of four. One employed living in such family should receive 43.5 Lari. Monthly unemployment payments thus constitute 20.7 to 27.6 percent of this sum.

2. Describe the national pension and retirement system. Describe public sector and private pension systems. Provide data on government pension benefits and indicate the proportion of retirees covered by pensions. What is the retirement age for men and women? What is the average monthly retirement benefit and what proportion of the median wage does it constitute? Is there a system of specialized benefits for specific groups (for example, the disabled or certain groups like Chernobyl victims)?

There is only a public pension system in Georgia. Pensions are allocated through the State Social Security Fund, operating under the Ministry of Social Affairs, Labor and Employment. About 24 percent of the money comes in the form of a central budget transfer; the rest comes from payroll taxes. These constitute 27 percent of the sums set aside by employers for remuneration. Besides, employers must allocate 3 percent more for medical insurance and 1 percent for an employment fund—a total of 31 percent. Employers consider this tax very high, so tax evasion is considerable, while arrears in pension payments average four to six months. In 1999, the average monthly pension payments will constitute approximately \$6.7 million per month. Overdue pensions amounted to about \$25 million at the end of June 1999. Anyone reaching retirement age (60 for women and 65 for men) is given an old age pension. These pensions constitute 80 percent of all pensions. Other groups eligible for pensions are disabled persons (in-

cluding children under 16), widows of war victims, those disabled at war and war participants and victims of political repression. The total number of these people is about 930,000. The old age pension is 13 Lari (approx. \$6.5) a month, of which 1.8 Lari is deducted for electricity payments. Other pensions yield one to two Lari more. The ministries of defense, security, and internal affairs pay at least seven or eight times larger pensions to their retirees. In the last quarter of 1998, old age pension payments constituted 24.5 percent of the average monthly payments or 14 percent of the minimum subsistence level as defined in December 1998.

3. What is the country’s average and median monthly income in local currency and dollar equivalents? What has been the trend in average and median monthly incomes since 1993? Are there major problems in wage arrearages? If yes, describe their extent and scale, providing some detail related to the sectors of the economy in which arrearages are most pronounced. Describe how people compensate for cash arrearages (for example, barter). What are the differences in public and private sector median wages and in median wages among men and women?

Median monthly income is not calculated. More or less reliable information on average monthly incomes has been available since the third quarter of 1996, when it amounted to 35 lari (app. \$ 27.8) for the employed and 69 lari (\$54.8) for the self-employed. In the fourth quarter of 1998 these numbers reached 53 lari (\$34.2) and 118 lari (\$76.1). Because of the lower exchange rate of the lari in December 1998, in 1999-dollar equivalents these numbers decreased respectively. In the same period, wages of state employees were lower than average, and the gap is widening: it was 27 and 33 lari respectively. Wage arrears are a major problem, though they are limited mainly to civil servants. In 1998, out of 95.2 million lari allocated for salaries in the central budget, 24.5 million, or 24.5 percent were not paid. This roughly corresponds to 3.1 months’ arrears. Among the most important sectors, law enforcement suffered most. With law enforcement, wage arrears reached 31.5 percent of planned payments or about 3.8 months’ arrears. Defense lost 18.5 percent, or about 2.2 months’ wages. Some officers and other defense employees have not received their wages for at least five to seven months and there are registered suicide

cases caused by this situation. In the first half of 1999, the arrears continued to grow. Arrears also vary from one region to the next; there is a district in Georgia where arrears remained from 1997 as of June 1999. These arrears are believed to be among main reasons of a mass corruption and abuse of authority in law enforcement bodies, tax service, customs and local administration, which turn to businessmen for additional income. Unregistered employment (such as petty trading) or reliance on family networks are other mechanisms compensating for insufficient income.

4. What has been the annual size of the elementary, secondary, and post-secondary education school population since 1993? What is the proportion of 8-18 year olds enrolled in the educational system and what has been the trend since 1993? What is the national student-to-teacher ratio? Provide basic data on public spending for education since 1993: what is the proportion of GDP expended on education by the state, and how has this proportion changed since 1993?

The actual number of children in each age group is known today with an extremely rough approximation, so figures should be used with caution. Elementary education covers in Georgia grades One through four; the population of this age group was 362,300 in 1993 and 364,800 in 1998. As for lower secondary education—grades five through nine—the population was 417,200 in 1993 to 540,300 in 1998. In upper secondary education—grades 10 through 11—the population was 250,800 in 93 and 215,900 in 98. School education in Georgia covers the ages from 6 to 17. Enrollment in primary education (grades one through four) was 85 percent in 1998, the same as in 1993. In lower secondary (grades 5 through 9) it was 78 percent, 4 percent less than in 1993 and in upper secondary (grades 10 and 11) it was 35 percent, i.e. 5 percent less than before. The national student to teacher ratio is 10 to 1. The state spent on education the following shares of GDP: 1 percent in 1995, 1.2 in 1996, 1.6 in 1997 and 1.5 in 1998. Total state education expenses amounted to just \$76.1 million in 1998 or about \$ 59 per person.

5. Provide data on infant mortality, birth rates, life expectancy (both male and female), divorce rates, and suicide rates, and trends over recent years in these spheres.

Infant mortality from 1994 through 1998 was as follows (by years) – 16.7; 13.1; 17.4; 17.3; 15.2. Birth rates changed over the same years as follows: 10.6; 10.5; 10.0; 9.7; 9.1. Life expectancy has not been calculated since 1990, when it was 68.7 years for men and 76.1 for women. The suicide rate was approximately 2.56 per hundred thousand in 1995 and 3.27 in 1997 when the last figures were available. The divorce rate was 0.5 in 1995 and 0.3 in 1998. All data are approximate at best due to mass underreporting.

6. Provide data on the ratio of doctors and nurses to the population. What is the trend in average and median monthly wages for doctors, nurses, and medics since 1993? Provide data on the number of hospital beds and on the number of hospital beds per capita. Provide statistics on the percentage of GDP devoted to health care. Provide data on the proportion of GDP expended by the public sector on health care.

There were 403.59 doctors and 555.11 nurses per 100,000 of population in 1998 in the state health-care system. There are no detailed data on wages. The SDS provides 34.6 lari as the average monthly wage of all employed in health care in 1998 and 32.2 lari in the first half 1999. There were 23,578 hospital beds in 1998 or 437 beds per 100,000. Public health care amounted to 0.7 per cent of GDP in 1998—about \$ 33.8 million or \$7 per capita. There are no data on total health care expenses, but the state provided for roughly one-fifth of the population's health care expenses.

7. What are official and authoritative nongovernmental data concerning the scale of poverty and poverty rates? What is the poverty rate among males, females, and the elderly and pensioners? Provide trends in poverty rates since 1993.

The only available data on poverty comes from the SDS household survey, which covers the period since 1997 and deals only with households. No other sources of poverty data are available. There are no data on the poverty rate among males, females, or the elderly. The SDS publishes data on three poverty lines, one of which is absolute and the other two relative. The absolute relates to the population consuming less than the official minimum subsistence level, which was in the region of 100 lari in standard adult male equivalent. The other two are related to national median consump-

tion that was 117.7 lari in 1997, 102.8 in 1998, and 114.4 in the first half of 1999. Respectively, 43.6 percent, 50.2 percent, and 53.1 percent of households lived below the poverty line. The World Bank provided its

own calculation in 1997 based on a 52 lari monthly consumption per adult male equivalent. According to this calculation, 11.1 households lived under the poverty line in 1997.