

# POVERTY REDUCTION THROUGH PRIVATE SECTOR DEVELOPMENT IN GEORGIA: POLICY, PRACTICE AND PERSPECTIVES

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## Abstract

*This paper deals with the experience gained in the area of poverty reduction and private sector development in Georgia. The Economic Development and Poverty Reduction Programme approved by the President of Georgia in 2003 has never been implemented because the Georgian Government had neither the will nor the ability to launch its implementation. During the Presidential and Parliamentary elections in 2008, the Government's electoral slogan was "An Integrated Georgia Without Poverty!" Unfortunately, however, even this slogan did not prepare the grounds for the Government to develop a more-or-less complete poverty reduction programme. The post-revolution Government was not always consistent in its endeavours to support private sector employment programmes. Very often its steps were populist rather than practical. Poverty reduction may be achieved as a result of co-ordinated efforts of the government and the private sector: however, this kind of co-ordination requires the active involvement of trade unions and civil society.*

**Keywords:** Georgia, Rose Revolution, poverty reduction, private sector development, UNDP, The IMF, The World Bank

## Introduction: Problem Statement

Ten years have passed from the time when poverty reduction became a global objective<sup>1</sup>. It is understandable, given the fact that poverty has become a problem affecting more and more people worldwide over the last decades. At the end of the 20<sup>th</sup> century, it became clear that the world could not have survived without developing some special poverty reduction programmes. The UNDP and the World Bank have worked together extensively to initiate such programmes and to develop some integrated conceptual schemes. Eradication of extreme poverty and hunger is one of the key UN millennium development goals.

Poverty reduction must be achieved not by the redistribution of incomes but, rather, through a country's economic development. Under the conditions of a market economy, a country's

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<sup>1</sup> For example, Branko Milanovic, *Income, Inequality and Poverty during the Transition from Planned to Market Economy* (Washington, D.C.: The World Bank, 1998); Jeffrey D. Sachs, *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin Press, 2005).

economic development is unthinkable without the proper development of a private sector. It is private sector development which entails the enhancement of employment and the growth of employees' incomes which, eventually, pave the way for poverty reduction.

In this context, one needs to consider a “Pro-Poor Growth” approach, which has won much popularity amongst economic experts recently<sup>2</sup>. Under this approach, any pro-poor growth may have two meanings; *absolute* and *relative*. Whilst the incomes of the poor must grow according to the former meaning, their incomes must grow more quickly than the average incomes according to the latter meaning. Such growth may be achieved by the development of a private sector which means that greater numbers of the poorer population will be employed and, thereby, will be given opportunities to improve – with their own hands – their living conditions and those of their families.

For Georgia, like for the rest of the world, poverty reduction always was<sup>3</sup> and remains one of the biggest problems facing the country<sup>4</sup>. Although it has already gained some experience in how to address the challenges, it is unfortunately difficult to argue that the Government has completely realised the essence of the problem and has taken any decisive steps to solve it.

## The Current Situation

In late 2000, with a joint initiative of the World Bank and the UNDP, the Georgian Government started working on a poverty reduction programme, with some independent experts and NGOs invited to take part in the development of the programme. As a result, a more-or-less complete draft of the work plan was outlined. Then, with the help of some external experts from a number of international organisations, a final version of the document was put on the table. In June 2003, President Shevardnadze approved the Economic Development and Poverty Reduction Programme (EDPRP) of Georgia<sup>5</sup>. It must be underlined that the programme was immediately praised by various international organisations. It was decided that the international financial institutions (the IMF and the World Bank) would continue working with Georgia on the basis of this very document.

Unfortunately, neither the adoption of the programme nor its international recognition had any influence over the Georgian Government at that time, which had neither the political will nor the ability to launch its implementation (nor that of some other programmes as well).

In November 2003, the Rose Revolution took place and the Shevardnadze Government stepped down<sup>6</sup>. Because the start of the programme implementation was constantly delayed and some

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<sup>2</sup> OECD, *Accelerating Pro-Poor Growth through Support for Private Sector Development. An Analytical Framework*, 2004, <http://www.oecd.org/dataoecd/53/21/34055384.pdf> (accessed June 5, 2009).

