FIGHTING UNEMPLOYMENT IN GEORGIA

Georgia is among the countries lagging in development. Economic advancement and production have not yet even caught up to the levels they stood at 15 years ago[1]. Poverty is omnipresent and unemployment rampant. Official statistics indicate the unemployment rate is around 12%[2], however the Department of Statistics does not include in this figure individuals living in villages on even minimal plots of land as they are considered self-employed. That is, individuals who are effectively unemployed and rely on subsistence farming to survive are included among the employed. Thus, while it is difficult to obtain credible information about the unemployment rate in Georgia, public concern about the issue is widespread. In 2004 poverty and unemployment were regarded by the Georgian public as the country's most pressing problems[3].

The Georgian government has on many occasions affirmed its dedication to alleviating the country's dire economic conditions. The Economic Development and Poverty Reduction Programme (EDPRP) adopted in June 2003 was the first comprehensive document outlining a strategy for economic recovery. But the implementation effort proved insufficient. The post-Rose Revolution leadership effectively abandoned the EDPRP[4] in favour of its own broad strategy—the Basic Data and Directions (BDD) (2006) document, which outlines priorities for the years 2007-2010. It states that the new leadership strives to attain sustainable economic growth and to increase private sector-fuelled employment. This same goal is outlined in the ENP Action Plan as well. Although it does not refer directly to employment per se, the Action Plan recommends taking steps towards sustainable economic growth and development of human capital (Priority Area 3). For the latter the document recommends strengthening and reforming Georgia's higher and vocational education systems (Subchapter 4.7.1).

One of the actions taken by the Georgian government to address the problem of unemployment was the introduction of an on-the-job training programme in 2006. Private businesses were invited to hire "interns" selected through the programme for a three-month period. The internships were paid for by the state. The programme was initiated in August 2006, and the internships took place from September through December 2006.

This report examines the programme and its implementation in 2006 to assess its impact on employment/training and on the economy at large. Analysing this experience is especially important given the planned expansion of the programme in 2007—namely, the doubling of the number of trainees relative to the 2006 figure.

The Employment Programme in a Nutshell

The programme was officially initiated by Governmental Order #148 of 2 August 2006: On Approving the State Targeted Programme of On-the-Job Professional Training. The programme was designed to function

---

[1] In 1998 Georgian real GDP was only 36.3% of the GDP in 1989. Source: *Fiscal Policy and Capital Formation in Transition Economies* Gregorz Kolodko, IMF working paper 99, 1999. Taking this figure as a basis and drawing on the 49.2% GDP rise between 1998 and 2005, we find that in 2005 the Georgian GDP stood at 53.7% of the 1989 indicator.
[2] The CIA World Fact Book lists the Georgian unemployment rate at 12.6%.
[3] Global Corruption Barometer 2004, Transparency International. The survey asked interviewees to rate the urgency of problems from 1 to 4, 1 being "not a problem at all" and 4 – "a very big problem". Both unemployment and poverty received scores of 3.9.
[4] The government is determined to formally break with the EDPRP and to abrogate it. The appropriate motion is already underway and the decision is pending.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

until 1 January 2007 and to benefit up to 50 thousand individuals per month. From a total budget of 24 million GEL[5] the programme would provide each intern with a monthly "stipend" of 150 GEL (that is, a total of 450 GEL over the three months of the programme). Each intern received an individual bank card and the amount was transferred monthly to his/her account. The only exception took place in the first month, when the beneficiary received half the monthly allowance (75 GEL) upon reaching an agreement with the business and the other half at the end of the month.

The original Order #148 that was adopted on 2 August 2006 did not turn out to be the final version of the document. The text of the document—the order as well as the programme attached—was significantly altered and expanded over the course of the month.[6] The original document placed responsibility for programme implementation under the Ministry of Economic Development. This decision was reversed a week later when responsibility was shifted to the Ministry of Labour, Health, and Social Protection. The ministries of Economic Development and Finance and local authorities were also asked to provide necessary assistance. While the programme was placed under the auspices of the Health Ministry, responsibility for its implementation was delegated to the Social Assistance and Employment State Agency (SAESA), one of its divisions.[7] The procedures and documentation templates for the entire process – registration of applicants, business declarations, agreement form, training journal, etc. – were introduced over the course of the amendment process. The stipulation regarding the number of trainees to be enrolled in the programme shared the same fate: initially the number was set at a maximum of 52 thousand people, while a week later it was reduced to 50 thousand.

SAESA, which was assigned to practically implement the project, was responsible for publicising the programme and then creating a database of applicants and available positions. Applicants were required to complete a form with their contact information and desired field of training. For their part, the businesses also completed a declaration, proposing to provide training in the designated fields and indicating a possible number of interns and placement positions. SAESA then matched the applicant and business data and directed applicants to their respective internship sites. SAESA administered the programme through its territorial offices in ten cities across Georgia with a total staff of 205 individuals.

SAESA was not responsible for monitoring the effectiveness of the programme or for evaluating the performance of either the interns or the businesses. The agency had only one means for overseeing the programme: applicants who signed an agreement letter (a kind of contract) with a business and thus were accepted for an internship were required to present a training slip – the professional training journal, signed and stamped by the organisation of placement on a monthly basis. This served as notification that the intern was indeed receiving training, i.e. was regularly present at the internship site, complied with internal regulations, etc. The monthly stipend was deposited to an intern's account only after this slip had been received by the SAESA. Businesses were given the right to annul their contracts with interns, presumably in cases of misconduct. Businesses did not assume responsibility for hiring interns upon completion of the programme; such decisions were left completely to the businesses' discretion. Nevertheless, the hiring of an intern was naturally welcome as a boost to the programme's success.

Overall, as SAESA statistics indicate, 4,736 businesses took part in the programme, providing 68,197 traineeships. The database contained 76,387 applications; 54,303 individuals were matched to businesses, of which 44,471 received internship agreement letters.

[5] Currently 1 USD=1.71 GEL
[6] The subsequent Governmental Orders #153 of 11 August #166 and #167 of 26 August, and #172 of 6 September finalised the original and considerably altered its contents.
[7] SAESA and other organisations of its kind have the status of Legal Entities of Public Law. This means that the organisation is under ministry auspices but functions semi-autonomously. The structure and degree of autonomy of each entity is not uniformly consistent; the rights of the entities are stipulated in their individual charters.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

The figures indicate that businesses most often sought to provide training for janitors and cleaners, insurance and advertising agents, product distributors, security guards, shop assistants/sales staff, waiters, heavy lifters, and press distributors, just to mention the top ten. Apparently, low-skill and office support positions were in highest demand[8]. For this reason some began to doubt the programme's aims—whether it was truly directed towards retraining or rather towards short-term employment prior to the politically-charged election period.

How the Programme Worked

The president formally launched the programme just a few months before the local government elections of 5 October. As he said, its goal was to half the unemployment rate in the next two years. Apparently this programme was not pre-discussed with business representatives before its commencement. Prime Minister Noghaideli held meetings with big business representatives to promote the programme and invite their participation after the president's announcement. The delay of information to businesses could be one of the reasons why SAESA received very few offers from businesses at the beginning stage, while programme applicants were queued up in front of SAESA offices hours before they opened for business. It was over the course of several weeks following the programme's commencement that businesses became more actively involved.

While some experts question the interest businesses might have in training unqualified individuals directly sent to them by the SAESA or ceremonially bussed in by the president himself,[9] both the government and the SAESA maintain that the interest and potential benefits to businesses were considerable.[10] The application form did not ask applicants to disclose their educational background, qualifications, or age. Likewise, in the declaration filed by businesses there was no provision for indicating the kind of applicants they were interested in. In other words, there was no screening mechanism to allow businesses to choose from among the contingent sent them by the SAESA. The agency reports that there was only one instance when a business chose to interview/test the applicants and base their decision on whether or not to sign an agreement in accordance with the results.