<sup>3</sup> Vladimer Papava, *Trends in Poverty and Well-Being in the 90's of Georgia*. Background Paper Prepared for the Regional Monitoring. Report No. 8: A Decade of Transition. Florence, UNICEF Innocenti Research Centre, 2001, available online at <http://www.papava.info/publications/Georgia00pov.pdf> (accessed June 5, 2009); Giorgi Tarkhan-Mouravi, *Poverty in a Transitional Society: Georgia*. Discussion Paper Series 6 (Tbilisi: UNDP, 1998).

<sup>4</sup> Iakob Meskhia, “Living Standards and Poverty in Georgia”, *Georgian Economic Trends*, May, (2008): 53-60, <http://www.geplac.org/newfiles/GeorgianEconomicTrends/2008/May%202008%20engl.pdf> (accessed June 5, 2009).

<sup>5</sup> *Economic Development and Poverty Reduction Program of Georgia* (Tbilisi: Government of Georgia, 2003).

<sup>6</sup> For example, Bruno Coppieters and Robert Legvold, eds., *Statehood and Security: Georgia after the Rose Revolution* (Cambridge: The MIT Press, 2005); Charles H. Jr. Fairbanks, “Georgia’s Rose Revolution,” *Journal of Democracy*, vol. 15:2 (2004):110-24; Stephen F. Jones, “The Rose Revolution: A Revolution without Revolutionaries?,” *Cambridge Review of International Affairs*, vol. 19:1 (2006): 33-48; Zurab Karumidze and

important institutional changes were put in place after the revolution, it became necessary to make some significant changes to the programme. Instead of working on such changes, however, the post-revolution Government decided that the programme was an unnecessary burden and put it on the shelf.

Despite this, and for reasons unknown, the international financial institutions continued to believe that the Georgian Government still had a poverty reduction programme and continued working with the central administration upon the basis of this programme. Furthermore, in September 2007, the IMF solemnly declared that it had successfully concluded the poverty reduction programme in Georgia. The programme was “finished” (ostensibly even successfully), but poverty remained.

However absurd it appeared, a situation developed wherein the post-revolution Government refused to recognise the Shevardnadze-approved EDPRP, on one hand, and the international financial institutions continued working with the Georgian Government upon the basis of this very declined programme, on the other<sup>7</sup>.

In November 2007, President Saakashvili was forced to resign and order an extraordinary Presidential election. Poverty reduction became one of the key points of his electoral campaign. This may be explained by the following: the key driving force of the mass protests in the fall of 2007 was the self-esteem of the Georgian public, which believed that it had been humiliated by the government<sup>8</sup>. To neutralise this, Presidential candidate Saakashvili made an attempt to shift the public’s focus towards social hardships and poverty within the electoral marathon. This attempt, it can be said, was successful.

During the Presidential and Parliamentary elections in early 2008, the Government’s electoral slogan was “An Integrated Georgia Without Poverty!” This catch-phrase was later “fleshed out” by a so-called programme with the same title which was approved by the Parliament of Georgia in late January 2008, when it gave a vote of confidence to a newly appointed government. This document may be labelled as a “programme” in name only: it consists of some catch-phrases set forth on a few pages. In this already “fragile” document, the problem of poverty is mentioned not more than once within the words: “In the next five years, poverty will be reduced significantly.” Clearly, this short statement is no justification for the title of the document whose promise is that there will be no poverty in Georgia. Judging by the text of the document, the significant reduction of poverty is aimed to be reached through a 50% decrease in the number of social beneficiaries; that is, recipients of the Government’s allowances<sup>9</sup>.

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James V. Wertsch, eds., “Enough.” *The Rose Revolution in the Republic of Georgia 2003* (New York: Nova Science Publishers, 2005).

<sup>7</sup> Vladimer Papava, “Georgia’s Macroeconomic Situation Before and After the Rose Revolution,” *Problems of Economic Transition*, vol. 48:4 (2005): 8-17.

<sup>8</sup> Lincoln Mitchell, “What was the Rose Revolution For? Understanding the Georgian Revolution,” *The Harvard International Review*, February 27, 2008, <http://www.harvardir.org/index.php?page=article&id=1684&p=> (accessed June 5, 2009); Vladimer Papava, “Georgia’s Hollow Revolution. Does Georgia’s Pro-Western and Anti-Russian Policy Amount to Democracy?,” *The Harvard International Review*, February 27, 2008, <http://www.harvardir.org/index.php?page=article&id=1682&p=1> (accessed June 5, 2009).

<sup>9</sup> Civil Georgia, “Government’s Five-Year Program,” *Civil.Ge, Daily News Online*, 31 January, 2008 <http://www.civil.ge/eng/article.php?id=17030&search=Poverty> (accessed June 5, 2009).

Within the framework of the five-year governmental programme “An Integrated Georgia Without Poverty!”, the Government created a 50-Day Action Plan<sup>10</sup> which was scheduled for implementation within the first five months of 2008; that is, from January to May for a total of 152 days. Some projects in the Plan are directed towards economic development and, consequently, reducing the level of poverty whilst others are more questionable. Thus, within the framework of the Government’s 50-Day Action Plan, a so-called ‘revolutionary’ economic package of laws was developed<sup>11</sup> with the aim of turning Georgia into a global financial centre by offering tax exemptions on income to large financial companies whose activity in Georgia does not exceed ten percent of their financial turnover. This ‘revolutionary’ package also provided for a significant reorganization of the National Bank of Georgia (NBG), the country’s central bank, by subordinating it to the Government. This meant that exceeding a threshold level of annual inflation would allow the Government to demand the resignation of the President of the NBG through Parliament<sup>12</sup>.

Within the framework of the Government’s 50-Day Action Plan was the issuance of Eurobonds of \$500 million with a maturity of five years and with a coupon set at 7.5% in April 2008<sup>13</sup>. Unfortunately, the Government did not make clear public announcements on the purposes of increasing the foreign debt of Georgia by half a billion dollars. Firstly, it said that the money was needed for implementing new energy power projects, but afterwards the plans were changed and it was said that all the money would be channeled to the Fund of Future Generations (the Fund is mainly set up for the economic rehabilitation of Abkhazia and South Ossetia after they are reintegrated into Georgia) and the Fund for Stable Development (this Fund was set up specifically for preventing crisis developments in the economy). Finally, it was said that these Funds would get only half of the money received from the Eurobonds and a decision would be taken at a later date as regards the purpose for the other half of the amount. Thus, the Government either does not know what the purpose is of increasing the country’s foreign debt by \$500 million, or it is concealing its intention from the taxpayers who will pay this debt with interest. Thus, during and after the 2008 Presidential and Parliamentary elections, the Government implemented several large-scale projects whose economic viability is doubtful or certainly poorly thought out<sup>14</sup>.

As one can see—and however regrettable it may sound—the Georgian Government did not have any sort of realistic poverty reduction programme in the period following the elections. Moreover, it has not even fully realised what the meaning of poverty is and how it may be addressed.

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<sup>10</sup> Civil Georgia, “Government Unveils 50-Day Action Plan,” *Civil.Ge, Daily News Online*, February 20, 2008 <http://www.civil.ge/eng/article.php?id=17157&search=50%20day%20action%20plan> (accessed June 5, 2009); Civil Georgia, “Saakashvili Praises Cabinet, Reports on 50-Day Action Plan,” *Civil.Ge, Daily News Online*, March 31 (2008) <http://www.civil.ge/eng/article.php?id=17488&search=poverty%20in%20Georgia> (accessed June 5, 2009).

<sup>11</sup> Civil Georgia, “Government Pushes Economic Package in Parliament,” *Civil.Ge, Daily News Online*, January 28, 2008, <http://www.civil.ge/eng/article.php?id=17004> (accessed June 5, 2009).

<sup>12</sup> Civil Georgia, “Controversy over Proposed Central Bank Reform,” *Civil.Ge, Daily News Online*, February 8, 2008, <http://www.civil.ge/eng/article.php?id=17063&search=papava> (accessed June 5, 2009).

<sup>13</sup> Civil Georgia, “Georgia Issues Debut Bonds,” *Civil.Ge, Daily News Online*, April 13, 2008 <http://www.civil.ge/eng/article.php?id=17570> (accessed June 5, 2009); Civil Georgia, “Georgia Starts Eurobonds Road-Show,” *Civil.Ge, Daily News Online*, April 2, 2008, <http://www.civil.ge/eng/article.php?id=17503> (accessed June 5, 2009).

<sup>14</sup> Irina Lashkhi, Nino Evgenidze, David Narmania, and Mari Gbedava, *The “50-Day Program” of the Government of Georgia: Analysis and Conclusions*. Open Society Georgia Foundation Policy Paper No. 15 (Tbilisi: OSGF, 2008).