Levan Peradze, head of the SAESA, credits the programme for managing to bridge demand and supply on the job market. He maintains that although unemployment is high, businesses have difficulties hiring staff and filling the vacancies they do have. He also explains that, despite the fact that initially the plan was to draw primarily on the offers of big businesses, small and medium size enterprises (SMEs) were also allowed to join in. This, Mr. Peradze believes, was a mistake since more structured, hierarchic, larger enterprises are less inclined to bend rules and take advantage of loopholes in the programme. Opportunities for this existed, Peradze confesses, since implementation of this project was based primarily on a sense of "social solidarity" rather than the strict bureaucratic monitoring procedures typical of most state programmes. While he acknowledges that there still may have been instances of wrongdoing, their effect and proportion relative to the cases of fair participation were negligible, he maintains, and can probably be blamed on the decision to include SMEs in the programme. This comment was made in response to allegations that a considerable portion of the internships were fictitious, with no actual internship taking place and no skills

[8] The statistical data is available in Georgian on the official website of the government of Georgia at: http://www.government.gov.ge/mtavroba1158838227.php.

[9] President Saakashvili has made a practice of personally introducing new workforce members to enterprises. In one of the most publicised instances of this sort, he arrived at the commencement ceremony for a new plant with a busload of men who, he explained, he had picked up in a village on the way.

[10] Mr. Peradze maintained that, despite high unemployment, Georgian businesses are in most cases understaffed since they lack resources for filling the vacancies. But he failed to justify this position.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

acquired. It is believed that many enterprises were content to free their interns of any kind of work obligation while allowing them to freely receive the government stipend.

Peradze says that, despite the misgivings, there still were safeguards in place to avoid such practices. He explains that SAESA automatically disqualified from participation any company that was established after the programme was publicly announced. Suspicious companies, such as small grocery stores offering numerous internships, reportedly shared the same fate.

Unfortunately, the SAESA denied our request to see the list of participating businesses and other related information for reasons of privacy.[11] Data on the number of interns accepted by a given company would have also been of interest not only for independently checking the validity of programme criticisms, but for determining the share of interns who were later hired by their placement/training organisations. Mr. Peradze says that, while it was not responsible for monitoring this component of the programme, the SAESA voluntarily conducted a telephone survey of enterprises and found that about 10,000 people received jobs. Nevertheless, he cautioned that this information was reported by businesses themselves and that the SAESA cannot ensure the credibility of this data.

What the Businesses Say

It is difficult to generalise the experiences of both the businesses and the individuals enrolled in the employment programme, but significant concerns have been raised with regards to the government's efforts to 'attract' businesses to the programme. TI Georgia has become acquainted with the experiences of two specific companies, both of small size. On the condition that their identities are kept confidential they have agreed to contribute to this report. Both companies received phone calls from the Tax Department after the start of the programme demanding they accept a specific number of programme 'interns.' One was assigned to host ten people and the other – 100. Through negotiations the companies managed to adjust their new obligations; in the end, one company took two people and the other fifty. There was no mention of what would happen if the companies refused the request, though it was clear, as stated by the company representatives, that non-compliance would bring about an inspection by the Financial Police. While the management stresses that they were not concerned about being fined for misconduct, they did not want to damage their relations with the government. As such, they chose the obvious and least expensive option of yielding to the tacit pressure, thereby avoided complications with the authorities. In exchange, however, they chose to take on staff for which they had no need or even space. Furthermore, the companies were not asked what kind of qualifications they were looking for (or in the fields in which they were willing to train the interns); they were to welcome whoever was sent to them by the programme.

The management reports that they did not actually keep the new people in their offices, to say nothing about training them. The 'interns' simply got their 'stipend' from the government after receiving periodic stamped slips verifying their 'attendance' at work. Calls to the 'interns' to tell them to pick up these slips were the only encounters the businesses had with these people, according to their management. Neither company offered a single 'intern' a permanent job upon completion of the programme. Some of the other companies informed us that they did employ some of the interns sent to them after the three-month programme was over, but this was not their deliberate decision, again they followed the order from the government.

[11] Mr. Peradze explained that TI Georgia was not the first organisation to request the information and in the previous cases the SAESA leadership did plan to provide the data, but was advised by its legal department to refrain from doing so.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

Other accounts suggest that some businesses taking part in the programme were even more dishonest with the government and applicants. Certain companies that existed primarily on paper, and not in practice, accepted large numbers of interns and subsequently demanded a sizable portion of their stipends in exchange for the contract. In short, the dishonest were able to profit with a minimum of effort.