After the Rose Revolution, the Government gave some informal instructions to some private firms to set up a broad network of free catering facilities to attempt to mitigate the plight of the country's poorest.

In 2006, in support of employment in the private sector, the post-revolution Government embarked upon a so-called National Employment Programme<sup>15</sup> which was rather populist by nature and actually brought no results other than the further growth of inflation. This programme was reproduced by the Government in late 2007 and early 2008.

Under the programme, businesses were imperatively “requested” to create some three-month-long jobs for the unemployed. In exchange, the unemployed would get National Budget donations to the amount of GEL<sup>16</sup> 150 per person per month in 2006 and GEL 200 per person per month in 2007 and 2008. Thus, as a result of wasted tens of millions, a few people actually acquired employment. In most cases, however, employers and new “employees” reached a mutual consensus: the former were ready to sign whatever document was necessary to show that some employee was working whilst, in fact, he was not. The unemployed, at the same time, were happy because they received GEL 450 or even GEL 600 for doing nothing at all. At times there were even more dishonest collusions wherein some businessmen demanded half of the salaries in exchange for their signatures attesting to the fact that such “jobs” were being performed. In the end, tens of millions of *lari* spent from the National Budget funds, ostensibly designated for creating jobs, were by nature nothing more than allowances for the unemployed. These amounts were thrown out to the consumer market even though no adequate amounts of goods and services were produced which, as a result, naturally encouraged the growth of inflation<sup>17</sup>.

In the spring of 2006, Moscow closed the Russian market to Georgian wines and mineral waters which put Georgian producers in a very difficult situation. In the fall of the same and subsequent years, the Government called upon all private companies (and not only them), irrespective of their business orientations and interests, to take part in the grape harvest and fund wine bottling businesses. Georgian companies were forced to use some part of their working capital for different purposes other than their own business plans, which caused the slowdown of their development to a certain degree.

From the Georgian Government's other initiatives, one should distinguish a so-called “cheap loan” programme under which some low-interest credits were extended to newly established businesses. In theory, such loans should have stimulated private sector development. The essence of the Government's mistake in the implementation of this programme, however, was that the cheap loans were administered by the Government itself and there was little room in this process for commercial banks and other private lending institutions. Eventually, this led to little efficiency in the distribution of loans (given the fact that the government is a political body not a lending institution).

The government's legislative efforts in the areas of private sector development and poverty reduction have also been controversial. As far as legislative initiatives are concerned, one must draw attention to those which, on the one hand, may stimulate the private sector development but, on the other hand, by no means lead to poverty reduction.

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<sup>15</sup> Civil Georgia, “Saakashvili Unveils New Economic Initiatives,” *Civil.Ge, Daily News Online*, August 5, 2006, <http://www.civil.ge/eng/article.php?id=13256> (accessed June 5, 2009).

<sup>16</sup> International code for Georgian national currency *Lari*

<sup>17</sup> Vladimer Papava, “The Essence of Economic Reforms in Post-Revolution Georgia: What about the European Choice?,” *Georgian International Journal of Science and Technology*, vol. 1:1 (2008): 1-9.

Amongst positive steps, one should mention the enactment of a new tax code in January 2005 by which the overall number of taxes was reduced from 21 to 7. Accordingly, the overall tax burden diminished as well<sup>18</sup>. Furthermore, to encourage competitive practices in the country, the import tax on all kinds of imported goods—with the exception of agricultural produce and construction materials—was abolished. Procedures for obtaining business start-up licenses and permits were simplified and the requirement for such licenses and permits was removed with respect to some businesses. Property rights registration procedures were also significantly liberalized. All of the foregoing must be regarded as encouraging measures for private sector development.

The adoption of a new labour code is considered one of the “achievements” of the post-revolution Government. Presently, this code gives employers the maximum rights which one might think of and leaves employees with literally no rights at all. The Government justified the need for such labour relationships with the desire to make Georgia rather more attractive to foreign investors. It is true that endowing employers with maximum powers may encourage private sector development but depriving employees of all rights makes no room for legislative guarantees and job security which will block the way towards poverty reduction in the long run.

In 2006, the President of Georgia proposed combining a 20% social tax and a 12% income tax into a single 25% income tax. Despite the strong resistance from the trade unions, the President’s legislative initiative was passed and the new tax amendments went into effect in 2007. Because social tax and income tax are calculated based upon different tax bases, it is impossible to combine the two in principle. As a result, Georgia is facing the situation that whilst a 20% social tax payable by employers was cancelled, a 12% income tax payable by employees was raised to 25%. The abolition of the 20% social tax does encourage private sector development, whilst the raising of the former 12% income tax to 25% in no way stimulates poverty reduction.

In late 2008, it was decided that the income tax rate would be reduced from 25% to 20% as of January 2009 which, of course, represents a positive decision for employees. It should be remembered, however, that the tax rate was as low as 12% some two years ago.

The level of involvement of civil society in the process of poverty reduction through private sector development is clearly inadequate. In the main, however, it is a problem of civil society itself which in the aftermath of the Rose Revolution had to deal with some serious difficulties<sup>19</sup>.

## Gaps and Opportunities

Amongst the existing gaps, one should mention, first of all, the fact that the Georgian Government has no clear understanding of the meaning of poverty reduction. Moreover, the Government seems to not have counted the actual number of people living below the poverty line in the country.

Obviously, there is no country in the world wherein poverty does not exist. Even in the United States, some 12% of the country’s population lives below the poverty line (in the US, an average family of four people whose annual income is not more than \$20,000 is considered poor). By

<sup>18</sup> Nodar Khaduri, “Georgian Economy,” in *Central Eurasia 2005. Analytical Annual*, ed. Eldar Ismailov and Murad Esenov. (Luleå, Sweden: CA&CC Press, 2006), 147-152.

<sup>19</sup> Jesse David Tatum, “Democratic Transition in Georgia: Post-Rose Revolution Internal Pressures on Leadership,” *Caucasian Review of International Affairs*, vol. 3:2 (2009), [http://www.cria-online.org/7\\_4.html](http://www.cria-online.org/7_4.html) (accessed June 5, 2009).



international standards, in the most underdeveloped countries of the world, any person who subsists on no more than \$2.50 a day is considered poor and those who subsist on no more than \$1.00 a day are considered amongst the poorest.

It must be remembered, however, that every individual country, based upon its own level of development, has its own criteria for measuring the poverty standard. One, therefore, has to answer the question of whether or not poverty as such can ever be eliminated. This problem is closely associated with the poverty line criterion. Of course, to the extent that there is a sound economic policy, it may be possible - by using a preliminarily established poverty criterion - to reduce the number of people below the poverty line to zero. It must be remembered, however, that it may be necessary to revise the criterion itself depending upon the current level of economic development. Poverty - to a great degree - is a relative value and some people who were not considered poor by the previous criterion may become poor based upon the new one with the growth of the country's wealth.

The best illustration of this is the above information about the poverty standard in the US: presently, any Georgian family of four which has an annual income of \$20,000 by no means can be considered poor. After the passage of a certain amount of time, however, the above amount of income may become the poverty line such as it currently is in the US. It is impossible, therefore, to eliminate relative poverty just like it is impossible to create a *perpetuum mobile*. Consequently, the slogan "Georgia Without Poverty" is both incorrect and unrealistic.

In the summer of 2003, when the President of Georgia approved the EDPRP, it was established that 52% of the country's population lived below the poverty line and 25% were the poorest part of the population.

Changing the methodology by which poverty was defined became one of the most "effective" tools of the post-revolution Government's fight against poverty. Firstly, it diminished the calorie-capacity of the subsistence minimum products. Secondly, it replaced retail prices with wholesale ones. As a result, the Government proudly announced that the poverty rate in 2004 had been reduced to 35%. Interestingly enough, the poverty assessments of 2005 showed that the percentage of the poor grew to 39% which was a fact that was not only unexpected but also unacceptable for the Government. For this reason, the Government refused to make any poverty statistics public in 2006, because the poverty line further increased and reached 42% according to unofficial sources. In December 2007, when the Presidential campaign was underway in the country, some top Government officials claimed that as few as 28% of the population lived below the poverty line. If all the previous indicators of the poverty line in Georgia had been based upon the calculations of a subsistence minimum, this 28% was artificially produced by counting just those people who had received allowances from the Government. Obviously, the Government needs to develop a realistic and consistent poverty reduction programme which would be based upon global experience in this area.