What the Experts Propose

Experts' assessment of the programme to date has been rather negative. The critical position can best be summed up by Lado Papava, who placed the programme on the list of Georgian economic initiatives that "lead to nowhere" and contradict not only economic theory, but common sense as well.[12]

The opposition labelled the programme as a mere PR tool, especially since it was announced just months ahead of the 5 October local elections—the first time the Georgian public was called to the polls since the revolutionary euphoria was dispelled.[13] But the announced continuation of the programme for 2007 (and possibly further into the future) has established grounds for more focused analysis.

The starting point of all the criticisms is that the training programme was hardly a programme at all. It did not seem to be sufficiently thought through and planned. Instead of a clearly elaborated document proposing a viable scheme, the Governmental Order was more like an annotation or a press release. Another problem was the manner in which the programme was framed. While it was in fact designed to train and develop new skills (albeit rather basic ones) in the Georgian workforce, it was widely referred to as an employment programme by officials, including the president himself. Further, the initiative appears on the Government of Georgia official web site with the official title "Employment Programme." It was not presented as an opportunity to acquire skills that would in the long run increase employability, but rather as a chance to secure a short-term job.

Rezo Sakevarishvili of the Economic Policy Research Centre (EPRC) has underscored the simultaneous existence of two very different programme aims. The simultaneous goals of retraining and job placement created contradictions in the programme and contributed to the ill-definition of priorities from the very outset. He argues that the government took on too ambitious an issue too quickly. Sakevarishvili stresses that in market economies the executive branch is not to be in charge of these issues per se. Rather, the state is responsible for creating a sound legislative base and business environment conducive to improved business performance and hence employment opportunities.

Economic experts interviewed by TI Georgia view the programme as more of a charity effort than a viable tool for either retraining or job placement. Papava stresses that, since in theory at least salaries should constitute about 20% of production costs, the 22.5 million GEL spent (that is the stipend amounts for the 50 thousand beneficiaries, of the 24 million allocated for the programme in total) should have produced about 112.5 million GEL in goods and services. In the present case, he argues, this has failed to materialise; the spending has proven to be nothing more than a monetary injection into the market. In this regard, representatives from the Federation of Georgian Businessmen (FGB) point out that none of the 22.5 million GEL was taxable, and hence no portion of it has ended up back in the state budget. This tax

[12] Lado Papava: *Georgian Liberalism...and "back" to Europe the Columbus way!* 24 Hours daily, 27.11.2006 #263 (1415) and *Georgia 2006: The Economic Mosaic* 24 Hours daily, 30.12.06 #292 (1444) both in Georgian.

[13] Two important elections followed closely after the Revolution: the presidential election of 4 January 2004, which replaced the ousted President Shevardnadze with Mikheil Saakashvili, and the parliamentary elections of 28 March 2004. The latter elected MPs through the proportional system only, since the results of the previous— November 2, 2003—parliamentary elections, widely believed to be fraudulent, were ruled void. However, the majoritarian component of that election was not disputed and the results of it were retained.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

exemption was achieved by calling the 450 GEL paid to the interns a "stipend" rather then a "salary". Stipends are not taxable under Georgian legislation.

Such a drastic spending hike concentrated in a short time-period could not but lead to higher inflation, undermining macroeconomic stability. This was precisely the period when the officially acknowledged Georgian inflation rate topped the 10% mark, causing international financial institutions like the IMF and local experts alike to caution the government and demand immediate drastic measures and a more prudent policy approaches in the longer term.[14] Here a provision of the ENP AP is also worth mentioning, namely the goal of "maintaining macroeconomic stability by implementing prudent monetary and fiscal policies" (Chapter 4.4, paragraph 1). While the ENP had not yet been adopted when the programme was planned, the text had already been finalised, with just a few political issues remaining to be resolved.

While all experts interviewed by TI Georgia expressed their disappointment with the project implemented last year, they were not unanimous in their proposals for improving it. Some dislike the idea of the coexistence of two distinct directions (training and employment) in a single programme. Others argue that the state should concern itself with the first component only and should not directly interfere in the job market functioning. All are in favour of the new initiative to revive the system of vocational training. The draft law is currently being debated in Parliament. Experts recommend that the government and the Ministry of Education in particular maintain close contacts with the business community, research current job market conditions, and identify the qualifications most demanded by the economy. This can help them avoid teaching skills that are obsolete and/or practically useless.

According to Rezo Sakevarishvili, the state can play a role in providing special employment programmes. It can either designate a concrete body/institution responsible for drawing up workable schemes or, better yet, outsource. In the latter case the government would still allocate money for employment purposes, but rather than investing it in a hastily planned programme, it could contract private employment agencies selected through competitive bidding. The agencies then would be responsible for maintaining high standards of effectiveness and efficiency. (Sakevarishvili cites the Eastern European experience as useful for emulation.) This would help to ensure that, unlike the present programme, the focus is not just numbers (i.e., 50,000 beneficiaries, as regulated by the Governmental Order), but substance.

Others contend that businesses have sufficient resources for hiring the people they need. FGB representatives explain that, while enterprises in many cases are truly understaffed, it is highly skilled personnel they hunt for and—faced with a shortage in the domestic labour market—"import" from abroad. Unskilled or minimally skilled prospective hires like the ones offered by SAESA are abundant; choosing the best among them is neither difficult nor expensive. Most established and sizable businesses already have quite accessible hiring procedures and ever-growing databases of job-seeker resumes. Another well-practiced tool for finding the right candidates is to post vacancy announcements on the web – on company web pages or dedicated job sites that anyone with internet access can view free of charge. Thus, the FBG maintains, businesses do not objectively need any state assistance as far as staffing is concerned. They are more likely to appreciate a government effort to bring the Georgian education system up to contemporary standards.

[14] By August 2006 inflation was at about 14.5%. The IMF mission strongly advised bringing the rate down to the single digits by the end of the year and further tightening fiscal and monetary policies in 2007.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge

The Prospects

The on-the-job training programme implemented in 2006 has proven not to be an isolated case. As mentioned above, the government plans to continue the programme in 2007. An implementation plan has yet to be made public by either the government or the Ministry of Economic Development, to which responsibility for the programme was assigned in a late December presidential speech. The president vowed that, given the huge success of the programme in 2006, the plan for 2007 is to double the number of beneficiaries. Nevertheless, officials from the Ministry of Economics have only a vague notion of their assignment. One high-ranking official in the Economic Policy Department, who is theoretically responsible for developing the programme, does not know the programme's budget, the planned number of beneficiaries, or the changes planned to last year's programme.[15] The Ministry could not provide definite information on the project's start date—in his speech the president suggested the spring, but the Ministry confided that this might not be possible and that the date will be pushed back to the summer. Still, according to the official one aspect is clear: the state is likely to resort to "voluntary coercion"—a strange oxymoron—to ensure the active participation of businesses.

While SAESA has not yet published a report on programme implementation and assessment for the year 2006 (the statistics have been made publicly available on the government's web page, but there is no indication of whether or not a report should be anticipated), the government should increase inter-agency collaboration and take last year's experience into account when developing this year's programme. Increased dialogue with other state bodies and experts would also improve the prospects for successful programme implementation.

Acknowledgements

Transparency International Georgia would like to thank Mr. Levan Peradze and Ms. Tea Sturua (SAESA), Mr. Lado Papava (Georgian Foundation for Strategic and International Studies; MP, Vice-Chair of the Budgetary and Finance Committee), Mr. Rezo Sakevarishvili (EPRC), Mr. Vladimir Kharatishvili and Mr. Nugzar Kavtaradze (FGB) for their contributions. We would also like to thank Mr. Archil Imnaishvili and Mr. Zakaria Babutsidze for their kind help in the Georgian GDP-related calculations.

[15] Georgia's budget for the year 2007 states that for the on-the-job professional training programme 20 million GEL are allocated (Chapter 4, line item 26 21). It has yet to be explained how the Ministry of Economic Development will use this sum (4 million GEL less than that allocated last year) to double the number of beneficiaries.

თბილისი 0108, რუსთაველის გამზ. 26, III სართ. • 26, Rustaveli Avenue, Third Floor, Tbilisi 0108, Georgia
ტელეფონი/Phone: + (995 32) 92 14 03; 99 93 35; 93 21 29 • ფაქსი/Fax: + (995 32) 92 02 51
ელ-ფოსტა/E-mail: info@transparency.ge • www.transparency.ge