As far as private sector development is concerned, the post-revolution Government has also made numerous serious mistakes. The most unacceptable one is the regular infringements upon the rights of private property owners. Under the law-enforcement's pressure, many owners were forced to "wilfully" concede their properties to the state. This process was labelled as "de-privatisation" ostensibly required to remedy the Government's mistakes committed during the privatisation programme before 2004. In reality, the Government's interference with the owners' rights pursued the only purpose of redistributing formerly public properties to so-called elite businesspeople who were on good terms with the Government. The already bad situation was

further worsened by unlawful demolitions of numerous privately-owned buildings. Each individual case amounted to a blatant violation of property rights<sup>20</sup>.

To ensure the proper protection of property rights, it would be insufficient to only improve the existing legal basis. The Government must also show a strong political will that no such infringements upon private owners' rights can ever take place. Moreover, every person who was illegally and forcibly deprived of his property, or whose property was destroyed, must be paid a fair compensation.

Another serious hurdle along the path of development faced by the private sector in Georgia is the Government-solicited "voluntary contributions" to the Government's electoral campaigns and other mass initiatives which puts obstacles in front of private sector development.

The privatisation of state-owned property is a matter of great importance for private sector development. From 2004 onwards, a large-scale privatisation has been underway in Georgia although the process has unfortunately developed in gross violation of the law. It is no wonder that this is exactly how Russian, Kazakh and Arab capital entered the Georgian market. Often, the prices indicated in the sales contracts signed by the Government and the new investors were by far lower than those announced in the invitations for bidding. Often, too, brand new companies with suspicious founders and suspicious capitals were established right before the start of a privatisation process with a sole specific purpose of taking part in tenders. Strangely enough, these brand new companies were often the winners of the tenders.

The privatisation of state-owned property must be conducted with maximum transparency so that every interested person can have access to information about the founders of particular companies taking part in the privatisation process. It is recommended that the Georgian economy be closed legislatively for any companies registered in the offshore zones.

It is common knowledge that competition is a great stimulus for private sector development, which is why any measure which may block competition must be unacceptable. In late 2004, instead of taking all efforts to encourage the development of sound competition in the country, the post-revolution Government—ostensibly aiming at further enhancement of market-oriented reforms—abolished the antimonopoly legislation which led to the drastic growth of the level of monopolisation of the Georgian market.

However absurd as it may sound, the President of Georgia assigned the Ministry of the Interior to carry out some antimonopoly regulatory functions in the market of salt, sugar and other similar products in October 2007 during a Governmental meeting. It is undisputable that these kinds of regulatory functions have nothing to do with the police or state security agencies. There is no doubt that one more indispensable step which needs to be taken for private sector development is to adopt a new antimonopoly legislation and establish a new pertinent Government agency in the nearest time.

To make Georgia more attractive to foreign investors, the Government decided to establish a special industrial zone in the Poti area<sup>21</sup>. By its legal nature, a special industrial zone is the same as a free economic zone (which means that it is an area wherein economic agents may enjoy

<sup>20</sup> Vladimer Papava, "Anatomical Pathology of Georgia's Rose Revolution," *Current Politics and Economics of the Caucasus Region*, Vol. 2:1 (2009): 1-18.

<sup>21</sup> Civil Georgia, "Gulf Emirate to Develop Free Economic Zone in Poti," *Civil.Ge, Daily News Online*, April 14, 2008, <http://www.civil.ge/eng/article.php?id=17577> (accessed June 5, 2009).



various tax exemptions unlike in the rest of the country). The Government intends to establish similar zones in Batumi and Kutaisi as well.

The bad news is that today—like before and especially after the August-2008 war between Russia and Georgia—the Georgian economy suffers a serious shortage or “hunger” for foreign investments. Under such circumstances, establishing free economic zones will even worsen the feeling of this investment “hunger” and eventually lead to the further slowdown of the country’s economic development. Tax exemptions will push not only foreign but also domestic investors to invest their resources exclusively in the free economic zones. It is, therefore, expected that investments will go exclusively to the Poti, Batumi and Kutaisi free economic zones in the future with no investor having any enthusiasm to invest his money in any other region of Georgia. In other words, Poti and other adjacent areas will be developed at the expense of the rest of Georgia<sup>22</sup>. As a result, beyond the free economic zones, there will be far less attractive environments for private sector development. Furthermore, extensions of free economic zones to different regions of Georgia will have a negative impact upon the national budget whose revenues will decrease drastically.

The Russian aggression in August 2008 caused extremely serious damage to the country and its economy with the private sector (especially the construction business, which has been one of the fastest growing sectors in post-revolution Georgia) not being excluded. The negative impact of the global economic crisis further exacerbates the problem. Both of these problems have also caused serious damage to the system of small-business lending by private banks and other lending organisations, which was rather well developed. What partially mitigates the situation is that Georgia is to be allocated some \$4.55 billion in financial aid by 2010, as was pledged at the donors conference in Brussels on 22 October 2008. A significant portion of this amount will also be provided for private sector development.

Today, business associations which are independent from the government do not exist. The most famous one, the Georgian Federation of Businessmen, suspended its activities in 2007 following Governmental pressure.

In conclusion, it must be stated that the existing situation in the areas of poverty reduction and private sector development is quite poor overall and requires some serious remedy.

## **Conclusion**

The goal of poverty reduction through private sector development cannot be accomplished without the active involvement of all stakeholders.

The key role is to be played by the Georgian Government, which has to fully realise the severity of the problem and develop an appropriate long-term economic programme which will be based upon broad international experience in this area. To this end, it is necessary that the Statistics Office ensure the regular publication of accurate and realistic information about the subsistence minimum and the number of people living below the poverty line. The Government has to accept this information as one of the key indicators of its performance.

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<sup>22</sup> Nino Khutsidze, “MP Speaks Out Against Free Economic Zone,” *Civil.Ge, Daily News Online*, May 18, 2007, <http://www.civil.ge/eng/article.php?id=15143&search=papava> (accessed June 5, 2009).

There are different organisations which are able to provide the Government with some technical assistance in developing such a programme. In this connection, an important role may be played by the UNDP, which has the unique capability for generalising global experience and providing broad technical assistance for the Georgian Government.

The IMF and the World Bank may also play an indispensable role in helping the Georgian Government to achieve the goal of poverty reduction through private sector development. These two cannot only provide the Government with some technical assistance for developing such a programme, but can also allocate some important monetary resources which may be necessary for the programme's implementation. Furthermore, depending upon the results of the programme implementation monitoring, the decision for providing more funds may be made, which will make the Georgian Government be more effective in addressing the problem of poverty reduction through private sector development.

Transition to a free trade regime with the EU and the US may also be a very important incentive for private sector development. It will push potential investors to consider manufacturing high-quality goods in Georgia which would be capable of being competitive in the European and American markets. If the question of transition to a free trade regime with the US is still in its embryonic stage, Georgia will need to change its labour code to make it compatible with the European standards in order to obtain this privilege from the EU whilst also passing brand new antimonopoly and consumer-rights protecting legislations. These are some of the clearly defined conditions that Brussels has set for Tbilisi<sup>23</sup>.

It is also very important that the Government and private sector conduct a continuous mutual dialogue. This will enable the Government to be permanently informed of those difficulties which may be encountered by the private sector.

For its part, the private sector needs to establish and make more effective various associations which may provide for the protection of its interests. Businesspeople need to have a forum where they can meet each other and advocate for and lobby their collectively developed proposals to the Government.

Poverty reduction must become the result of the mutual and co-ordinated efforts of two key stakeholders: the Government and the private sector. In the process of this co-ordination, the interests of employees need to be protected which, of course, is the task for the trade unions. The role of trade unions, therefore, must be expanded so that employers' interests can be protected and the advancement towards the goal of poverty reduction could be supported.

The involvement of civil society in the process of decision-making as concerns the problem of poverty reduction is of particular importance. To this end, the role of the mass media should be increased in that it must ensure a greater coverage of issues and events relating to poverty reduction and private sector development.

It is advisable to develop a grid of NGOs which will carry out the monitoring of poverty-reduction-oriented steps of both central and local governments in different regions of Georgia.

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<sup>23</sup> Vladimer Papava, "Is Georgians' European Dream Any Part of Government Policy?," *The Georgian Times*, December 15, 2008, <http://www.geotimes.ge/index.php?m=home&newsid=14166> (accessed June 5, 2009); Vladimer Papava, "Post-War Georgia's Economic Challenges," *Central Asia-Caucasus Analyst*, Vol. 10:23, November 26, 2008, <http://www.cacianalyst.org/?q=node/4991> (accessed June 5, 2009).